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GEC & TIPS Green Recovery Dialogue #4: Access to Inclusive Finance for Local Green Entrepreneurs in South Africa

Where are we going?

1. Climate finance mapping

2. Climate Finance Supply Chain.

3. The Climate Finance Accelerator.

Setting a baseline for 2020/21

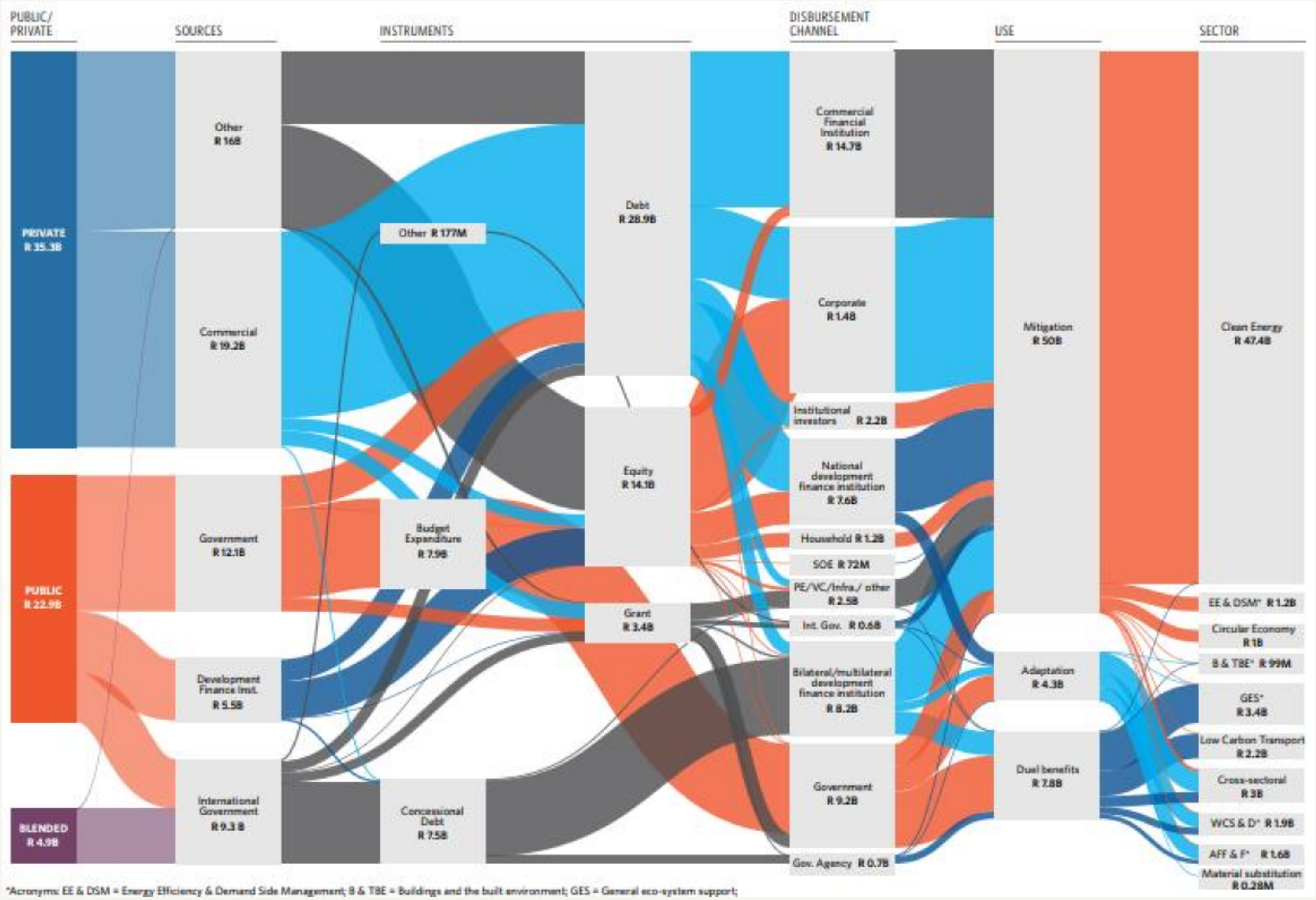
Five sectors are leading this mainstreaming of climate-resilient in South Africa: clean energy, low carbon transport, smart water (supply and demand), circular economy and smart agriculture.

Catalysing the financing and investments = **CHALLENGE**

Achieve South Africa’s NDCs by 2030 =

- R8.9 trillion over a 15-year (2015-2030)
- Annual investment of R596 billion

This report aimed to set a baseline and tracked annual climate finance totalling R62.2 billion for 2017 and 2018



*Acronyms: EE & DSM = Energy Efficiency & Demand Side Management; B & TBE = Buildings and the built environment; GES = General eco-system support;

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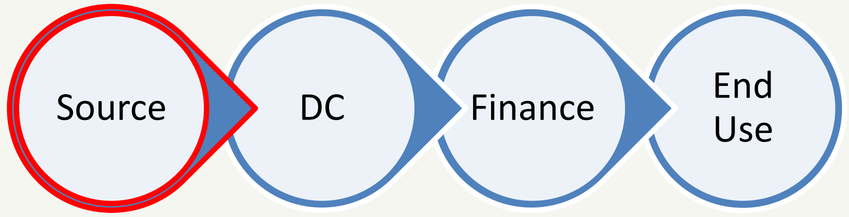


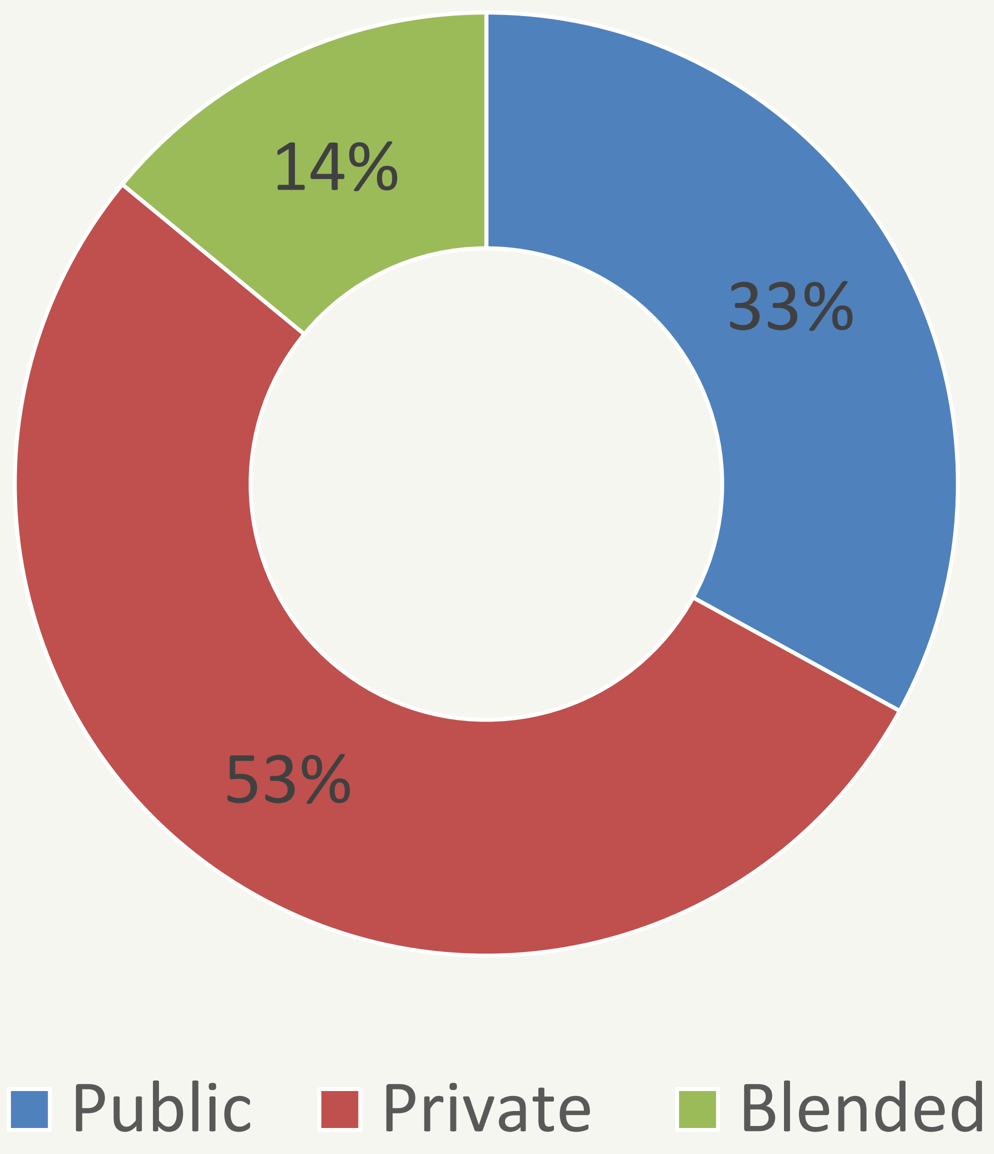
Sources of climate finance tracked

Financial outflow of resources:

Public: governments, agencies, public climate funds, and gov. funded DFIs.

Private: private individuals and companies and is not state-controlled.

Blended: strategic use of development finance for the mobilisation of private finance towards development goals



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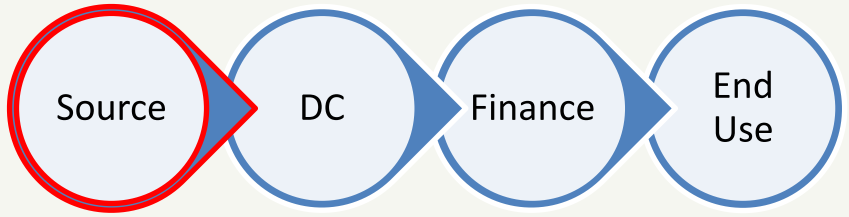
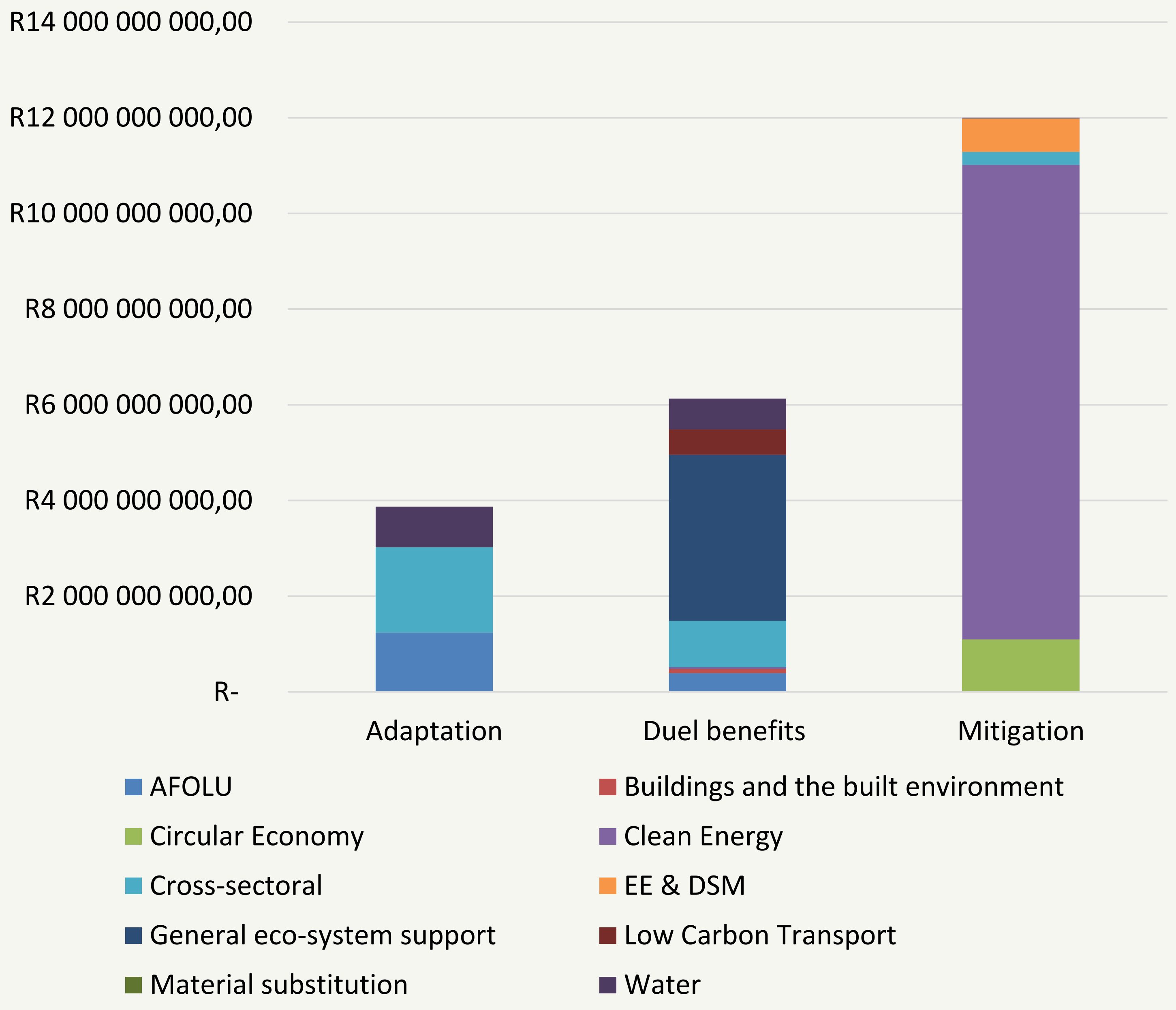
Sources of climate finance tracked - **public**





Annual average of **~R22 billion, or 25%** of the total climate finance tracked in 2017-2018.

The SA Government accounted for **~R12 billion** of the tracked investments (National Government Budget tagging)

All ten climate-related sectors with 75% made up of:

- Clean energy
- General eco-system support
- Cross-sector investments

Growth based on South Africa's NDP - committed to invest 10% of GDP in to transport, energy and water, over the next ten years

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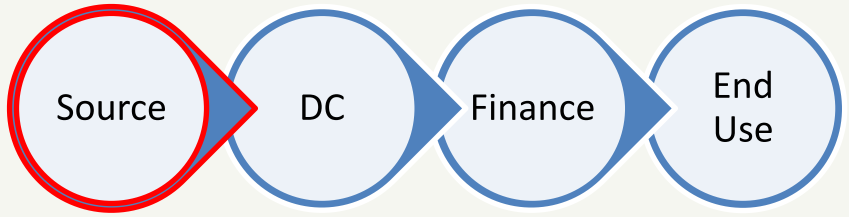
Sources of climate finance tracked - **private**



Private actors accounted for an average of **R35.3 billion** of the funds tracked per year during 2017 and 2018.

largest source of private climate investment:

- Commercial Banks
- Institutional investors
- Venture Capital

Combined accounting for R19.3 billion.

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Sources of climate finance tracked - **blended**

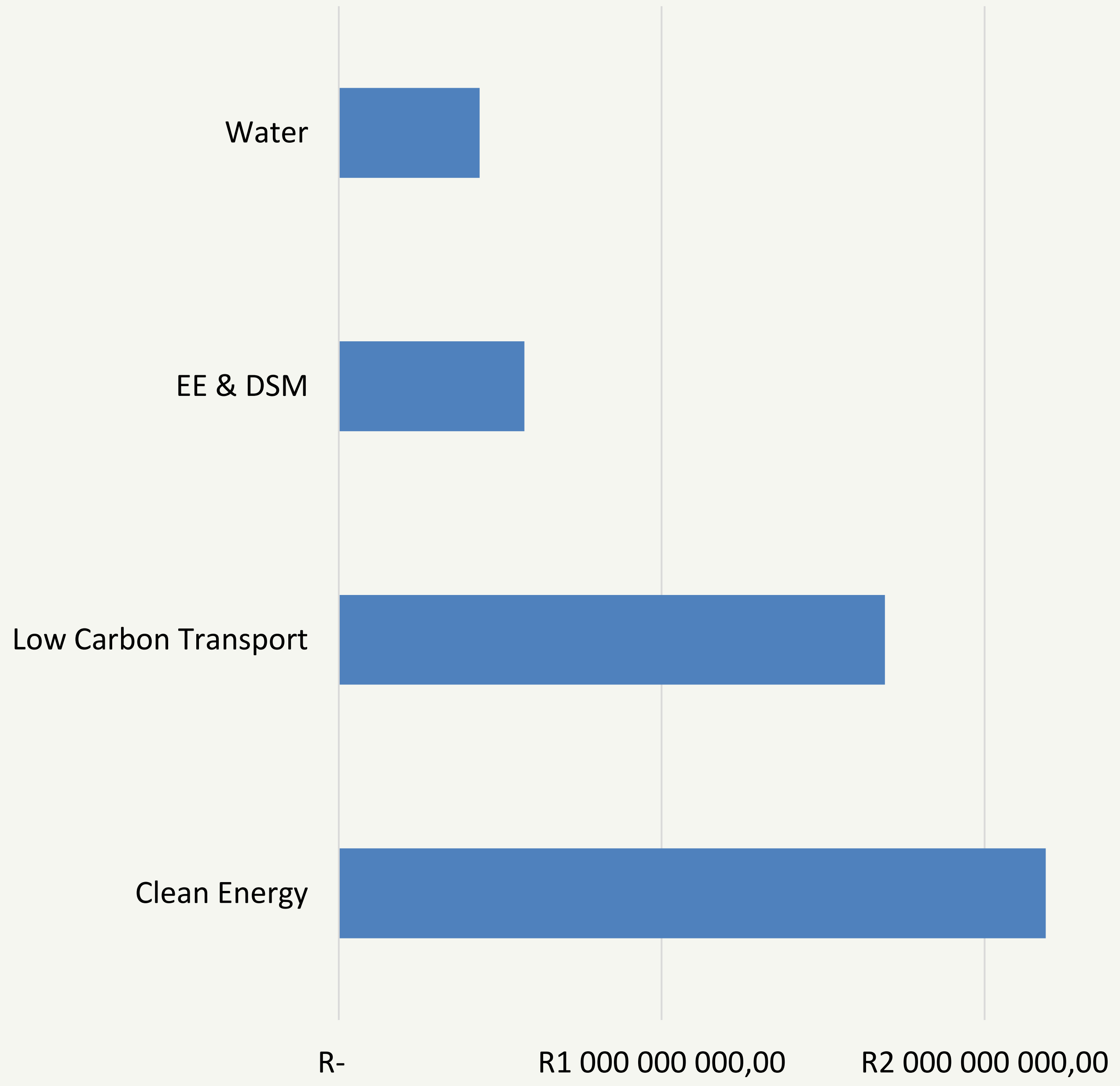
Source → DC → Finance → End Use

Average tracked of **R4.9 billion per year**

- 75% structured using 90/10 (private/public)
- 25% structured using 20/80 (private/public)

These leverage ratios supported an increased risk appetite, which allowed investments into new and innovative sectors like low carbon transport.

Check out the Green Outcomes Fund (link)



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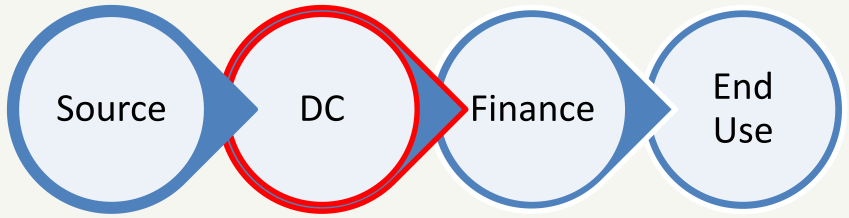
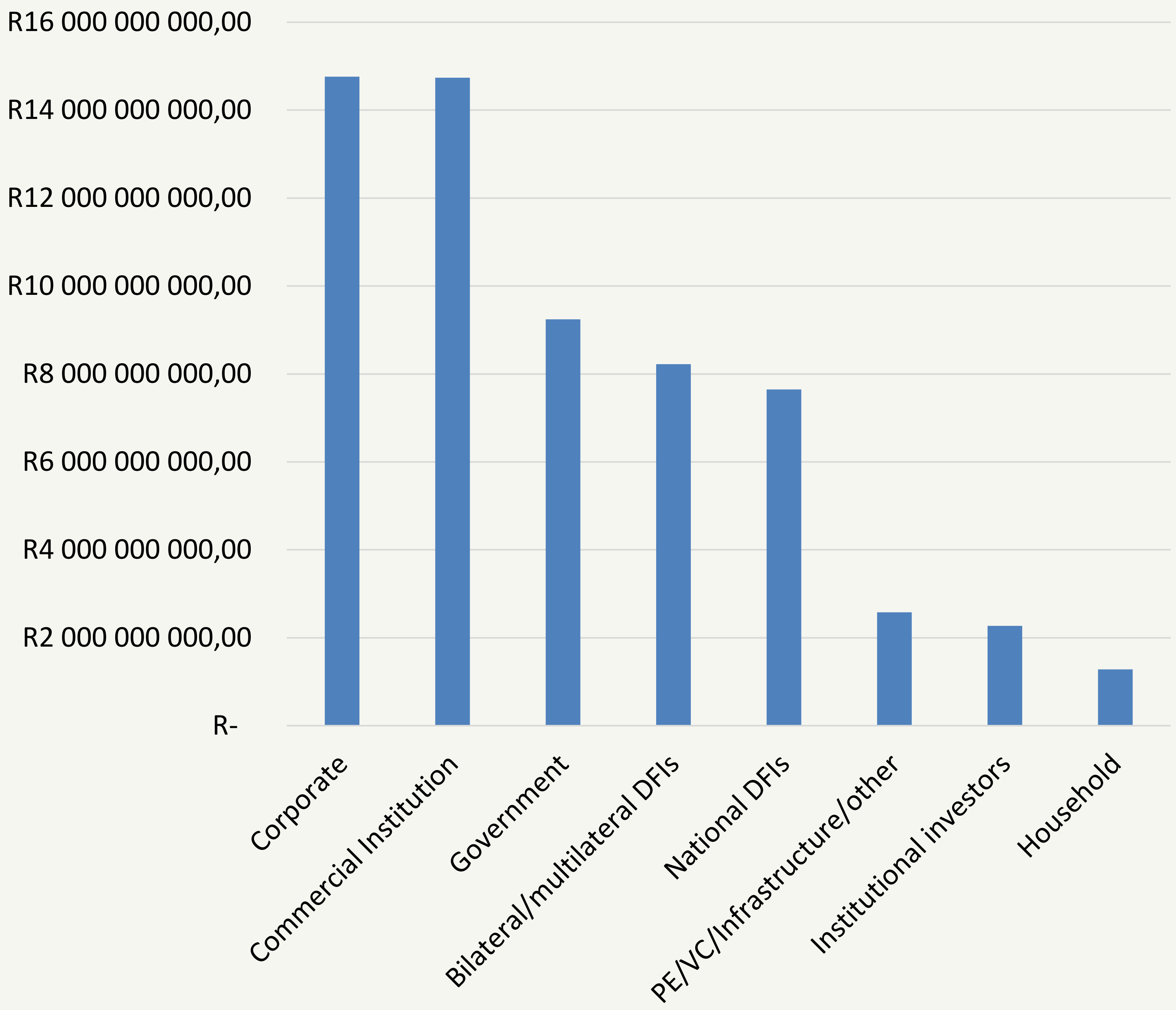
Financial disbursement channels



Mapped 12 different disbursement channels:

- Corporates / commercial institutions - **R29.5 billion**
  - 100% in clean energy (private generation).
- The SA Government accounted for **R9.2 billion**
  - Dual benefit and adaptation focus.
- Bilateral/multilateral DFIs accounted for **R8.2 billion**
- National DFIs accounted for **R7.9 billion**
  - Some agriculture focus (June 2017, Highly Pathogenic Avian Influenza).



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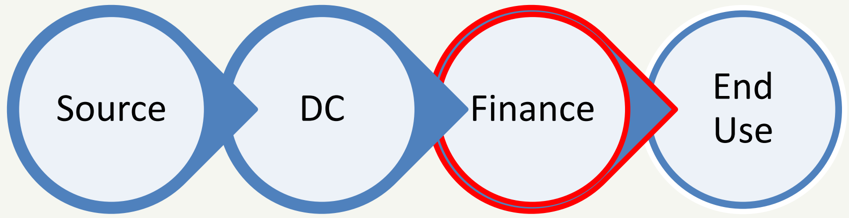
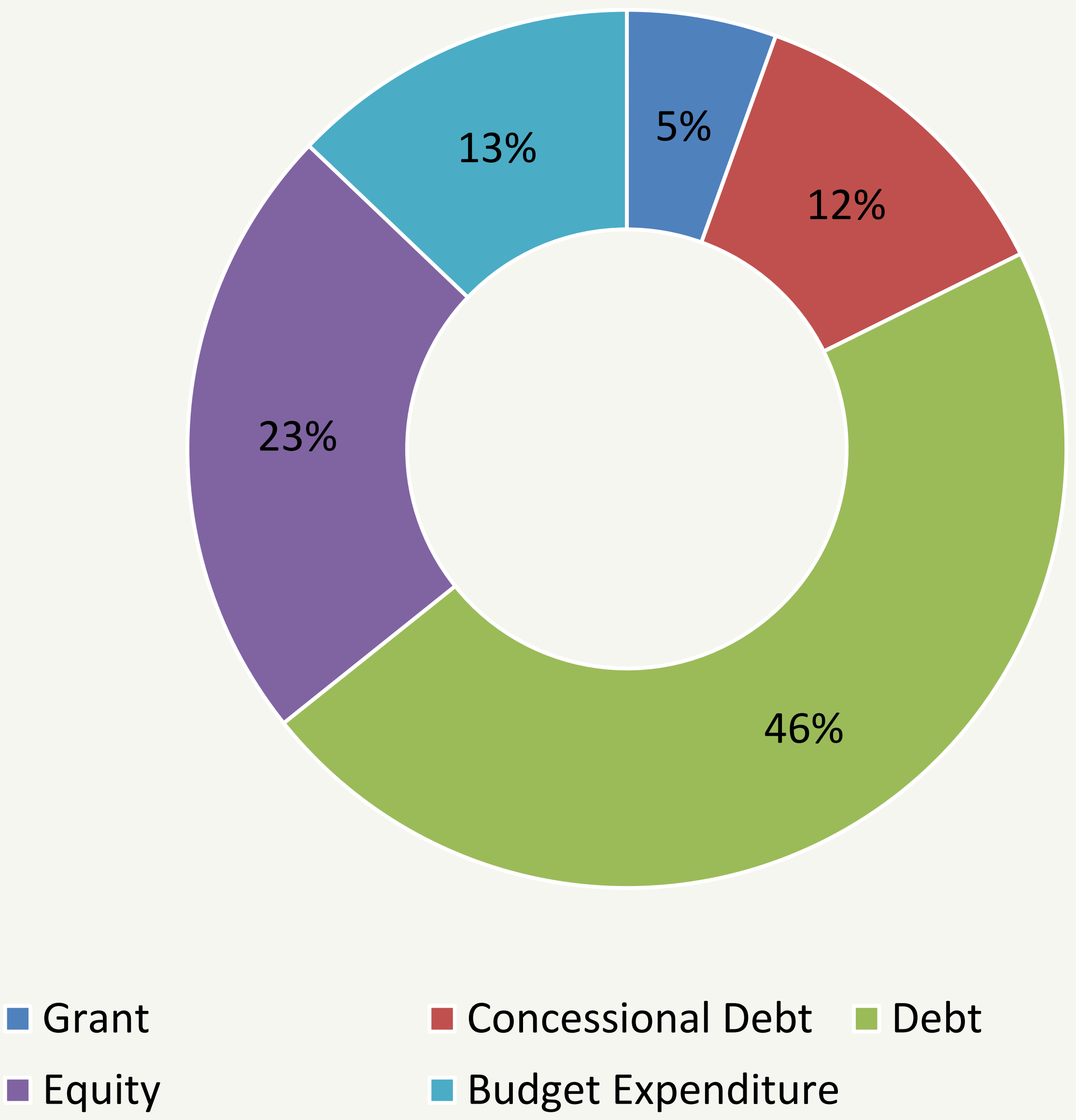
Financial mechanisms and instruments





The landscape considered five financial instruments:

R36.5 billion of the tracked finance was raised as debt.

- **R28.9 billion** was provided at market rates.
- **R7.6 billion** was marked as concessional.

62% of this concessional debt was raised from blended finance sources mobilise capital and accelerate high impact sector investments.

R14.2 billion of the tracked finance was raised as equity.

R3.5 billion of the tracked finance was raised as grants.

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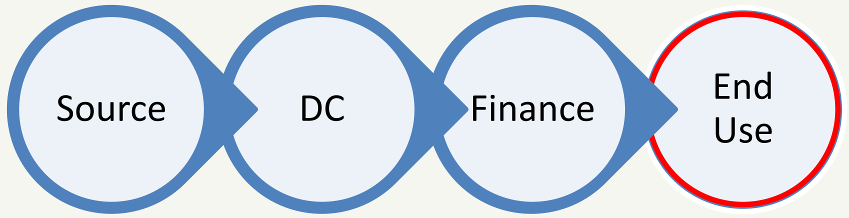
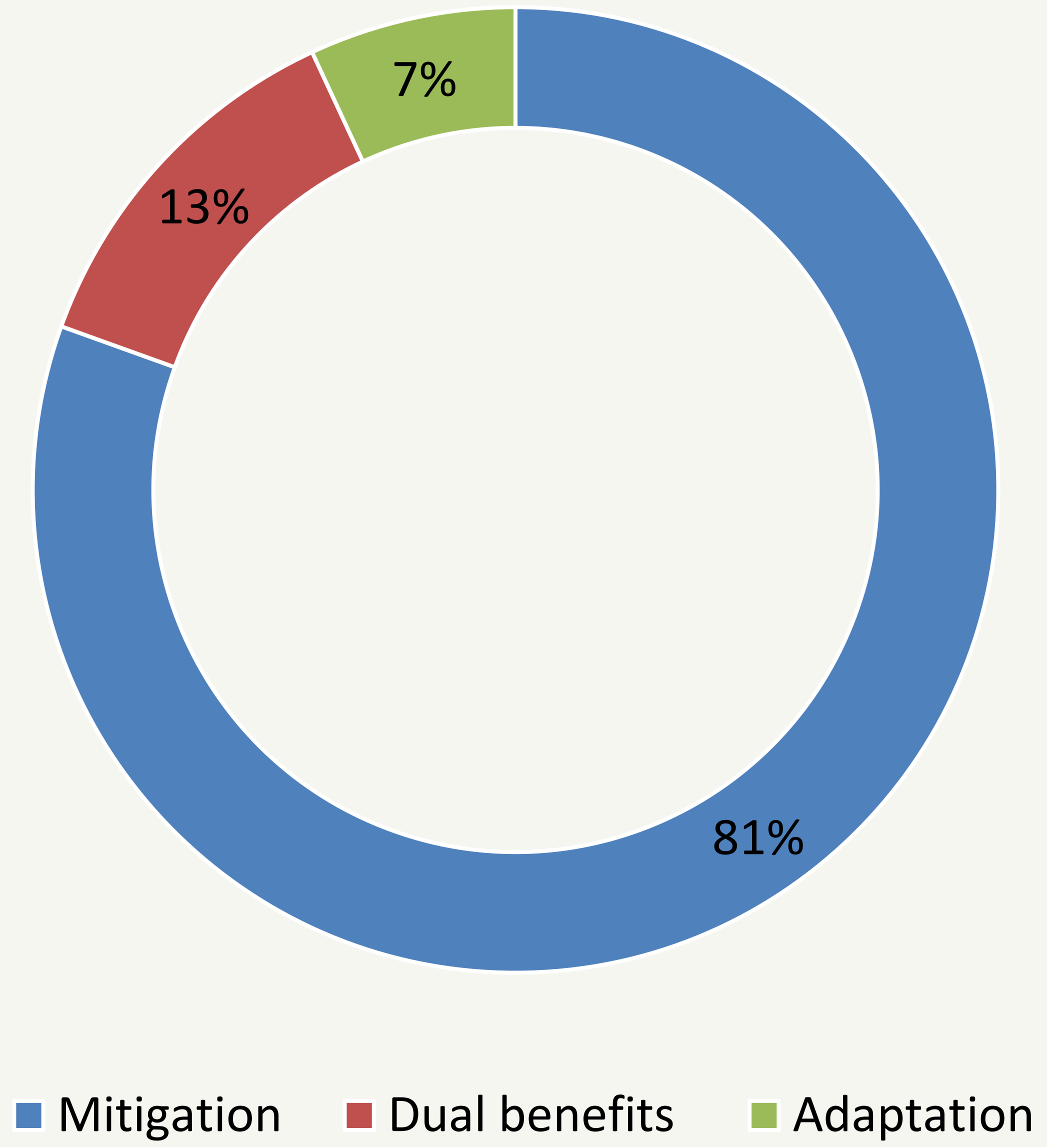
End-uses supported (Green Economy Sectors)





Climate finance flows to three primary use categories:

- **Mitigation finance**: reduce or to remove GHGs
- **Adaptation finance**: respond to climate-related risk
- **Dual benefit finance**: Mitigation and adaptation

Future work is needed to include **Transition finance**

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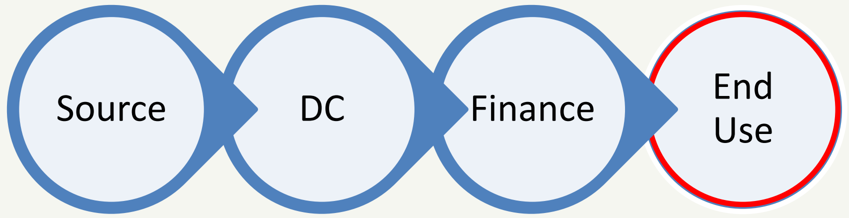
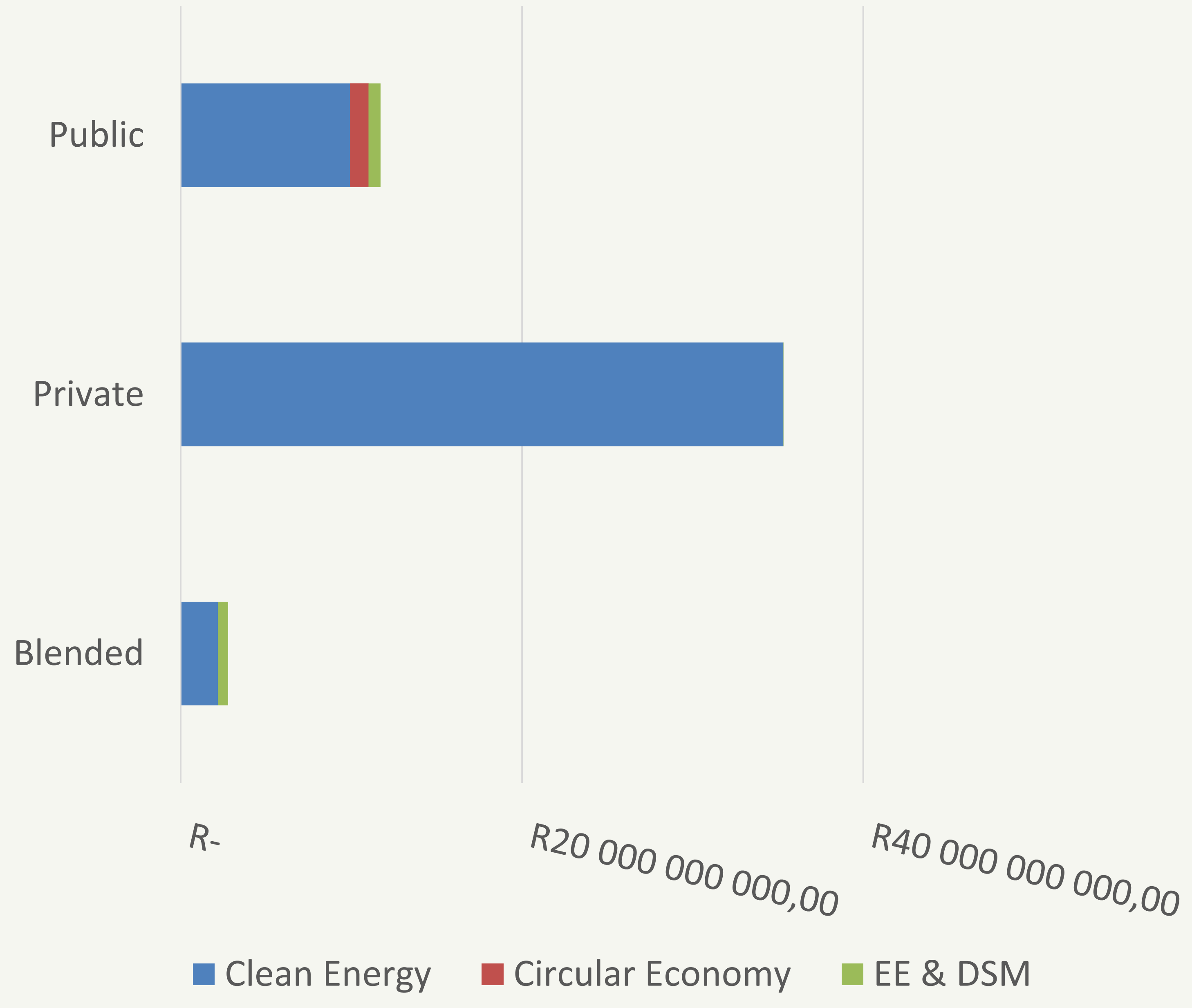
End-uses supported - mitigation





Mitigation investments averaged **R50 billion per year**

Clean energy generation = 95% of mitigation finance.

Lower than expected - **No Utility-scale renewable energy**

An additional:

- 3% went to energy efficiency & DSM
- 2% to the circular economy (material recovery)

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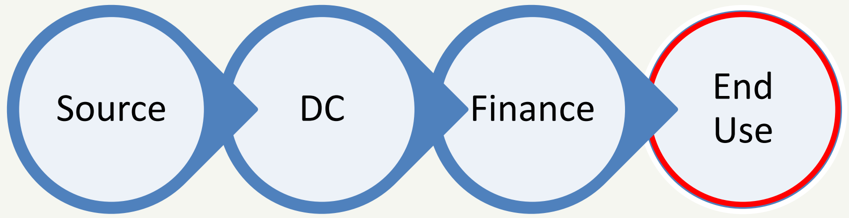
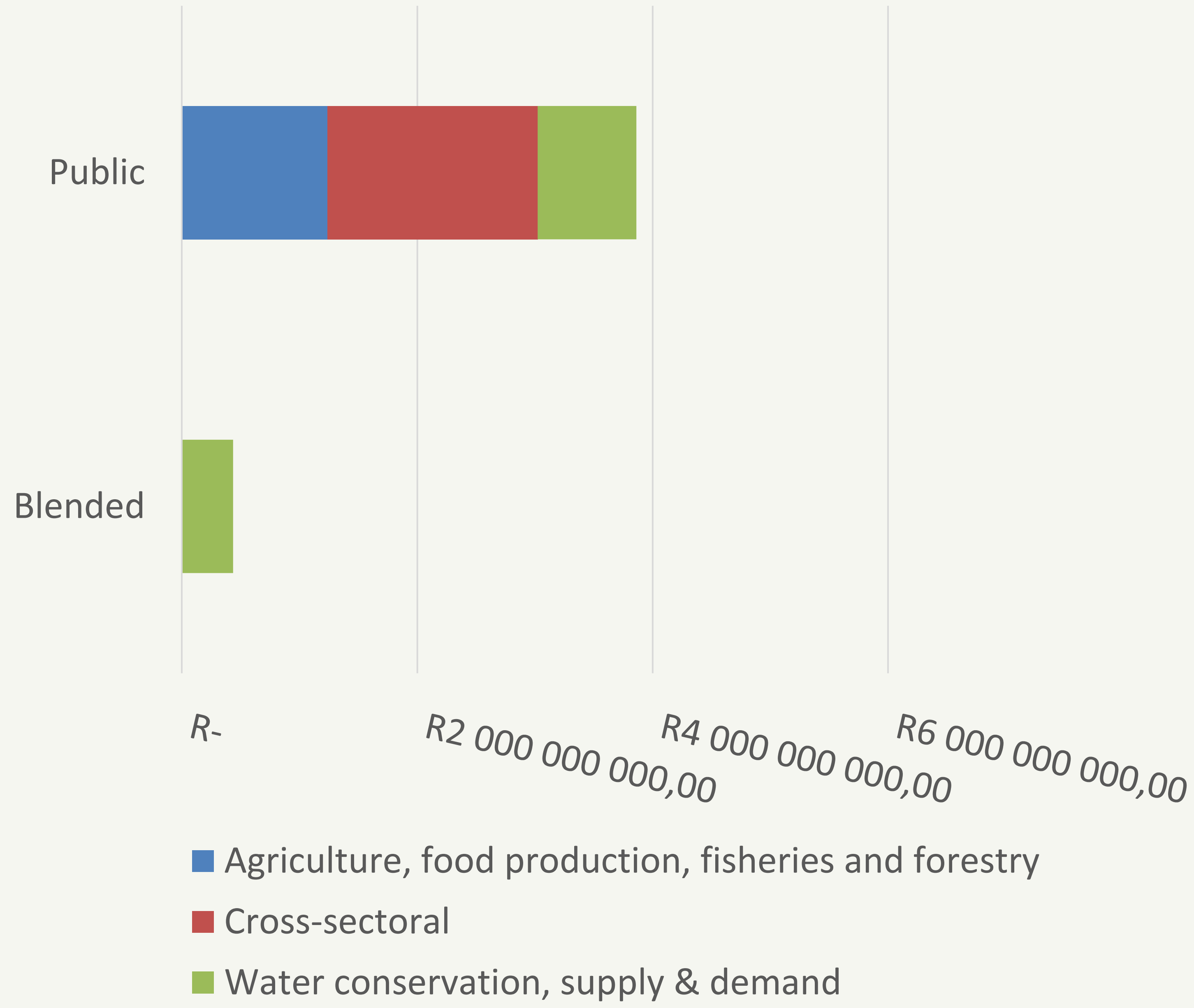
End-uses supported - adaptation





Adaptation investments averaged R4.3 billion per year

No private sector investments were tracked in adaptation sectors.

The cross-sectoral = annual average of **R1.8 billion**

Water conservation/supply/demand = **R1.3 billion**

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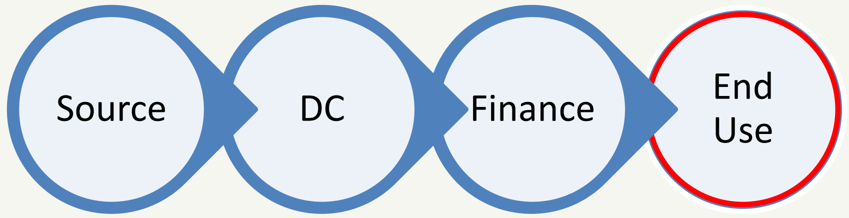
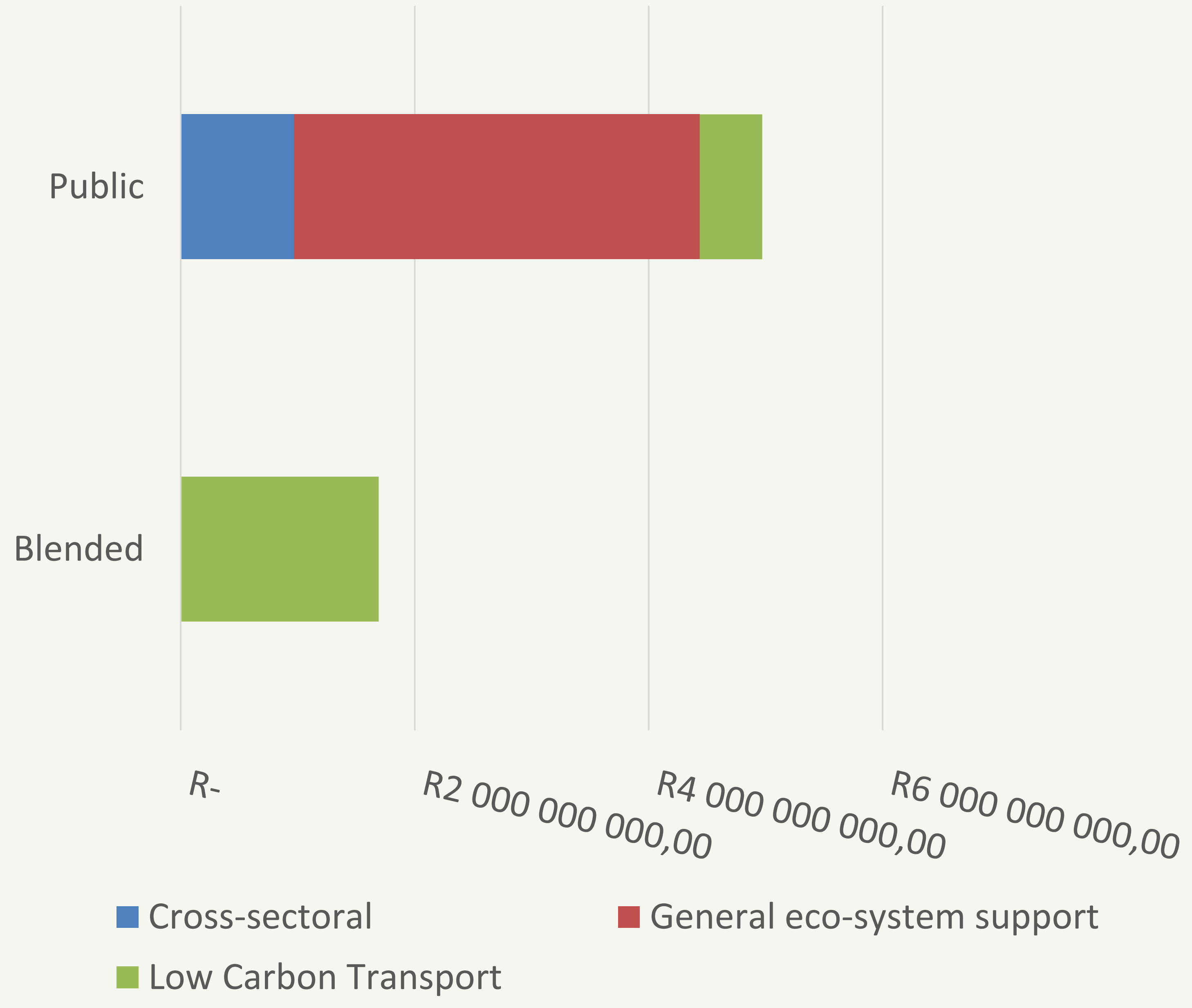
End-uses supported - Dual





Dual benefit investments averaged **R7.82 billion per year**.

General eco-system support = **annual of R3.5 billion**

- GHG reduction projects
- Disaster risk management (pre-disaster)
- Disaster risk management (post-disaster)
- Natural resource conservation and management

The low Carbon transport sector averaging **R2.2 billion**

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What does this mean for access to Inclusive Finance for Local Green Entrepreneurs in South Africa?

Climate Finance Supply Chain

Not relevant	Source / Instrument not relevant at this stage of project financing in South Africa
Available	Investors and/or instrument currently **<u>fully</u> active & involved** in that specific segment in South Africa
Partially available	Investors and/or instrument **<u>partially</u> active & involved** in that specific segment in South Africa
Significant gap	Investors and/or instrument **<u>not</u> active & involved** in that specific segment in South Africa

Climate Finance Supply Chain - Sources

Source	Project initiation	Project development	Primary project funding	Secondary markets & Refinancing
Commercial banks				
Institutional investors				
Private equity				
Corporate funders				
Asset Manager				
Venture capital				

Climate Finance Supply Chain - Sources

Source	Project initiation	Project development	Primary project funding	Secondary markets & Refinancing
Impact funds				
Angel investor				
Microfinance and credit unions				
Government budget				
Climate funds				

UK Government

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Climate Finance Accelerator

Climate Finance Supply Chain - Sources

Source	Project initiation	Project development	Primary project funding	Secondary markets & Refinancing
Bilateral development partners				
Development finance institution				
NGOs and philanthropic organisations				

Climate Finance Supply Chain - Instruments

Instruments	Project initiation	Project development	Primary project funding	Secondary markets & Refinancing
Company balance sheets				
Corporate Bank loans				
Project finance				
Structured finance				
Bonds				

Climate Finance Supply Chain - Instruments

Instruments	Project initiation	Project development	Primary project funding	Secondary markets & Refinancing
Green/blue/social bonds				
De-risking products				
Concessional finance				
Grants				
Government budget spend				

UK Government

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Barriers, Challenges & Inhibitors to Growth for Climate Finance in SA

There are gaps (NDC and individual)
There are gaps across the entire supply chain, especially in project identification, project development and refinance

Limited project preparation funding
Emerging climate sectors require upfront grant or concessional funding to reach bankability and offset perceived risks.

Risk and guarantees
Guarantee/risk mitigation instruments and structured finance covered 1%-2% of tracked products

Climate finance is not tied to climate goals
Embedding climate mitigation into the credit and investment processes of financial institutions to unlock finance at scale.

There is no local VC industry
venture capital industry in South Africa is very small and nascent

Mitigation vs adaptation
The majority of climate finance investors are focused on mitigation projects. There is a greater need to attract adaptation finance to South Africa

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@thegreencape

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UK Government

CFA Climate Finance Accelerator

What CFA South Africa can do for you

Improve your project's bankability

Increase your visibility and provide access to investors

Give you national and international networks

Help you achieve your low carbon objectives

And how we do this

One-to-one coaching
With financial, technical & GESI experts

Group training sessions
Provided by investors and finance experts

Investor workshops
Present and work on your project with leading investors

National / International events
Invitations to present in front of new audiences

Key dates

5th July Applications open

12th August Applications close

Early September Successful projects alerted

Mid-September Kick-off with successful projects

Mid-September to early January Capacity building

Late January 2023 Three-day workshop with investors

February 2023 Post-workshop follow up support

Late February 2023 CFA London workshops (for selected projects)

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Thank you

Jack@greencape.co.za