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Second Party Opinion

The Development Bank of Namibia's Sustainable Finance Framework

April 6, 2023

Founded in 2004, the Development Bank of Namibia (DBN) is 100% owned by the Government of Namibia, through its Ministry of Finance and Public Enterprises. It operates in the private sector (guarantees, trade finance, project finance...); in the public sector (public-private partnerships, local authority finance); and on lending products (microcredit). The bank had total assets of US\$475 million on March 31, 2022.

As part of its government mandate, it aims to contribute to the development of Namibia and the socioeconomic well-being of its citizens through its services and products.

In our view, DBN's sustainable finance framework, published in April 2023, is aligned with:

- ✓ Green Bond Principles, ICMA, 2021
- ✓ Green Loan Principles, LMA/LSTA/APLMA, 2023
- ✓ Social Bond Principles, ICMA, 2021
- ✓ Social Loan Principles, LMA/LSTA/APLMA, 2023
- ✓ Sustainability Bond Guidelines ICMA, 2021

Issuer's Sustainability Objectives

As the country's development bank, DBN works to contribute to the economic growth and social development of Namibia and the welfare of Namibians. It aligns its lending and investment activities with the national development objectives of Namibia's "Vision 2030".

Beyond funding enterprises, infrastructure projects, and support for vulnerable and minority populations, DBN aims to drive the development of local capital markets and of a decentralized economy. Seven key development pillars govern the bank's activities: creation of sustainable employment opportunities, contribution to economic growth and sectoral diversity, infrastructure development, manufacturing, socioeconomic transformation, import substitutions and export promotion, and regional equity.

Through its sustainable finance framework, the bank will further align its funding, lending, and investment activities with its sustainability priorities. These are: mitigating the impacts of climate change, promoting gender equality, and managing social risks relating to vulnerable groups and minorities.

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Second Party Opinion Summary

Use of proceeds

Alignment  DBN's sustainable finance framework is aligned with this component of the Principles.

Score Not aligned Aligned **Strong** Advanced

DBN commits to allocating an amount equivalent to the net proceeds of all instruments issued under its sustainable finance framework to finance and/or refinance environmental and social projects. The bank provides a clear description of the eligible categories, with their sustainability objectives.

Process for project evaluation and selection

Alignment  DBN's sustainable finance framework is aligned with this component of the Principles.

Score Not aligned **Aligned** Strong Advanced


DBN's framework outlines the process in which a dedicated sustainable finance working group (SFWG) will select and evaluate eligible projects. It also describes how the SFWG identifies and manages potential social and environmental risks associated with financed projects.

Management of proceeds

Alignment  DBN's sustainable finance framework is aligned with this component of the Principles.

DBN will deposit the net proceeds of the sustainable financing instruments in a separate general ledger account and earmark these proceeds for allocation using a sustainable financing register. The bank will hold unallocated proceeds temporarily in cash and cash equivalents. These will be managed in line with its treasury and cash management policies.

Reporting

Alignment  DBN's sustainable finance framework is aligned with this component of the Principles.


Score Not aligned Aligned **Strong** Advanced

DBN commits to report annually on both the allocation of proceeds and the respective expected and actual environmental and social impacts of the financed projects, until full allocation of proceeds. The report will be published on the bank's corporate website. DBN will also engage an independent third-party verification for its allocation reporting post-issuance.

Framework Assessment

Use of proceeds

The Principles make optional recommendations for stronger structuring practices, which inform our alignment opinion as aligned, strong, or advanced. For use of proceeds, we consider the commitments and clarity on how the proceeds are used.

 DBN's sustainable finance framework is aligned with this component of the Principles.

Commitments score

Not aligned

Aligned

Strong

Advanced

We consider DBN's overall use of proceeds commitments to be strong.

DBN commits to allocating an amount equivalent to the net proceeds of instruments issued under its framework to finance and/or refinance eligible green and social projects. These contribute to at least one environmental or social objective and support targeted United Nations' Sustainable Development Goals (SDGs).

The framework has seven green categories: renewable energy; energy efficiency; clean transportation; green buildings; sustainable water and wastewater management; environmentally sustainable management of natural living resources and land use; and terrestrial and aquatic biodiversity conservation. They serve the environmental objectives of climate change mitigation, sustainable use and protection of water and marine resources, and protection and restoration of biodiversity and ecosystems. For example, projects relating to renewable energy, energy efficiency, clean transportation, and green buildings contribute to climate change mitigation. This is because these projects help reduce reliance on fossil fuels and the energy generated by them. The projects therefore facilitate decarbonization in carbon-intensive sectors such as power generation, and transportation and real estate.

The four social categories are: affordable basic infrastructure, affordable housing, socioeconomic advancement and empowerment, and access to essential services such as health care and education. Funding projects in these categories aims to achieve social objectives such as raising living standards, increasing social inclusion, and improving access to essential health care and education with these eligible social projects.

Social projects include financing of basic infrastructure, such as clean drinking water and sanitation systems; rural and public roads; and electricity transmission and distribution infrastructure. Construction of social housing projects and public and free/subsidized health care and education infrastructure are among other such projects. Approximately 50% of Namibia's population does not have access to adequate sanitation, and 66% of the country's urban population continues to live in informal settlements (see "[Housing Finance in Africa Yearbook: 13th Edition – 2022](#)").


DBN will also finance programs supporting social integration and economic development by providing funding to businesses owned by women, to youth entrepreneurs, and to disabled people who may not be well covered by the formal financial system. According to Namibia's fifth National Development Plan, women face gender-based violence and systemic inequalities, with a third living below the poverty line. Women in poverty have unequal access to resources such as land, capital, and education.

There is a target population for each social category. Projects benefitting a specific target population are in line with national or international references. For example, DBN intends to finance projects relating to affordable basic infrastructure to rural areas, as defined by Namibia's National Rural Development Policy. Projects in health care, education services, and infrastructure logically benefit the general population rather than more narrowly defined groups.

DBN will disclose the share of financing versus refinancing, with a maximum look-back period of 36 months for refinanced projects. Disclosing information on refinancing adds to the transparency of the use of proceeds.

Process for project evaluation and selection

The Principles make optional recommendations for stronger structuring practices, which inform our alignment opinion as aligned, strong, or advanced. For our process for project selection and evaluation, we consider the commitments and clarity on the process used to evaluate and select eligible projects to fund with the proceeds of the sustainable finance instrument.

 DBN's sustainable finance framework is aligned with this component of the Principles.

Commitments score

Not aligned

Aligned

Strong

Advanced

We consider DBN's overall process for project selection and evaluation commitments to be aligned.

The framework outlines the process DBN will use to determine how projects fit within the eligible categories. It includes an exclusionary list covering items such as fossil fuel, alcohol, gambling, and weaponry.


The bank has set up a SFWG with members from key departments, including treasury, risk and compliance, investments, small and medium-size enterprises (SMEs), and credit risk. Other key business units are included as required. The investment/SME analyst will first determine if potential projects fall within the exclusionary list. If not, the SFWG will then screen projects according to the framework's eligibility criteria during the pre-investment stage and approve allocation of proceeds to selected projects. The projects are screened based on a dedicated ESG risk categorization and ESG red flags that help inform the scope of the mandatory environmental and social due diligence. DBN then assesses selected projects using its due diligence process, which includes environmental and social risk assessment.

DBN will rely on its environmental and social management system (ESMS) to identify and manage risks in these areas associated with financed projects. The ESMS comprises environmental and social risk assessments, which are led by the bank's environmental manager. The process covers an initial stage, followed by evaluation, decision-making, and monitoring. Additionally, DBN requires an ESG action plan to mitigate identified risks of financed projects as part of its due diligence process. We consider this a strength.

DBN incorporates clear eligibility criteria by setting quantitative thresholds or referencing market-based certifications for some eligible project categories. For example, the framework references green building certifications, such as LEED (Leadership in Energy and Environmental Design), BREEAM (Building Research Establishment Environmental Assessment Method), and Africa Green Star, among others, as eligibility criteria. Similarly, energy efficiency projects need to increase energy efficiency by 30% to be eligible. DBN's target populations for eligible social projects rely on government definitions where possible. They reference bank definitions in cases when official definitions are not available. However, some project categories do not include clearly defined thresholds and do not incorporate market-based taxonomies.

Management of proceeds

The Principles require disclosure of the issuer's management of proceeds from sustainable finance over the life of the funding. The alignment opinion focuses on how clear in the documentation is the issuer's commitment to ensure that the funds raised will remain dedicated to eligible sustainability projects throughout the life of the sustainable finance funding.

 DBN's sustainable finance framework is aligned with this component of the Principles.

DBN will track and monitor the use of proceeds from instruments issued under the framework. The net proceeds will be deposited in a separate general ledger account and earmarked for allocation in a sustainable financing register. The bank commits to allocate all proceeds within two years from the date of issuance on a best effort basis.

DBN will ensure that the balance of the tracked net proceeds in the register is periodically adjusted to match the allocations eligible projects during the time the sustainable financing


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instruments are outstanding. If a project ceases to be eligible or is withdrawn, DBN will reallocate the net proceeds to other eligible projects within 12 months, or as soon as reasonably practicable.

Pending full allocation, DBN will hold unallocated proceeds in cash and cash equivalents, which will be managed in accordance with the bank's treasury and cash management policies.

Reporting

The Principles make optional recommendations for stronger disclosure practices, which inform our disclosure opinion as aligned, strong, or advanced. We consider plans for updates on the sustainability performance of the issuer for general purpose funding, or the sustainability performance of the financed projects over the lifetime of any dedicated funding, including any commitments to post-issuance reporting.

 DBN's sustainable finance framework is aligned with this component of the Principles.

Disclosure score

Not aligned

Aligned

Strong

Advanced

We consider DBN's overall reporting practices to be strong.

DBN commits to reporting the allocation of net proceeds and impact of financed projects within one year from the issuance of the sustainable financing instrument. The bank will report these elements annually thereafter until full allocation of the net proceeds and in the event of material developments. The report will be available on the bank's website. In the event of a loan or private placement, the annual report will be shared with lenders and investors instead.

Allocation reporting will include a brief description of financed projects. It outlines project locations, target populations (for social projects), and amounts allocated. In addition, it reports share of financing versus refinancing, the amount of unallocated proceeds, and the total amount of proceeds. It does so by project and project category.

DBN will report both the expected and achieved environmental and social impacts of financed projects where feasible. Environmental impact indicators include, among others, total installed capacity of renewable energy, annual greenhouse gas emissions avoided or reduced, annual energy savings, the number of low carbon vehicles or vessels, annual water savings, and increase of area for sustainable management of invader bush. Social impact indicators will include, among others, the number of people gaining access to basic sanitation; safe water supply and transportation; the number of new water treatment plants or reservoirs; the number of women entrepreneurs, youths, and disabled persons financed; the number of housing units constructed; and the number of beneficiaries. While these social indicators cover number of beneficiaries rather than improvements in social outcomes, they are in line with market practices.

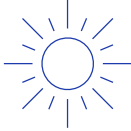
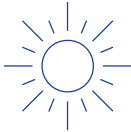





DBN will engage an external reviewer to assess the allocation of net proceeds to eligible projects annually until full allocation. It will also disclose the key underlying calculation methodologies and assumptions of impact metrics. These commitments add transparency to the bank's reporting practices.

Mapping To The U.N.'s Sustainable Development Goals

The SDGs, which the United Nations (U.N.) set up in 2015, form an agenda for achieving sustainable development by 2030.

We use the International Capital Market Association's (ICMA's) SDG mapping for this part of the report. We acknowledge that ICMA's mapping does not provide an exhaustive list of SDGs and that ICMA recommends each project category be reviewed individually to map it to the relevant SDGs.

DBN's sustainable finance framework intends to contribute to the following SDGs:

Use of proceeds	SDGs	
Renewable Energy	 7. Affordable and clean energy*	
Energy Efficiency	 7. Affordable and clean energy*	
Clean Transportation	 9. Industry, innovation and infrastructure	 11. Sustainable cities and communities*
Green Buildings	 9. Industry, innovation and infrastructure	 11. Sustainable cities and communities*
Sustainable Water and Wastewater Management	 6. Clean water and sanitation*	

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Use of proceeds

SDGs

Environmentally Sustainable Management of Natural Living Resources and Land Use



14. Life below water*



15. Life on land*

Terrestrial and Aquatic Biodiversity Conservation



14. Life below water*



15. Life on land*

Affordable Basic Infrastructure



3. Good health and well-being*



6. Clean water and sanitation*



11. Sustainable cities and communities*

Socioeconomic Advancement and Empowerment



1. No poverty*

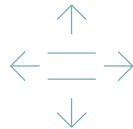


5. Gender equality*



8. Decent work and economic growth*

Affordable Housing



10. Reduced inequalities



11. Sustainable cities and communities*

Access to Essential Services (Healthcare and Education)



3. Good health and well-being*



4. Quality education*

*The eligible project categories link to these SDGs in the ICMA mapping.

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