



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



A series of three webinars

WEBINAR 1

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

30 SEPTEMBER 2021 – 09h15-10h30

Introduction

The EU and Germany BMU has supported TIPS in undertaking research which will contribute to a first iteration of a South African Just Transition Finance Roadmap. The research aims to move the 'financing a just transition' discourse forward by proposing a framework which considers a spectrum of just transition ambitions and project funding characteristics. Using place based, action research, a project sample of 26 self-identified just transition projects in Mpumalanga's coal dependent regions are analysed based on their: procedural, distributive and restorative impacts; their ticket size and their funding requirements. It is hypothesised that such characteristics will be found across sectors and geographic locations making the findings useful at a broad policy level.

The initial findings of the research suggest that projects with low just transition ambitions (market based business as usual and some managerial reform) can in principal be funded within the existing financial eco system albeit with some innovations related to instruments, mechanisms and transactional process that de-risk; and some shifts in an enabling environment which is conducive to such deployment of capital.

Projects with higher just transition ambitions (which would support systemic or transformative societal change) are however less likely to be funded by the existing financial ecosystem. This implies that for a high just transition ambition agenda in South Africa a system level change in the financial ecosystem will be required.

As both high and low ambition projects will characterise South Africa's transition to net zero; an extensive agenda of research, policy, regulatory and enabling legislation will need to be covered. The webinars serve a dual purpose. In the first instance they seek to provide financial sector stakeholders in South Africa access to the lessons already learned by their European counterparts in relation to financing a just transition (especially a just energy transition). Second the webinars aim to provide European investors and funders insight into the array of opportunities arising from South Africa's short-term energy transition and a broader, more sectorally diverse medium- to long-term range of opportunities.

About Webinar 1

Despite their developmental mandate South African DFI's operate on a for profit basis because the government does not have the financial resources to underwrite their losses. As such the line between the country's commercial banks and DFI's is sometimes blurred with DFI's financing projects which the private sector would be happy to fund. In addition the country's DFI's no longer 'make projects' but compete for viable projects in the market based on their term sheet. DFI's in South Africa typically do not offer grant funding, and have little scope for technical assistance and concessional funding. They do however use patient capital and quasi equity although these are also capped at relatively low levels. More challenging is the reality that like commercial and investment banks, South African DFI's exhibit limited appetite for: early stage investing, investing in SME scale projects or investing in new and novel technologies and business models.

As these three characteristics are notable in a high percentage of just transition projects and programmes identified in the EU funded TIPS research to date – the match between just transition programming demands and what local DFI's can supply is not well aligned. This suggests that there is a strong role for the international community who are committed to supporting South Africa's just transition to net zero to channel appropriate funding to local DFI so as to leverage local DFI's deployment of funds to just transition programming. Specific challenges facing South African DFI's include:

- The need to provide technical assistance at scale to just transition project originators and developers
- The need to play a role in providing early stage (pre commercial) finance given the lack of a domestic venture capital and angel investor sector.
- The need to play a role in the provision of finance to small scale projects which are likely to dominate just transition community wide programming
- The need to increase the use of blended finance
- The need to improve technology risk assessment and pricing and to focus on a broader array of programming than the current emphasis on renewable energy
- The need to step up in the role of funding coordinator.
- The TIPS research suggests that many just transition projects are actually a suite of interrelated projects. These interrelated projects have different levels of risk and require different types of funding available from different stakeholders (a concessional requirement, a commercial requirement, a grant requirement and an impact investing requirement). Overall DFI's will be the most well positioned player in the finance eco system to facilitate and coordinate such funding given their developmental mandate.
- The need to attract Rand based offshore investment and fund mobilisation to allow local DFI's to deliver a service offering which is more in line with the real economy of South Africa in general and in particular the needs of just transition programming.

This webinar will explore the activities and approaches adopted by European DFI's which may be useful for South African DFI practitioners as they navigate the new terrain of just transition

programming, as well as facilitate discussion of the role European DFI's can play ensuring that South Africa's transition to net zero is just.

Programme

- **09h15-09h20** Welcome by Facilitator, Saul Levin, Executive Director, TIPS
- **09h20-09h27** Joanne Bate, Climate Finance Commissioner on the Presidential Climate Commission, COO IDC
- **09h27-09h34** Louise Gardner, Working Group and Africa Director for Sustainable Banking Network, IFC
- **09h34-09h41** Chantal Naidoo, CEO, Rabia Transitions
- **09h41-10h00** **Respondents:** Mattia Baldini, DEA and Nadege Hopman, EIB
- **10h00-10h30** Discussion

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