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South Africa's Green Fund

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Country: [South Africa](#)

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South Africa's Green Fund was established in 2011 to provide grant and loan finance to public and private actors in support of South Africa's various green initiatives and national plans.

Context

South Africa's ambition for low carbon development is laid out in national strategies such as the New Growth Path, the National Strategy for Sustainable Development (DEA), the National Development Plan 2030, and the National Climate Change Response Policy White Paper. It is also reflected in an international commitment to achieve carbon emission reductions compared with 'business as usual' of 34 percent by 2020 and 42 percent by 2025.

To support the green economy, South Africa is seeking to mobilize and blend public and domestic private capital.

Creating an enabling policy environment which attracts investment is vital to ensure a successful transition to a green economy. The government has developed dedicated programs for this in the areas of renewable energy, waste management, bus rapid transit, biofuels and energy efficiency, and demand side management.

Funding for green economy policies comes from the national budget. This collects approximately 45 billion South African rand (USD 4.4 billion) in environment-related revenue from motor vehicle taxes, fuel levy, international air passenger departure tax, electricity levy, levy on incandescent light bulbs, plastic bag levy, and water charges, which goes into the general budget. A carbon tax is also planned.

In 2011 the Ministry of Finance allocated a specific additional R 800 million (USD 80 million) over the following three years for green economy initiatives (later increased by a further R 300 million up to 2014).

Approach

The Green Fund was set up to manage this R 800 million, and mobilize additional resources. It was developed following consultations by the Development Bank of Southern Africa (DBSA), on behalf of DEA, the Economic Development Department and the National Treasury, with central banks, regulators, national development banks, commercial banks, microfinance institutions, and private equity firms. Research was commissioned on: the implications of international climate finance developments for South Africa; private sector requirements to invest in green and climate-related projects; and a review of other funds to determine good practices.

These consultations highlighted that the risk profile of green ventures can be unattractive to commercial funders because of unfamiliar risks which are difficult to price, and market failure arising from information asymmetries and the inability to capture the full value of innovations.

The Green Fund therefore aims to facilitate private finance by de-risking opportunities so that they become attractive to commercial finance, for example by providing initial project development grants and loans at a stage in the project cycle.

It is administered by DBSA on behalf of DEA and has a staff of 10 project and policy professionals. The fund is program and project cycle focused, so different financing instruments are available for different types of projects, and

it encourages partnerships, co-financing, and programmatic type projects.

The focal areas of the Green Fund are:

- Green cities and towns – municipal infrastructure, green buildings, and integrated planning for climate-resilient cities;
- Low carbon economy – renewable energy generation, sustainable public transport, and energy efficiency;
- Environmental and natural resource management – public open space and ecosystem services management.

The reasoning behind the three funding windows is to ensure that the short- and medium-term priorities are covered to allow a steady transition towards a green economy. The low carbon economy theme addresses immediate needs, such as renewable energy and energy efficiency, while environmental and natural resource management focuses on future requirements to sustain the sustainable development path for South Africa.

The Green Fund provides finance directly to projects through various financial instruments such as project and capital development grants, research and policy development grants, and concessional project development loans. Funds can be provided to project developers, municipalities, provinces, the private sector, non-governmental organizations (NGOs), government departments, and academic institutions.

The Green Fund aims to provide support that is additional and complementary to existing allocations, and avoids duplicating efforts of other government departments. The Green Fund is not intended to be an additional budget support mechanism but a catalytic intervention to lead towards a green economy.

While it mainly focuses on project development, the Green Fund has assigned specific resources

for capacity building across national and subnational government and aims to use its project evaluation process as a feedback loop for identifying policy-related barriers. In addition, the Green Fund has also set aside USD 3.4 million to fund research projects and initiated a separate call for proposals on research and policy development themes that would advance green economy policy objectives in South Africa.

A task team of key stakeholders across government has been set up to engage with the Green Fund on strategic and cross-cutting issues such as policy integration, defining priorities, and identification of directional trends.

Outcomes

There has been overwhelming demand for funding from the Green Fund, with 590 project development applications totaling R 10.9 billion (USD 1.09 billion) received in its opening round of request for proposals. The Green Fund reported in its first Annual Report that it had committed R 245 million of funding to 13 projects as at 31 March 2013, with a pipeline of 32 projects undergoing due diligence. It also reported that it is undertaking a shift towards the active origination of high-impact projects.

As a result of the overwhelming interest in the Green Fund, the National Treasury has added an extra R 300 million in the current year of the Green Fund, hence making it a total of R 1.1 billion (USD 110 million) for the next three years.

Lessons

Successful features

- *Extensive consultation with the target stakeholders and use of an open, transparent process* – the Green Fund consulted widely with the finance and business community to ensure that it targets the areas of greatest need. This process helped to ensure that the initial application round was 12 times oversubscribed. In addition, mechanisms were designed in an open process of dialogue with stakeholders and transparent and analysis-based decision-making that ensured understanding of the rationale for the design.
- *Alignment with national policies and plans* – the funding windows are designed specifically to support the priorities identified in various national development and sustainability plans of South Africa. These financing programs have become integral programs of the National Treasury, DEA, and other agencies and development finance institutions, and complement other funding sources available through these agencies.
- *Focus on the early stage business and project support while also supporting the full value chain* – the Green Fund provides financing at the earlier stages of business and project development where research and surveys have shown the private sector has the greatest challenge in raising finance. This enables the Green Fund to be highly catalytic. At the same time, the fund developed an array of instruments to support the full project and business development cycle with increasing reliance on private investment for market-ready elements.
- *Flexible and innovative in its financing approach* – the Green Fund gives money to public, private, and non-profit applicants for a

variety of purposes ranging from project development to research and capacity building. The financing instruments available are similarly diverse and seek to respond to the demands of the public, private, education, and NGO sectors. Over the longer term, this allows the Green Fund to be a discovery and innovation mechanism how to follow the transition to a green economy and to tailoring its instruments to evolving market dynamics.

- *Comprehensive monitoring program* – the Green Fund is conducting ongoing monitoring of disbursements and performance at all levels. This includes monitoring overall performance relative to fund objectives to inform policy and budgeting and governance structures; at the portfolio level to ensure effective disbursements by window, geographical spread, types of institutions, arrangements and financing options; and at the beneficiary level to ensure achievement of immediate and short-term impact.

Limitations

- *Limited financial resources* – compared with the need, and even the demand, the Green Fund has limited resources, with only USD 110 million available over three years. However, if this funding is deployed in a truly catalytic manner, and is able to unlock greater private and other ministerial finance, it could still be substantial.
- *Complex diligence and application requirements* – initial indications suggest that, considering the capacity of the applicants, the diligence and application requirements may be challenging. In addition, the long time taken to disburse any funding may deter applicants, especially those from the private sector.
- *Understanding the dynamics of different projects* – the Green Fund has been designed to lead

to catalytic transformation of the South African economy, but it is not clear exactly under which criteria the fund will issue either grants or loans to the proposals submitted.

- I. *Focal areas of the fund are too broad* – this may not allow the desired transformative impact owing to the diverse projects of all shapes and sizes and it may not be able to reach the desired scale in line with the long-term strategic intent.

Further Information

South Africa Green Fund:

<http://www.sagreenfund.org.za/>

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