



FICS LAB INCUBATOR

Shaping a Supportive Business Environment for Implementing an Effective Voluntary Carbon Market Instrument in South Africa Leading to Regional Scalability

Background

South Africa's transition to a low-carbon economy requires new sources of climate finance that are credible, scalable, and aligned with national priorities. Voluntary carbon markets (VCMs) can play an important role in mobilizing both domestic and international capital, but their success depends on strong design, integrity, and alignment with market realities.

To address this need, the Development Bank of Southern Africa (DBSA) and Promethium Carbon, in collaboration with Climate Policy Initiative (CPI) under the FiCS Financial Innovation Lab, are co-developing a high-integrity VCM instrument tailored to South Africa's circumstances. This initiative will deliver a feasibility study and an implementation roadmap. Together, these will assess the legal, technical, market, environmental, and financial enablers for carbon credits, while providing a sequenced pathway, with roles and timelines, for piloting the instrument.

The approach combines:

- **Comprehensive supply and demand analysis** of carbon credits in South Africa.
- **Technical and financial modelling** to test potential structures and identify scalable solutions.
- **Environmental and social impact modelling** to evaluate design options and guide instrument refinement.
- **Stakeholder engagement** across public and private actors to ensure alignment with policy developments, institutional mandates, and user needs.

By the end of the project, DBSA and its partners will have a clear roadmap for piloting an innovative VCM instrument that can unlock climate finance at scale.

Project Stakeholders and Roles:

- DBSA: Public development bank leading the initiative
- Promethium: developing supply-side model, financial, environmental and social modeling, developing and stress testing the instrument
- CPI: strategic support, developing demand-side model, engaging key market actors and stress testing the instrument

Opportunity for DBSA



This initiative directly advances DBSA's mandate to expand climate finance and support South Africa's Just Energy Transition. It enables the Bank to:

- **Diversify funding streams** by tapping into carbon finance for infrastructure and resilience projects.
- **Strengthen strategic positioning** as a regional leader in sustainable finance innovation.
- **Build internal expertise** and capacity on carbon markets, reinforcing DBSA's role as a thought leader and market shaper.

Ultimately, the project provides DBSA with the insights and tools needed to determine how to integrate carbon finance into its broader investment strategy.

The Role of the FiCS Lab

The FiCS Lab adds critical value to this effort by providing:

- Technical and financial expertise: leveraging CPI's global experience in instrument development, data analysis, and financial modelling alongside Promethium's in-depth knowledge of South Africa's carbon market.
- Neutral convening power: creating a trusted platform to engage public and private stakeholders, ensuring broad buy-in and credibility for the proposed instrument.
- Capacity building: supporting DBSA's internal learning efforts, such as through the FiCS Lab-supported masterclass on carbon finance, which established a shared understanding of opportunities and challenges in South Africa's VCM.
- Pathway to scale: positioning the instrument within a global network of public development banks, so that lessons from South Africa can inform and inspire similar efforts in other emerging markets.

Through this combination of expertise, convening, and visibility, the FiCS Lab helps ensure the instrument is rigorous, credible, and scalable, while also amplifying DBSA's leadership in climate finance innovation.