

Monetizing Green Impact

Lessons from Africa's First Green Outcomes Fund

For green Small and Growing Businesses (SGBs), access to finance is one of the key constraints in scaling innovative business models. Investors, even those with the intention and mandate to support smaller deal sizes, consider these early stage businesses to be costly and risky. In South Africa, 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, has designed a first-of-its-kind financial structure to address this issue. The Green Outcomes Fund incentivizes local investment in green SGBs by paying fund managers for green outcomes achieved by their investees. By monetizing impact, the GOF is able to mitigate the disproportionately high costs and risks associated with these investments, thereby developing the green finance sector. Almost two years in design, the Green Outcomes Fund is now registered as a legal entity, and should begin operations in 2018, following fundraising efforts. This In Brief dives into some of the lessons generated throughout the conceptualization and design phases. It follows up and expands on In Brief No. 8, "Can Outcome-Based Financing Catalyze Early Stage Investments in Green Small and Growing Businesses? Lessons from South Africa."



Introduction

The Green Outcomes Fund (GOF) addresses the challenge of access to finance for green Small and Growing Businesses (SGBs) by incentivizing local South African fund managers (Recipient Funds, or RFs) to increase their green investment activity by paying for outcomes such as green job creation, CO2e mitigation, and improved water and waste management. It creates demand for verified, pre-agreed green outcomes generated by SGBs and purchased through local fund managers, while simultaneously creating a common base for growing the South African green impact investing market. By only paying for outcomes achieved, the GOF ensures maximum efficiency in allocating funders' resources.

The GOF tests whether an outcomes-based payment model can catalyze additional local investment in green SGBs, and ultimately further the development of a robust green impact investment industry in South Africa. It represents the first blended finance model in local currency in South Africa, where public and private capital, concessionary and commercial, blend together to increase the uptake of social and environmental business models. By using concessionary funding to catalyze private sector finance directly, while also crowding in additional investment for the green economy in the long run, the GOF aims to achieve the most efficient use of grant funding and value for money to funders.

This innovative approach catalyzes the green economy at multiple levels, including:

1. Building a pipeline of green businesses by increasing the demand for green businesses from local investors, and enabling access to capital
2. Supporting innovative finance strategies, including linking the cost of capital to social and environmental outcomes, and allowing price discovery of green outcomes
3. Unlocking private sector capital to accelerate the green market

Design and Structure

The GOF was developed through a design thinking process that included engagement with market players, sector experts, local SGBs and fund managers. The design partners have a large network of local impact and early-stage investors, incubators, accelerators, and SGBs in South Africa. Engagement demonstrated that South African SGBs face three major constraints in starting-up and scaling-up their businesses: 1) access to finance, 2) capacity to manage and grow, and 3) access to markets. These issues are multiplied in the green economy, where new business models and technologies are being pioneered. To address this, the GOF has been structured to:

- Incentivize local fund managers (Recipient Funds) to increase green SGB investments, by providing outcomes-based funding that is calibrated to cover any additional costs and mitigate risks of investment in green SGBs, such as business development and technical assistance.
- Enable local investment funds to raise additional capital through access to de-risking instrument in local currency
- Encourage the uptake of verifiable green metrics across the local investing industry.
- Develop capacity among investors in RFs to assess green credentials, e.g. local pension funds.
- Support price discovery on delivery of green outcomes by RFs and outcomes funders.
- Test and demonstrate the potential for a new blended finance model in growing private investment in impact sectors in order to scale the Green Outcomes Fund as a local blended finance facility



GREEN OUTCOMES FUND OVERVIEW

Target Fund Size	ZAR 20m – ZAR 50m
Domicile of Fund	South Africa
Inception year	2017
Target Geographies	South Africa, Southern African Development Community (SADC)
Investment Terms	Grant capital (consisting of both returnable and non-returnable grants)
Target Capital Providers/ Investors	Foundations, governments, DFIs, impact investors
Recipient Investment Funds	A range of local early-stage fund managers (deal sizes ranging from R80 000 to R100m+) with a positive track record, a demonstrable interest in investing in green SGBs, and experience with early stage impact deals.
Target Sectors	Green buildings and the built environment; sustainable transport and infrastructure; green energy and energy efficiency; resource conservation and management; sustainable waste management; sustainable agriculture; food production and forestry; water management; sustainable production and consumption; and environmental sustainability.
Outcome Metrics	Green sector jobs created; CO ₂ -eq sequestered; clean energy access connections; energy generation; energy efficiency; waste to landfill avoided; avoided waste incinerated; waste recycled/reused; chemical recovery; water use reduction; wastewater treated; water productivity; wastewater recycled or reused; water sourced from an alternative resource



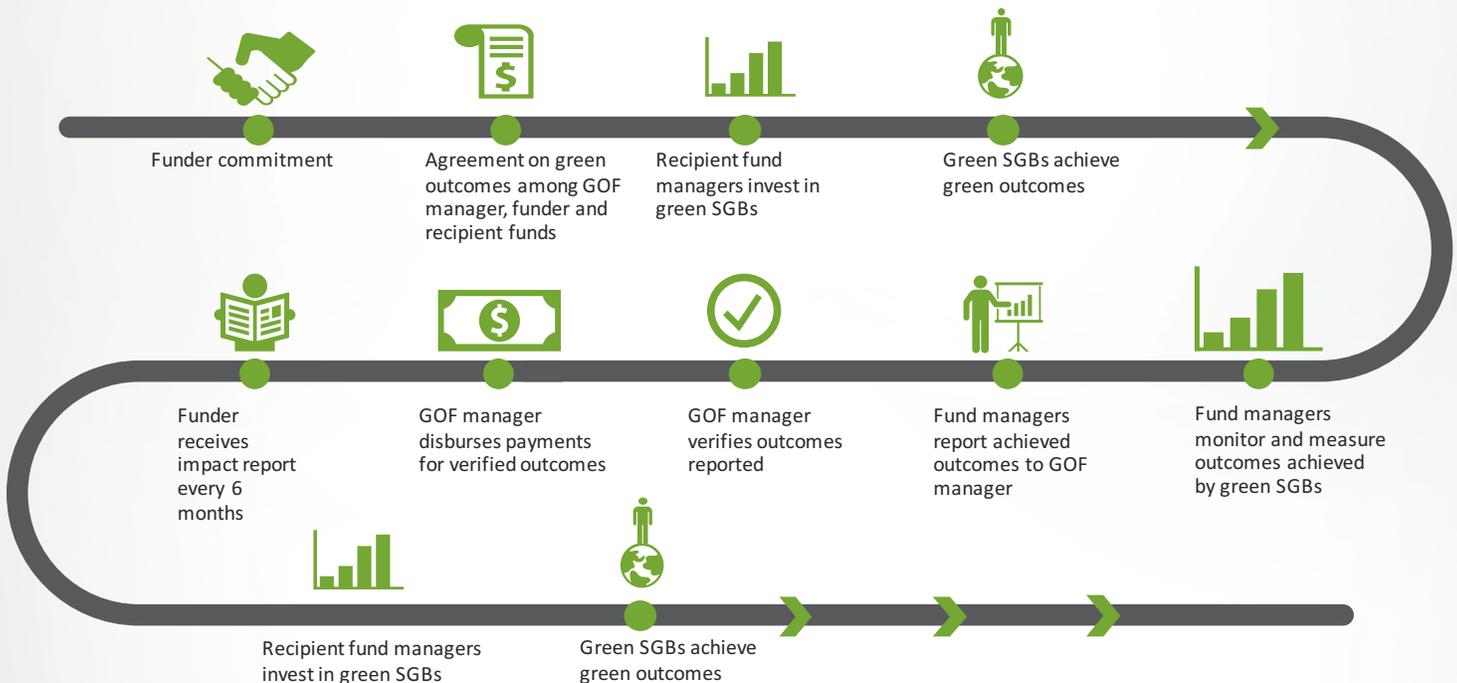
The GOF Process

The GOF will provide matched (returnable) grant funding to local fund managers in support of investments into green SGBs that make a demonstrable contribution to the green economy. The RFs will use their own investment capital to invest in green SGBs initially. Once green SGB investees start achieving the pre-agreed green outcomes, the GOF will disburse outcomes payments to the recipient funds. Outcomes will be assessed in relation to an outcomes-based contract signed between the Fund and each RF. This contract will be tailored to each fund depending on the additional costs of engaging SGBs. The GOF manager will monitor the achievement of these results and the fulfillment of the contracts over time. See Figure 2.

Key lessons from the governance design process

- **Hands-on knowledge management throughout the pilot:** The Green Outcomes Fund, as the first of its kind, will offer significant lessons for future iterations, scale, and replication. In addition to the traditional focus on ongoing fund management, the GOF requires a strong focus on impact measurement, evaluation, and knowledge management. To facilitate this, a dedicated team has been assigned to gather, analyze and disseminate learnings throughout and beyond the pilot.
- **The importance of a dedicated fund administrator:** To keep the pilot lean and ensure the best use of funder resources, the initial GOF design kept the fund administration function internal. However, with the intention to use lessons from the pilot to scale the GOF, an independent, dedicated fund administrator was appointed. This ensures that a team of professional, experienced fund administrators will set up the GOF in a robust way that can be scaled up after the pilot.

Figure 2: Green Outcomes Fund Process



- **The value of a mission-driven, neutral market player driving design:** The GOF was designed with a market-building and ecosystem objective. This was achieved, and could be clearly articulated, thanks to a consortium of neutral market players with these specific mandates leading the design and co-ordination. The project lead, the Bertha Centre's Innovative Finance Initiative, is built around the need to develop an impact-focused social investment market in Sub-Saharan Africa. As an academic center, it takes an ecosystem approach to catalyzing innovative finance initiatives, instruments, and research. This also facilitated buy-in from different players (private sector, public sector, and civil society) which would have been challenging without a clear market-building mandate. The design of the structure benefited from the ability to mobilize pro bono legal support through local networks, without which it would have been hard to make progress efficiently.

Measuring and Reporting Outcomes

For a structure that makes disbursements based on outcomes, measuring impact is core to the fund design. The GOF required a set of measurable metrics that can be objectively verified. These metrics needed to be broad enough to encompass a range of green impacts, but narrow enough to allow for meaningful aggregation and price discovery. Each metric is calculated relative to a baseline, thereby demonstrating improved impact over time. For example, the number of persons reached by reliable clean energy source is measured by before and after calculations, based on the number of clean energy systems/products/connections installed multiplied by the average household size.

The key considerations for selecting metrics were:

- Coverage of green sectors relevant to South Africa's economy and SGBs: green job creation, sustainable agriculture, energy, water, and waste
- Realistic, cost-efficient monitoring, measuring, and verification; it was core to the design team that resource constrained SMEs would be able to report on the final outcomes

- Timely demonstration of impact
- Alignment with international best practices (IRIS standards)

The full list of metrics is outlined in **Table 1**.

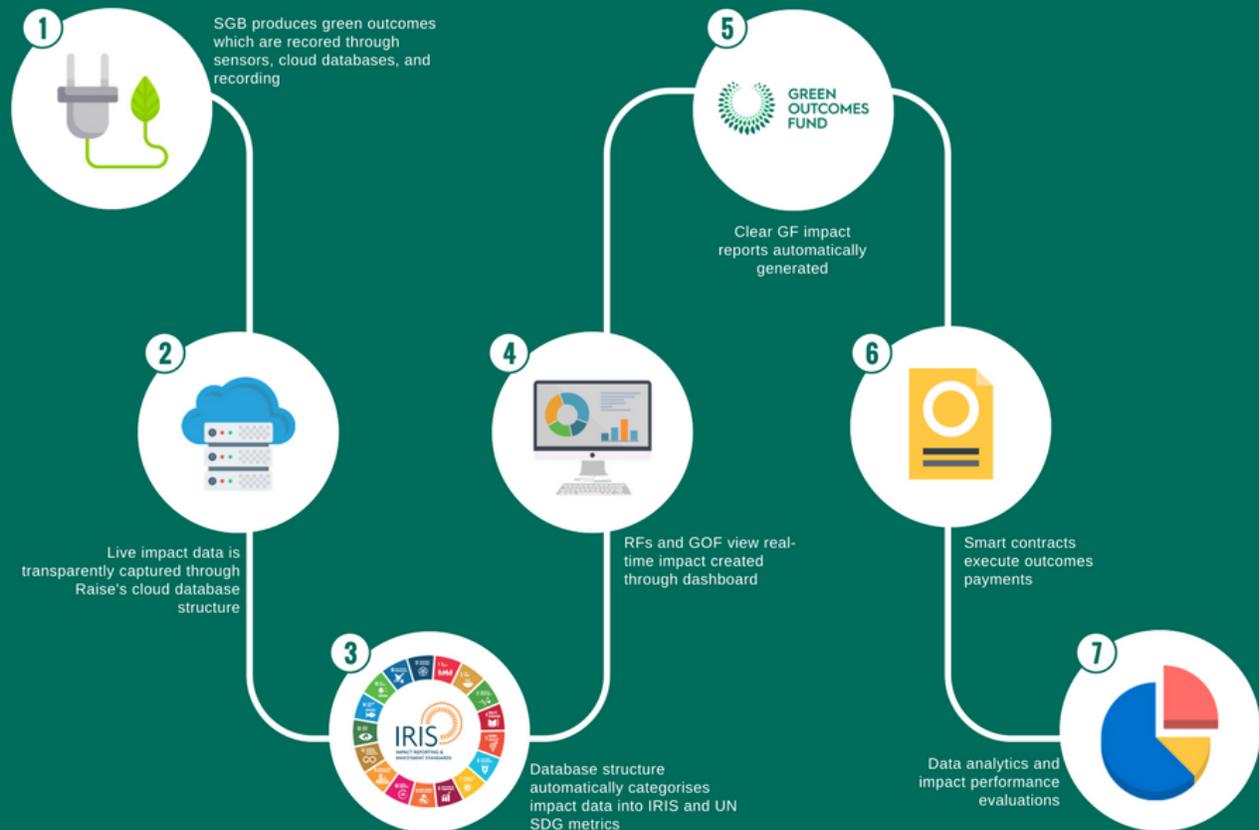
2.1 Key lessons from the metrics design process

- **Clearly defined and communicated metrics and reporting:** Since they form the basis for the financial flows of the GOF, the price discovery mechanism, and measurement of success of the fund, the metrics needed to be carefully considered and clearly articulated to all parties involved. The calculation and reporting methods, including baseline measurements, needed to be documented and clearly outlined.
- **A dedicated, hands-on technical partner involved from the outset:** Finalizing the above details on outcome measurement and reporting and ensuring alignment with international best practices are critical tasks that require a dedicated partner with technical expertise. Since this technical partner will also be responsible for verifying outcomes, involvement should begin during the design process to ensure consistency throughout implementation.
- **Ongoing engagement with fund managers to align expectations and ensure consistency:** The GOF operational guidelines ensure that verifiers and fund managers have a face-to-face inception meeting to clarify measurement and reporting expectations. This ensures that data received throughout the pilot is consistent across RFs and impact themes.
- **Balancing rigor and realism:** Rigorous monitoring, measuring, and reporting from green SGBs and fund managers is necessary in ensuring accuracy in the GOF outcomes payments. At the same time, the GOF does not want to take away from the core work of investees and investors. To facilitate this, the full monitoring and evaluation framework clearly outlines the steps to be taken in measuring outcomes to ensure rigor with minimal disruption to day-to-day work. It was a core priority for the design team to develop the metrics in close cooperation with SGBs in order to achieve the right.

- The potential for innovative, tech-led solutions to improving efficiency of measurement:** The GOF recognized the potential for blockchain-like solutions to provide a transparent system of data collection and reporting. As such, an Internet of Things (IoT) system will be tested alongside the manual measurement system designed for the GOF. This system will be piloted on top of the traditional capture and verification of outcomes, not to replace it, but to test a tech-enabled solution. The system will gather

automated streams of data through connected devices using IoT technology, linked to key metrics, which reduces monitoring costs and supports data-rich impact investments. The use of sensors and automated data gathering improves efficiency, limits opportunities for human error or fraud, and presents reporting in a clear and aggregated dashboard to funders. It will contribute to the evolution of impact measurement and thereby the impact investing ecosystem at large. See **Figure 3**.

Figure 3: Innovative, tech-led solutions to improving efficiency of measurement



- **A range of metrics that allows funders to prioritize thematic areas:** Inclusion of 16 metrics spanning sectors and themes allows funders flexibility in involvement based on their strategic priorities. As an example, the GOF can accommodate a funder with a specific mandate of impactful job creation through the green jobs metrics. Similarly, the GOF would be well-suited to a funder focused on, for instance, green energy but not waste.
- **Price discovery requires a tailored and flexible approach:** Price discovery, which will form the basis of future phases of the GOF, is not easily standardized across industries and sectors. A green job, for instance, may be more costly if it requires highly specialized skills, or is in a niche sector. Discovering prices on which to base outcomes payments will need to be an iterative and engaged process, with clear lines of communication with individual fund managers to best account for individual

projects. Three approaches to price discovery are outlined in Figure 4 below.

While a private auction/bidding process is most commonly used, because of the nuances in types of outcomes, sectors, and industries, price discovery on portfolio construction or a deal-by-deal basis is more applicable for the GOF. RFs have indicated a preference for the flexibility associated with the portfolio construction approach, with the caveat that upfront prediction of specific outcomes is almost impossible. A combination of portfolio construction with review at the inception of a new deal will be tested and refined throughout the GOF pilot.

Price discovery offers significant benefits in terms of efficient use of funding around outcomes payments. Understanding the true cost of outcomes can effectively channel future concessionary funding to accelerate market growth.

Figure 4: Price discovery approaches

1. PORTFOLIO CONSTRUCTION

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

2. DEAL-BY-DEAL BASIS

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

3. PRIVATE AUCTION/ BIDDING PROCESS

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

Table 1: Green Metrics and Measurement

Metric	Category	Green Sector	Further Description	Calculation Method
Green sector direct jobs created **	Job Creation	All	Number of people employed by the green enterprise	Difference between before and after figures.
Green sector indirect jobs created **	Job Creation	All	Number of people employed by the green enterprise's distributors	Difference between before and after figures.
CO2-eq sequestered	Mitigation/ Diversion	Sustainable Agriculture	Carbon emissions sequestered through increased sustainable land use practices, e.g. soil disturbance reduction (no-tillage), conservation agricultural practises, improved crop rotation, increased soil cover, etc.	Project-by-project basis. Difference between before and after figures
Persons reached by reliable clean energy grid/source who were without prior access to the traditional energy grid	Access to Clean Energy	Energy	Persons reached by clean energy grid (renewable energy source e.g. solar or wind) who were without prior access to the traditional energy grid (i.e. non-renewable energy power source). Calculated based on the average number of people in a household for each clean energy system installed or connection made.	Before and after calculation based on number of clean energy systems/products/connections installed multiplied by average household size
Persons reached by reliable clean energy grid/source who had prior access to the traditional energy grid	Access to Clean Energy	Energy	Persons reached by clean technology grid (renewable energy source e.g. solar or wind) who already had prior access to the traditional energy grid (i.e. non-renewable energy power source). Persons switched from traditional energy grid to clean energy grid. Calculated based on the average number of people in a household for each clean energy system installed or connection made.	Before and after calculation based on number of clean energy systems/products/connections installed multiplied by average household size
Energy Generation - Clean energy generated	Generation	Energy	Kilowatt-hours of clean energy (renewable energy) generated based on listed production values of the type of product/system installed	Before and after calculation based on listed production of the installed product/system
Energy Efficiency - Generic energy saved based on deemed savings values	Mitigation/ Diversion	Energy	Energy saved in a building/metering point based on deemed savings values per technology. Deemed savings are used to define savings values for projects with well-known and documented savings values across different technology options.	Calculations based on Eskom's deemed energy efficiency savings value spreadsheet

Metric	Category	Green Sector	Further Description	Calculation Method
Waste to landfill avoided	Mitigation/ Diversion	Waste	Reduction in waste sent to landfill site	Difference between before and after figures
Avoided waste incinerated	Mitigation/ Diversion	Waste	Reduction in waste incinerated without energy recovery. I.e. reduction in waste burned without the capture of heat energy that can be used to generate electric power	Difference between before and after figures
Waste recycled/reused	Mitigation/ Diversion	Waste	Quantity of waste recycled/reused	Difference between before and after figures
Chemical recovery	Mitigation/ Diversion	Waste	Chemicals recovered from organic or electronic waste and subsequently used productively	Difference between before and after figures
Water use reduction	Mitigation/ Diversion	Water	Water consumption or intake reduced on site from a defined source e.g. utility connection, groundwater, or river	Difference between before and after consumption figures (keeping other variables constant)
Wastewater treated	Mitigation/ Diversion	Water	Wastewater treated before being returned to the environment or system	Difference between quality and volumes treated before and after
Water productivity	Mitigation/ Diversion	Water	A measure of the water use intensity of a business' processes or products, in comparison to pre-established regional/global benchmarks for similar products or processes	Global Water Footprinting Standard: Water Footprint Benchmark: A measure of water productivity of a process or a product. The benchmark is computed as the highest water footprint of a process or product produced most efficiently using the best available practices and technologies for a fixed percentile of production regionally/globaly. http://waterfootprint.org/en/standard/global-water-footprint-standard
Wastewater recycled or reused	Mitigation/ Diversion	Water	Water recycled or reused productively on site. Can affect m3 saved if using utility or system meters.	Difference between volume of water reused/recycled before and after
Water sourced from an alternative resource	Generation	Water	Water sourced from an alternative — and more sustainable — source, e.g. rainwater harvesting, greywater reuse, sustainable groundwater etc.	Difference between before and after figures

Green Partnerships: Finding the Right Recipient Funds and SGBs

Local fund managers, known as Recipient Funds (RFs) were identified based on their alignment with the GOF as evidenced by their track record, a demonstrable interest in investing in green SGBs, and experience with early stage impact deals. An overview of these RFs is presented in **Table 2**. Six local funds signed Letters of Intent in engaging with the GOF and committing their own match funding. Initial due diligence and ongoing engagement with the RFs was conducted throughout the design process.

Figure 5: Examples of pipeline green SGBs

ENERGY EFFICIENCY



LED light component manufacturer

Size: ZAR 1-2M

Asset class: Quasi-equity

Green Outcomes:

- Energy savings realised from installing LED lights in place of energy consuming UV lights
- Green sector job creation in R&D facility and manufacturing plant

CLEAN ENERGY GENERATION



Wind energy generation plant

Size: ZAR 14 - 94M

Asset class: Equity

Green Outcomes:

- 305.2GWh of clean wind energy generated per year
- Green sector jobs created
- New access to energy connections

WASTE-TO-ENERGY



Bio-waste to green energy facility

Size: ZAR 10M

Asset class: Equity

Green Outcomes:

- Generation of clean energy
- Green Sector Job creation due to expansion
- Reduction in waste to landfill

The six RFs were involved in the GOF design process, providing practical direction and input. As part of this engagement, their portfolios and pipelines were assessed to identify case study projects that could benefit from GOF involvement. A selection of pipeline projects from their portfolios is outlined in **Figure 5**.



CLEAN ENERGY GENERATION



Solar water heater rental company

Size: ZAR 40M

Asset class: Equity

Green Outcomes:

- Energy savings realised through households heating water using solar panels

SUSTAINABLE AGRICULTURE



Bio-fuel agriculture farm

Size: ZAR 40M

Asset class: Debt

Green Outcomes:

- Generation of clean fuel from agricultural crop
- Green sector job creation (70+) due to labour intensiveness of farm operations

WASTE-TO-LANDFILL REDUCTION



Organic-waste management firm

Size: ZAR 40M

Asset class: Debt

Green Outcomes:

- Reduction in waste to landfill quantities through diversion of incremental 350 tonnes of waste into compost
- Green sector jobs created in local communities

Table 2: Overview of Recipient Funds

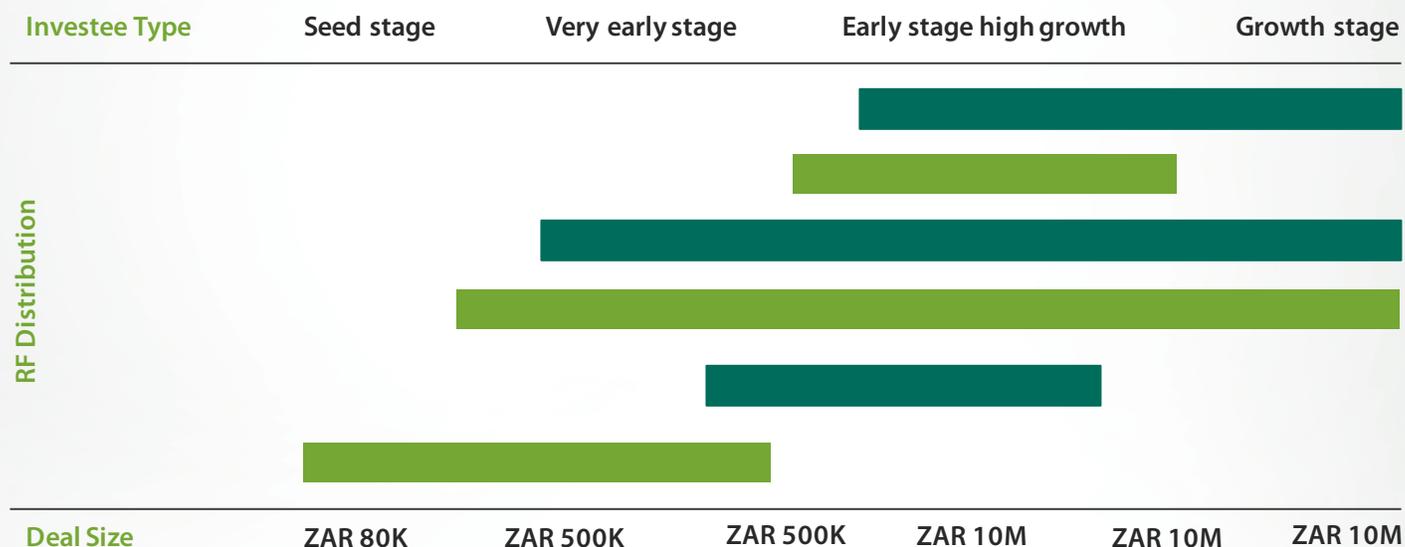
	Business Partners	Inspired Evolution Investment Management	Mergence Investment Managers	Edge Growth	Tshiamo Impact Partners	Social Investment Africa
Fund Description	Fund investing in SMEs that are involved in developing, manufacturing and providing green goods and services, as well as businesses that are implementing measures and/or technology which reduce their adverse impact on the environment.	Fund investing in large-scale renewable energy and energy infrastructure projects. The fund is looking to expand its portfolio to include investments in projects/ventures at the lower end of their supply chain.	Infrastructure development fund focusing on social impact sectors such as housing, renewable energy and energy efficiency programs. Impact investment focused and GIIRS rated.	Existing ASISA ESD fund investing in early stage, high growth entities. The funds under Edge Growth have an enterprise development and supply chain development focus. [ASISA (1&2); Vumela (1,2 &3), Edge Action and the Edge Venture (Impact) Fund.]	New impact fund investing in high growth early stage companies across green economy, housing and education sectors.	New social investing fund specialising in social/ environmental impact ventures with high job creation potential.
Track record	Over 10 years	10 years	10 years	10 years	Experienced team in finance sector	Experienced team in finance sector
Deal sizes	ZAR 500K-50M	ZAR 50-250M	ZAR 5M +	ZAR 250K - 50M	ZAR 1-15M	ZAR 80K - 1M
Asset classes	Debt, equity, quasi-equity	Equity, quasi-equity	Equity, quasi-equity	Debt, equity, mezzanine	Debt	Debt, quasi-equity
Investee type	Growth stage	Growth stage, expanding into early stage	Growth stage	Early stage (high-growth)	Early stage (high-growth)	Seed stage, very early stage
Investment themes	Clean technology, energy efficiency, green economy jobs	Clean energy Infrastructure, energy, resource efficiency	Renewable energy sector, water and energy efficiency	Health care, education, clean tech, housing, Internet technology, manufacturing	Health, energy, education	Job creation alongside social and/or environmental impact

3.1 Key Lessons From the Partnership Design Process

- Taking an ecosystem approach; the importance of multiple and diverse partners:** For the GOF to have maximum impact, it must span the full market of investors with an interest in SGBs, but requiring assistance or incentives to take on the associated risks and costs. The GOF selection of RFs spanned a diverse and broad range of the market in terms of deal size, target sectors, track record, and commercialization (see **Figure 6**). This portfolio approach to fund allocation ensures that the lessons generated

from the GOF pilot are applicable to the full market and that the GOF as an intervention supports the growth of the green economy in South Africa, including encouraging the support of new fund managers within the sector. It also ensures that price discovery is not distorted, since cost per outcome will depend on several variables including (but not limited to) the stage of the SGB, the investment type, the deal size, and the commercial mandate of the business.

Figure 6: An ecosystem approach to fund allocation



- Responding to existing barriers to investing in early stage SGBs:** The GOF design process included engagement with each RF to understand the barriers they faced preventing investments in green SGBs. Individual meetings were held with each of the local funds to best understand their respective mandates, track record, deal sizes, investee types, investment themes, geographic focus, potential pipeline of green SGBs, and how a blended finance structure like the GOF would add to their business. These discussions highlighted the most prevalent barriers to be:
 - High perceived risks, which are difficult to quantify:** Early stage businesses are inherently seen as high-risk. This risk is magnified with new, innovative green models that are unfamiliar to fund managers, since the SGB's business model depends on the viability of the technical aspects. In addition, they present limited track records and complicated business models.
 - High costs:** Green SGBs often come with high start-up costs. They also may lack a business background, and often require hands-on business development support or technical assistance, which is costly.
 - Lack of a high-impact green portfolio to showcase to potential funders:** Without demonstrable success cases, it is difficult for fund managers to attract impact funders and raise capital that specifically aims to support the green market and combat the effects of climate change.
 - Ensuring local innovation and additionality:** To achieve its desired impact of reaching a currently underserved market, the GOF needs to ensure that its offering is additional to what is occurring in the market. For each RF

that underwent baseline due diligence, the GOF offers incentives to undertake deals previously inaccessible. Additionality of the GOF was tested with the RFs. The GOF is the first local blended finance facility in South Africa and will initially run as a pilot to gather insights and allow for iterations. The outline and measurement is explained in **Table 3**.

- Prioritizing flexibility in allocation of GOF outcomes payments:** One of the key innovations of the GOF is generating lessons about the gaps in the market through "following the money." By allowing RFs flexibility (within defined parameters) in how they use outcomes payments, the GOF can identify the most prominent barriers providing finance to green SGBs. Furthermore, since the GOF is designed to span the full ecosystem of relevant funders, this flexibility will differentiate needs at different levels and segments of the market, offering potential for more tailored or targeted support interventions going forward.
- Clear time projections to allow RFs to best benefit from the GOF:** One of the intentions of the GOF is to drive additional private sector capital towards early-stage green initiatives. By providing grant capital for outcomes, the GOF allows RFs to leverage this in fundraising. Furthermore, if more established fund managers can successfully demonstrate the business case for investing in green SGBs, this track record builds the market, assisting new impact fund managers in attracting capital. However, RFs need to have a timeline in mind when engaging with potential funders. Delays in the GOF may cause subsequent delays for RFs, hindering the flow of private sector capital towards early-stage green initiatives. It is thus necessary to provide timelines that are as accurate as possible to allow RFs to utilize these in fundraising conversations.



Table 3: Additionality of the GOF

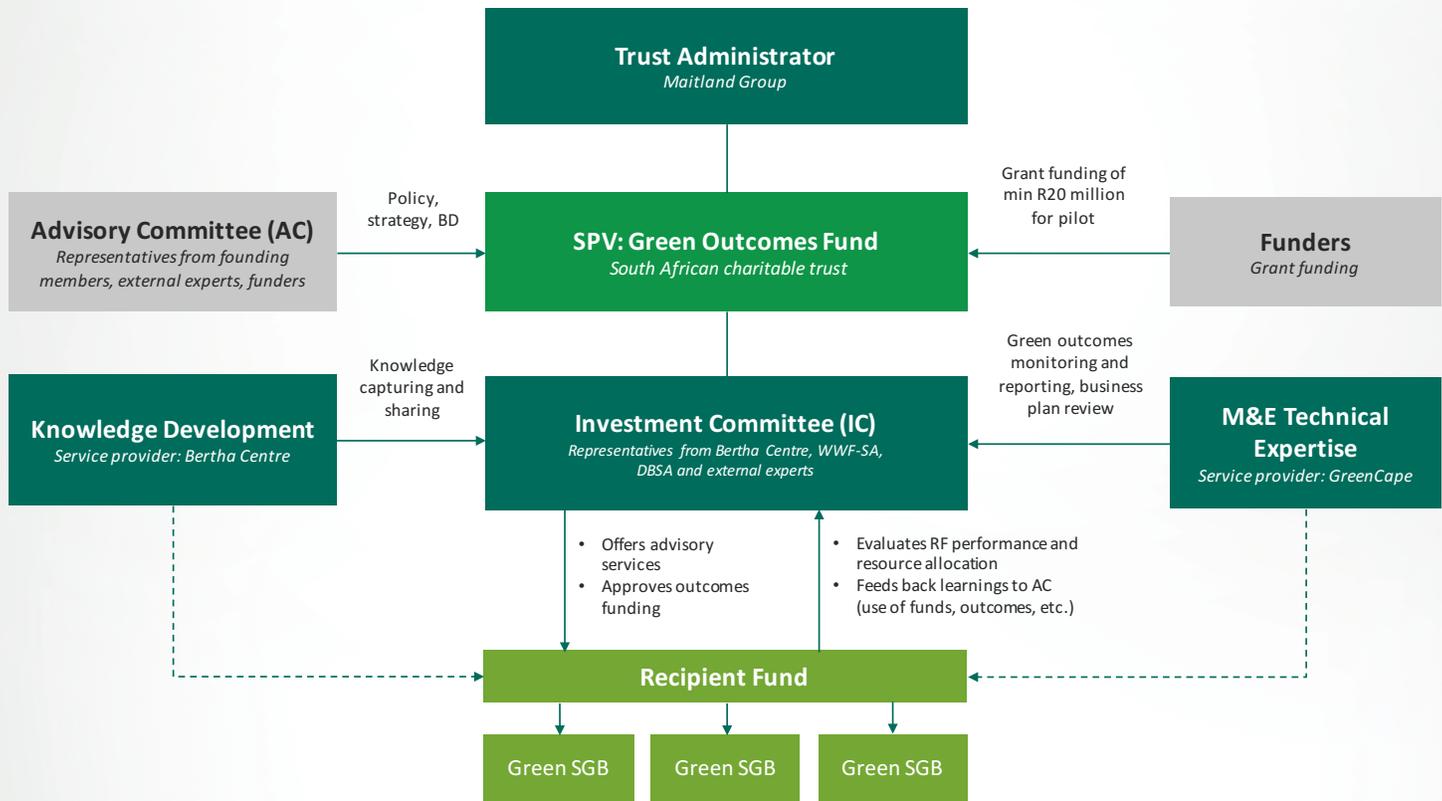
Instrument/use of funds	Explanation
Subsidized cost of capital to SGBs	An RF may assess an investment to have the level of risk that requires an X% interest rate, but the SGB can only afford Y% (where $Y < X$) without increasing the risk of not being able to repay. Using GOF outcomes payments, the RF can charge the SGB the affordable rate of Y%, with the amount of $X - Y\%$ being subsidized through outcomes payments.
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 SGBs to generate more green impact using deal pricing as an incentive for exceeding green outcomes targets.
Catalytic First Loss Capital	Taking on higher-risk SGB investees will likely result in an increase in defaults/non-performing loans. The outcomes payments may be earmarked as Catalytic First Loss Capital, meaning they are used to cover defaulted loans, thus reducing risk for the RF.
Business development support	Many green SGBs, while having excellent sectoral and technical knowledge, require additional training on business development. The RFs can use the outcomes funds to support business development skills with their SGB investees.
Technical assistance, training, and mentoring	In addition to basic business development support, RFs can use outcomes payments to provide tailored post-investment technical assistance and mentorships to green SGBs. These services would be provided to ensure that business risk is mitigated within the investee green SGBs, thus minimizing the probability of default, and increasing the probability of improved business performance.
In-house technical expertise	To accurately assess the risk of a green SGB, an RF 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.
Improved portfolio impact and returns, allowing increased catalyzation of private sector and impact funds	The outcomes payments will improve the value proposition of the RF to funders, by leveraging contributions to job creation, green outcomes, and improved fund returns. This will allow the RF to attract and channel more private sector investment which otherwise would consider such early-stage funding to be too risky.

Pilot and scaling

The GOF design and prototype phases have been completed, resulting in a comprehensive fund structure, clear governance, a registered legal entity, confirmed Advisory and Investment Committees, and a partnership with a blockchain expert to push the innovation of the GOF even further. A governance structure, including design partners, external experts, and implementing partners has been established (see **Figure 7**). With fundraising for outcomes payments underway, implementation of the pilot is expected to start by the end of 2018.

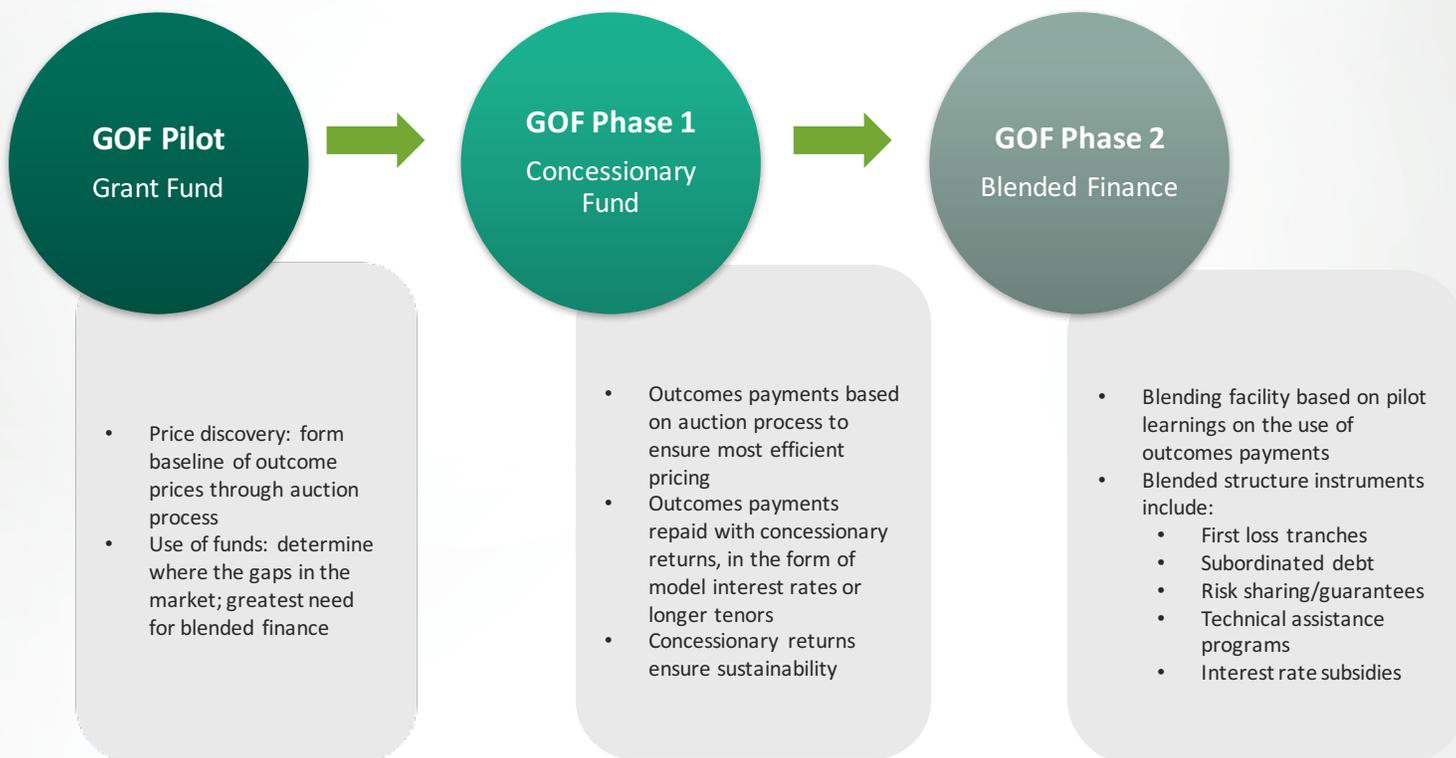
A successful GOF pilot will gather key learnings, test and refine the structure, and set the stage for scale and replication of the model. To prepare the GOF for subsequent, scaled phases, the pilot will provide two key pieces of information: (1) price discovery of green outcomes, and (2) a clear review of the biggest gaps for assistance as evidenced by the way RFs use the outcomes payments. This knowledge will feed into the second and third, self-sustainable phase of the GOF as outlined in **Figure 8**.

Figure 7: Governance Structure



The GOF is intended to be scaled following the pilot, increasing the capital allocation and expanding the model. The GOF model is applicable in other countries and regions, and would ideally be scaled or replicated across Sub-Saharan Africa. In addition, the GOF structure could be used to drive impact in other sectors such as health, education, affordable housing, or impactful technology.

Figure 8: GOF Scaling



4.1 Key Lessons from the Pilot Fundraising Process

To kick off the pilot, the GOF is currently fundraising. Some of the key insights and lessons from market testing thus far include:

- **Selling a complex structure in a simple way:** The GOF was designed as an innovative and different approach to the challenges facing the green finance space. A first-of-its-kind financial structure, however, is often not initially easy for funders to grasp. The communication of the GOF, in documentation, presentations, and orally, needs to simply and succinctly present the relatively complex structure.
- **Classification of South Africa as an upper middle-income country:** South Africa, despite still officially being classified as a developing country, is an upper middle-income country, making it low on the priority list for developmental funders. Increasingly, local markets are seeing a decrease in focus on South Africa, with increasing emphasis on the rest of Sub-Saharan Africa. South Africa is an ideal incubation hub for new ideas that can be scaled and replicated across the continent, but it is becoming increasingly difficult to raise grant funding for such initiatives locally. Furthermore, international funders are often looking for a local anchor funder to demonstrate local buy-in. To address this, the GOF is investigating partnering with pan-African RFs and simultaneously piloting beyond South Africa.
- **Lack of grant funding available to build impact investing markets:** In traditional markets, impact funding is either grant or investment funding. Grant funding is often

earmarked for specific developmental goals and/or impact sectors. Despite there being an abundance of grant funding for green and environmental initiatives, many funders are looking for immediate, marketable environmental impact, rather than allocating funding to the investment market. Even though the ultimate outcomes may be more effective, more rigorously achieved and verified, and the ultimate impact more systemic, there is a lack of innovative and flexible approaches in allocating grant funding to support investment finance. The launch of multiple innovative finance instruments has also demonstrated that while it is possible to raise funding to design innovative finance instruments, it is challenging to raise anchor funding/ investment from impact investors.

- **Lack of catalytic funding opportunities:** Numerous funders engaged emphasized their desire to be catalytic in their grant funding, but maintained different definitions and understandings of what this concept meant to their organization. Most potential funders emphasized interest in involvement, but resistance in being the anchor funder, despite the fact that an anchor funder would have offered the most catalytic effect in terms of unlocking contributions from other funders.
- **Bootstrapping of pilot testing and the willingness of market involvement:** Given the challenges around fundraising, and the desire to allocate as much of funders' capital directly to outcomes, the GOF pilot has been bootstrapped wherever possible. This has required the goodwill of partners and experts, who often donate time or offer their services at a discount, and without whom this pilot would not be possible.



Pilot Partners

The pilot will be implemented as a partnership between the design consortium:

The Bertha Centre for Social Innovation and Entrepreneurship at University of Cape Town's Graduate School of Business ("Bertha Centre") is an academic institution with technical expertise in innovative finance. The Centre first proposed an outcome-based pilot in South Africa, and has relevant experience in designing impact bonds. The Bertha Centre led the design of the GOF, and will continue to act as a knowledge partner as well as take an active role in the governance structure through the Advisory and Investment Committee.

GreenCape: A government-sponsored South African agency established to promote green development in the Western Cape region. GreenCape has several technical "desks" dedicated to green economy sectors, and has significant experience in working with the local private sector. GreenCape led the development of the green metrics and will act as the M&E partner throughout the implementation of the pilot.

The World Wide Fund for Nature - South Africa (WWF-SA): As the national office of a leading international environmental organization, WWF-SA will continue to contribute towards the governance and implementation of the GOF.

The World Bank Group's Climate Technology Program (CTP) works in developing and emerging countries to support green SGBs with innovative structures to address their barriers to scale and growth. In addition to supporting green SGBs at the company level, CTP also seeks to enable increased investment in SGBs. The CTP will provide ongoing support and access to networks.



Climate Technology Program *In Brief*

About Us

The Climate Technology Program (CTP) In Brief series is a publication of the World Bank Group's Finance, Competitiveness, & Innovation Global Practice.

CTP focuses on the growing opportunities of the clean technology sector in developing countries. Through a global network of seven Climate Innovation Centers, the program provides local entrepreneurs with the knowledge and resources they need to launch and scale their innovative business solutions to climate change. CTP In Brief is a series of knowledge briefs highlighting important aspects of the CTP global and in-country operations and research.

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