Creating a long term financing framework for South Africa’s Climate Change Response

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Rising demands for energy, water shelter, jobs, education in resource constrained world
National Climate Response: Pro-poor, pro-employment, low carbon and climate resilient development path

- **Transition pathways** – priority actions, defined transition impact & transition/trade-off costs
- **National flagship programmes** - ‘investors’ clarity on country priorities, certainty on long term horizon and attract incremental resources to catalyse actions at scale

Source: DBSA, 2010
<table>
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<tr>
<th>“Near term Priority Flagship Programmes” (DEA)</th>
<th>Green Economy Summit (DEA, DBSA)</th>
<th>Green Accord (DW&amp;EA, NEDLAC, IDC, EDD, DTI, DOE, DPE, DHET, DOT, DIRCO)</th>
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| Climate Change Response Public Works          | Green buildings and the built environment  
Green cities and towns | Retrofitting                                                               |
| Water Conservation & Demand Management       | Resource conservation & management  
Water management | Investment in the green economy                                           |
| Renewable Energy                              | Clean energy                      | Rollout of renewable energy                                             |
| Energy Efficiency & Energy Demand Management | Energy efficiency                | Energy efficiency                                                       
Rollout of solar water heaters                |
| Transport                                     | Sustainable transport             | Carbon emission reductions on roads                                     |
| Waste management                              | Sustainable waste management practices  
Sustainable consumption and production | Waste recycling, reuse & recovery                                        |
| Carbon Capture & Sequestration                |                                  | Clean coal                                                              |
| Adaptation Research                           | Agriculture, food production and forestry | Electrification of poor communities & reduction of fossil fuel open fire cooking & heating |

**Current national green & climate programme landscape**
Creating an integrated national transition plan

National Green/Climate Programmes
(integrated with national development agenda)

Energy & Energy Efficiency

- National aims: Energy access & security
- Green aims: Shift fuel sources & reduce energy demand
- Funding facility: • SARI • Super Esco • NSSF

Natural Resources

- National aims: Land use, waste, biodiversity and conservation
- Green aims: Expand adaptive capacity of natural infrastructure base and prepare for change
- Funding facility: • Drylands Fund • Acid Mine Drainage Fund • Proposed PES Fund

Local Government

- National aims: Effective service delivery to all South Africans
- Green aims: Build climate resilient economic and social systems and develop green economy
- Funding facility: • WB Cities Support Programme • MIIF Framework

Parameter
Policy
1RP2, EE, SWH
Climate Change Policy, NEMA
MFMA, PFMA

National aims
Energy access & security
Land use, waste, biodiversity and conservation
Effective service delivery to all South Africans

Green aims
Shift fuel sources & reduce energy demand
Expand adaptive capacity of natural infrastructure base and prepare for change
Build climate resilient economic and social systems and develop green economy

Funding facility
• SARI
• Super Esco
• NSSF
• Drylands Fund
• Acid Mine Drainage Fund
• Proposed PES Fund
• WB Cities Support Programme
• MIIF Framework
Climate finance strategy: Long term, sustainable financing framework

What did private finance institutions require to invest in climate interventions? Certainty on priorities & long term investment horizon, with enabling policy & regulatory frameworks

Goal: Build an effective and inclusive climate finance architecture for South Africa’s climate change and green economy response.

1. Interim climate finance mechanism for flagship programmes

2. Develop long term funding framework for climate finance within 3 years of publication (i.e. October 2014) (Ministers of Finance, EDD and DEA)
   - Climate risk
   - Investment management
   - Sanity check on enabling regulatory and enabling frameworks
   - Recognition of “common and differentiated” strengths of finance system

1. National Climate Change Response White Paper, (referencing Chapter 8 and 11.1.)
Different forms of support are required along the programme and project life cycle trajectory – requiring a blending of public and private capital, from international and national sources.

Source: UNEP 2009,
Mapping South Africa’s current public & international climate finance facilities

- **Jobs Fund**: Gross fiscal allocation R9bn (with potential window for green jobs)
- **National Green Fund**: Gross fiscal allocation R800M (with window for multi-donor facility)
- **Sanbi**: Accreditation as NIE (Adaptation Fund)
- **GEF**: Potential as NIE ($50m)
- **Acid Mine Drainage**: R208M
- **Drylands Fund**: R6.5M
- **Renewable Energy IPP Fund**: SWH Rebate R2.5BN
- **Sustainable Settlements Facility**: Unfunded

**Plus**: Market based mechanisms such as carbon tax

Source: DBSA, 2011. This mapping excludes individual bilateral and multilateral “green” credit lines that have been secured by SA institutions.
Design parameters for a National Green Fund

**Key features**

1. **Source of funding**: National Treasury budget allocation, with option to leverage additional funding
2. **Leverage and blending**: Matching instruments with resource needs, crowding in private sector
3. **Investment mandates**: Climate and green economy related programmes defined by government
4. **Transition impact**: Scale, catalyze & mainstream
5. **Developmental impact**: Pro-poor, pro-employment, low carbon and climate resilient development
6. **Functional areas**: Green technologies, institutional strengthening & policy feedback loops

Source: DBSA, 2011
Climate finance is very complicated on the ground .....

- Donor “climate related” commitments since 2003 > R20bn to South Africa
- Poor alignment with national development priorities
- Deeply fragmented, difficult to track impact & achieve scale
- High transaction costs due to duplication

Source: Graphic Imbewu, 2011
Green Climate Fund

Source: Adapted by DBSA from DNA, 2011
Prototype for “Interim National Climate Coordination Mechanism” (Ch 11, White Paper)

Potential Sources of Climate Finance:
- International climate funds
- Additional ODA
- National budgets
- Leverage private sector

Climate Resource Coordination Mechanism:
(Primary functions: Matching sources and uses of climate finance and technical support, facilitating resource mobilisation and MRV tracking)

National & Regional Climate Priority Programmes:
(integrated into the national and regional development priorities)

Implementing Entities:
(Priority programmes managed by different public and/or private entities)

Programme and Project Beneficiaries:
(e.g. financial institutions, projects, local government, civil society & research)

Potential Application of Climate Finance

Source: DBSA climate finance and green economy research, Dec 2010 – October 2011
GCF readiness – creating national absorptive capacity

Global Green Climate Fund

Other climate finance sources

Supplemented by other sources: Grants, loans, specialist credit lines, export credit agencies, technical assistance etc

Promoter contribution (equity/other)

Programmes and projects

Working capital needs
Operational phase subsidy/grants

Climate Coordination Mechanism

Matching & facilitation

Implementation mandate

Inclusive consultations

Representative process on priorities

Co-financing and development with private sector

MRV

Implementing agents

Channel funds

Policy alignment

Reporting progress

Governments

Implementation mandate

Source: Adapted from output of workshop of developing country DFIs hosted by the DBSA, AfD and World Resource Institute (29-31st August 2011)
Principles to advance climate finance @ country level

1. **Own the definitions** - equity, pragmatism, trust, innovation, transparency, accountability

2. **Power of the package** – finance, technology transfer, technical assistance

3. **Power of the network** – right partners for the right programmes

4. **Power of innovation** – relevant and responsive resources to bridge gaps

5. **Matchmaking** – risk and return matched to appropriate players

6. **From commitment to action** – start now for business unusual

7. **Lighthouse watch** – focusing on long road, not only short term