



SA-EU JUST TRANSITION FINANCING ROADMAP: TECHNICAL PEER-TO-PEER COUNTERPART KNOWLEDGE SHARING



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WEBINAR 1 of 3:

THE ROLE OF DFI'S (DEVELOPMENT FINANCE INSTITUTIONS) IN DEPLOYING FINANCING TO JUST TRANSITION PROJECTS

30 SEPTEMBER 2021 – 09h15-10h30

REPORT

The TIPS webinar was held on Zoom. It was open to anyone to register. Only registered participants could join the webinar on the day.

Attendees:

There were a total of 86 attendees and 6 panelists. The attendees were mostly South African from private sector organisations such as Ninety One, Sanlam, Standard Bank, Deloitte, Sasol and Liberty; Government agencies, institutions and departments such as DBSA, IDC, City of Cape Town, City of Tshwane, Dept of Agriculture, Land Reform and Rural Development, The Department of Trade, Industry and Commission and the Presidential Climate Commission. There were a number of international attendees from various embassies and international companies, including, the EU Delegation, French Embassy, Polish Embassy, Lithuanian Embassy, Danish Embassy, Czech Republic Embassy, Hungarian Embassy, Italian Embassy, GIZ and the World Bank.

Presentations:

The webinar opened with a presentation by the IDC on their Investment prioritisation in relation to decarbonisation pathways. As a DFI the IDC is focused on its mandate to maximize development impact and it is developing this as it creates a green bond framework. The framework tries to define which developmental impact areas the organisation needs to focus on (women, youth, and black industrialists)

and to identify the most relevant green activities which will characterise the decarbonisation pathway. Currently the IDC's green portfolio is dominated by clean energy investments and specifically solar and wind investments. To expand the portfolio it is adopting a value chain approach with each business unit focusing on green opportunities in priority sectors. It was argued that substantial lessons could be drawn from the REIPPP program and specifically the role DFI's played in stepping up and de-risking projects before they became commercially viable. The role of government guarantees was emphasised as well as the need for certainty in terms of clear and transparent policies and the existence of a long term reliable plan. Going forward the IDC noted the need for DFI's to play a vanguard role in the financing of new technologies and that this would require innovative business models and funding models none of which would be forthcoming in the absence of policy certainty.

In the second South African input by Rabia Transitions CEO began by highlighting the fact that national DFI's have always played an important role in transitions and that in the green transition they will once again play a crucial role in financing new technologies and businesses. She argued that while DFI's were driven by their lofty social mandates in reality they often find it difficult to secure investment and live up to their developmental potential. In relation to the just transition the complexity of South Africa's discourse was highlighted especially the fact that the baseline for transition is inherently unjust making the debate about what is a just transition in a south African context very hard to grapple with. It was argued that civil society and the unions have played an important role in raising the issues of the JT with the financial sector and this has led to spoken urgency but often muted action on the ground. In the JT it is argued that the role of the DFI's in SA goes beyond the mere deployment of funds but that DFI's need to be bold. They need to rethink their role and position in the broader financial eco system, they need to experiment at scale and undertake demonstration projects, they need to design and innovate in the space of blended finance and that capital structure really does matter. Moving on it was argued that the role of international financial institutions have a crucial role to play in how national DFI's in SA will be able to fulfil their role. IFI's will need to at a minimum assist in providing relief from the fiscal constraints that characterise the SA economy, provide funding for big investments and no regret investments and importantly maximize concessionality and ensure that such concession is passed down the investment chain. The role of national DFI's is thus strongly linked to the relationships they are able to determine and implement with IFI's. These relationship will really matter as South Africa transitions to net zero.

The case study of the shift of Danish Oil and Natural Gas Company (DONK) to a renewables only company (Orsted) provided a detailed explanation of: how to execute a strategy to exit from fossil fuels; an entry strategy to the renewables space; and the pivotal role of the government in facilitating such a shift. The case study had 5 key policy learnings. The first is the need for planning and the setting of ambitious and reliable targets. This planning must be long term, stable and transparent to create certainty for industry and financiers. The second key learning is that demonstration projects are extremely important as they provide learning about creating an adequate enabling environment, technical and engineering learning, proof of scalability learning and most importantly proof of concept at a commercial level thereby creating comfort for future investors. Third it is crucial to have permitting processes in place which de-risk projects (use of a one stop shop). Fourth it is important to ensure

market competition and the fifth lesson learned is that economic incentives are crucial including subsidies, taxes and CO2 pricing

The EIB case study of the coal transition in Ukraine mirrors many of the starting conditions facing South Africa in regions such as Mpumalanga. Ukraine has committed to decarbonise, coal activity is focused in five regions and mono economy coal towns are common. The case study focused on the fact that decarbonisation decisions are made at the national level yet the impact is based at a regional level. The three key challenges for mono towns in Ukraine are: economic diversification to replace coal jobs, human skills and social issues and energy security. Policy implementation and financing is prioritised due to an attempt to minimise migration out of coal regions into metropolitan areas. Key lessons are that there needs to be an agenda of action based on economic (reskilling and diversification); social (public service investments) and urban (territorial development projects) dimension simultaneously, with emphasis on the approach that you cannot deal with the environment without dealing with social issues and people. Key funding requirements were identified with respect to 5 Ukrainian mono town transitions. The first was the need for financing of both short and long term investment plans. Second there need to be a number of no regret big projects which are developed and implemented quickly (to create impetus). There is a great need for technical assistance not just at a project level but at a regional level in terms of gap analysis, strategy development and governance and technical capacity. Multi sector loans are crucial as are grants, concessionary loans, long tenor loans.

The final European input was from The IFC Africa co-ordinator and representative of the newly branded Sustainable Banking and finance Network. The presentation focused on the 30 by 30 zero South Africa programme which amongst other goals aims to increase climate related bank lending from 2% to 4% by 2027. To achieve this and more generally mobilise climate finance at scale it is necessary to increase understanding of climate financing risks and opportunities; enact consistent policies and incentives for climate finance, enhance the capacities of financial institutions to originate and manage climate related assets and risk; increased availability of long terms financial resources and a financial sector which is well informed on new products and innovations to support low carbon development. The IFC through varying programmes offers support to the South African government and broad financial services sector to undertake research, transfer learnings and knowledge, conduct research, provide skills, training and strategy development and very importantly work with South Africa to develop relevant new financial products.

Four cross cutting issues emerged from all of the inputs:

- It is not possible to deal with environmental issues and decarbonisation without dealing with social issues simultaneously
- Creating an enabling environment and supporting demonstration projects is crucial to successful movement out of high emissions activities. The government has a pivotal role to play in both

- Funding a just transition in South Africa will be a global effort not only in terms of fund mobilisation and deployment but in terms of innovative mechanisms, institutional relationships and roles, financial instruments and training, skills development and knowledge transfer
- Just transition financing needs to be addressed not only in South Africa but in Europe and knowledge sharing is an import contributor to moving the discourse forward

To view the presentations, click here: https://drive.google.com/drive/folders/170qmprcEbOnA0edZ-wsNlgQxb_c9zNZM?usp=sharing



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