Climate Finance –
A South African perspective in
developing the National Climate
Change Response

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Prepared by Chantal Naidoo
Divisional Executive – Environmental Finance
chantaln@dbsa.org mobile: +27795058724
Rising demands for energy, water, shelter, jobs, education in resource-constrained world.

- Population Growth
- Migration Patterns
- Rate of urbanization
- Consumption
- Energy Supply patterns
- Diminishing Natural Resources
- Institutions & implementation
- Regional Integration
- Sustainability & development

Sustainable development & climate change & green economy
1. South Africa’s National Climate Response Policy

2. Prototype for coordinating climate finance

3. Concluding thoughts
1 – South Africa’s National Climate Response Policy
Key message of policy: To commence the transition to a low carbon and climate resilient economy

- **National transition programmes** - ‘investors’ clarity on country priorities and attract incremental resources to catalyse actions within the window
- **Transition window** – priority actions, defined transition impact and transition costs, transition roles (based on risk absorption capacity)
### Current national green & climate programme landscape

<table>
<thead>
<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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</thead>
<tbody>
<tr>
<td>Climate Change Response Public Works</td>
<td>Green buildings and the built environment</td>
<td>Retrofitting</td>
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<td>Green cities and towns</td>
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<td>Water Conservation &amp; Demand Management</td>
<td>Resource conservation &amp; management</td>
<td>Investment in the green economy</td>
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<td></td>
<td>Water management</td>
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<td>Renewable Energy</td>
<td>Clean energy</td>
<td>Rollout of renewable energy</td>
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<tr>
<td>Energy Efficiency &amp; Energy Demand Management</td>
<td>Energy efficiency</td>
<td>Energy efficiency</td>
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<td>Rollout of solar water heaters</td>
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<tr>
<td>Transport</td>
<td>Sustainable transport</td>
<td>Carbon emission reductions on roads</td>
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<td>Waste management</td>
<td>Sustainable waste management practices</td>
<td>Waste recycling, reuse &amp; recovery</td>
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<td>Sustainable consumption and production</td>
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<td>Carbon Capture &amp; Sequestration</td>
<td>Clean coal</td>
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<td>Adaptation Research</td>
<td>Agriculture, food production and forestry</td>
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<td>Electrification of poor communities &amp; reduction of fossil fuel open fire cooking &amp; heating</td>
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<td>Biofuels</td>
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<td>Localisation strategies (youth, coops, skills)</td>
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<td>Cooperation at COP17 and follow up</td>
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<td>Monitoring and evaluation</td>
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Creating a national investment plan for transition

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
Prototype for coordinating climate finance
Donors
Carbon markets
Public finances
SCCF
LDCF
CIFs
SCF
CTF
Carbon Funds
CIFs
CTF
SCF
World Bank / IMF
UN (and agencies)
RDBs / BFIs
MDG
UNFCCC
SCAF
GEF
UN-REDD
UN-REED
Financial institutions (Public / Private)
Public sector
Mitigation / Adaptation projects
Financial resources
Source, DNA Economics, 2011
Resources needed for climate response across the project life cycle

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,
Climate finance is very complicated on the ground ..... 

- Donor commitments since 2003 > R20bn to South Africa
- Poor alignment with national development priorities
- Low impact and high transaction costs
Government of South Africa aims to establish an effective and enabling climate finance architecture and financing strategy for South Africa’s climate change and green economy response.

- Interim climate finance mechanism for flagship programmes

- 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

1. National Climate Change Response White Paper, (referencing Chapter 8 and 11.1.)
## Working together as a “financial system”

<table>
<thead>
<tr>
<th><strong>International using UNEPFI Study</strong></th>
<th><strong>South African stakeholder responses</strong></th>
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<tbody>
<tr>
<td><strong>Insurance and reinsurance sector</strong></td>
<td>High recognition of climate change risks and opportunities and will be the primary business driver in future. Primary challenge is quantifying and pricing climate risk. Existing and planned climate related business products.</td>
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<tr>
<td><strong>Asset managers</strong></td>
<td>Confusion between direct and indirect impacts of climate change – generally climate change impacts are ignored. Small proportion considering in course of investment decisions.</td>
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<tr>
<td><strong>Banks and lenders</strong></td>
<td>Confusion between direct and indirect impacts of climate change, but recognition of need to consider shifts in credit risk assessment. Preoccupied with emission policies rather than climate impacts.</td>
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<td><strong>Development finance institutions</strong></td>
<td>Critical role to play in catalyzing green growth investments and development planning.</td>
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<td><strong>Microfinance</strong></td>
<td>Innovative business opportunities for small scale interventions (biogas, small hydro, food security, energy access – off grid).</td>
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<td><strong>Research institutions</strong></td>
<td>Significant pre investment capital needed for ‘valley of death’ bridging</td>
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### Current landscape of public environmental and climate finance resource support measures

<table>
<thead>
<tr>
<th>GREEN ECONOMY (EDD, DTI &amp; DEA)</th>
<th>ENERGY (DOE)</th>
<th>CLIMATE CHANGE (DEA)</th>
<th>NATIONAL TREASURY</th>
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<tbody>
<tr>
<td>Local Procurement Accord (EDD)</td>
<td>SWH Rebate Programme</td>
<td>Priority Flagship Programmes</td>
<td>National Green Fund</td>
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<td>Green Energy Efficiency Fund (IDC)</td>
<td>IPP REFIT</td>
<td>Climate coordination mechanism</td>
<td>Drylands Fund</td>
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<td>Green Economy Programme (DEA &amp; DBSA proposed)</td>
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<td>NAMA – Sustainable Settlements Facility</td>
<td>Carbon Tax proposal</td>
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<td>South African Renewables Initiative (DTI, DPE)</td>
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<td>Cities Support Programme</td>
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<tr>
<td>Green Accord (industry, IDC and select government departments)</td>
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<td>Acid Mine Drainage</td>
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<td>RE IPP Fund</td>
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Mapping South Africa’s public sector climate finance facilities

- **Civil society interventions**
- **Government, donors & development institutions**
- **Banks**
- **Equity investors**

- **JOBS FUND** – R9bn (with potential window for green jobs)
- **NATIONAL GREEN FUND** – R800M (include multi-donor facility)
- **DRYLANDS FUND** – R6.5M
- **ACID MINE DRAINAGE** – R208M
- **SUSTAINABLE SETTLEMENTS FACILITY** - Unfunded
- **RENEWABLE ENERGY IPP FUND** – R200 – R800M
  - SWH REBATE R2.5BN
  - IDC GREEN ENERGY EFFICIENCY FUND – R500M
- **JOBS FUND** – R9bn (with potential window for green jobs)
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
4 – Concluding remarks
Coordination as support measure for the financial system

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

Channel funds

MRV

Implementing agents

Governments

Policy alignment

Reporting progress

Inclusive consultations

Implementation mandate

Co-financing and development with private sector

Representative process on priorities

Source: Adapted from output of workshop of developing country DFIs hosted by the DBSA, AfD and World Resource Institute (29-31st August 2011)
Benefits of coordination mechanism

- **Integration**: Existing development priorities with climate response
- **Ownership**: Country owned response strategy
- **Demand driven**: Bridging gaps that exist within domestic finance sector
- **Clarity**: Increased capacity to absorb appropriate & relevant technology transfer
- **Partnerships**: Financing, technical assistance, technology, institutional strengthening
- **Transition**: Scaled up infrastructure & industrial programmes to unlock growth
Principles to advance climate finance @ country level

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

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

3. Power of the network – Partners that bridge gaps

4. Power of innovation – relevant and appropriate resources

5. From commitment to action – Prototype for immediate application

6. Lighthouse watch – Focus on the long road, not short term