Facilitating Investment in the Green Economy through Joined-Up Government

Report of the ERLN Workshop held on 6-7 November 2014
**Introduction**

The Economic Regions Learning Network (ERLN) held a workshop on the theme of “Facilitating investment in the green economy through joined-up government” at the Moses Mabhida Stadium in Durban on 6-7 November 2014. The event brought together stakeholders from the private sector, national, provincial and metropolitan government, government agencies, research organisations and academia to explore how to enhance investment in the green economy.

The first morning of the workshop started with a framing session that included the screening of an ERLN film on the theme and a keynote presentation by Sharlin Hemraj of GTAC as well as facilitated discussion. This was consolidated in the second session that explored emerging themes through a case study on the Renewable Energy Independent Power Producers Programme (REIPPPP). Panellists Lolette Kritzinger-van Niekerk (from National Treasury PPP unit), Alistair McMaster (Senior Manager: Renewable Energy, Eastern Cape Department of Economic Development) and Mark Tanton (CEO of Red Cape Investments) gave their perspectives on the lessons of the process.

The afternoon moved to a more project focus. This included input from Liesel Beires of the KwaZulu Natal Department of Economic Development, Tourism and Environmental Affairs on their green economy strategies and projects and Susanna Godehart of the eThekwini Municipality Energy Office on a proposed eco-industrial park. Delegates also participated in site visits of either the Unilever food processing facility or the Moses Mabhida stadium. Unilever is regarded as a global leader in ensuring that its production and other processes meet high environmental standards that minimize carbon emissions and other impacts. The stadium has a number of systems to reduce its environmental impact such as harvesting rainwater.

![Site Visits](image)

The heart of the second day of the workshop was small group reflection on key themes that had emerged using a World Café format to enable conversation and dialogue. This was supplemented by summary of the day one discussions and a reflection on the use of graphic harvesting to enhance learning. It also included an overview of a proposed Project Management Community of Practice from Siya
Framing the issues

The framing introductory film started by noting that it is currently taking 1.5 years for the earth to fully regenerate the renewable resources that people are using in a single year. By 2050 this will increase to 2.3 years if current consumption patterns are sustained. It pointed out that nations increasingly see the green economy as the new opportunity and are investing in this growth path. 11% of the US fiscal stimulus package and 2% of South Korea’s GDP had been allocated to green growth projects. It noted that South Africa ranked 128th out of 132 countries in the Yale environmental performance index because of its air and water quality, biodiversity loss, eco-system, agricultural and fishery system deterioration. This meant that South Africa faced major economic risk if it did not take bold steps to green its economy and become less resource intensive and low carbon.

It was pointed out that the green economy is not an add-on nor is it a sector and that it requires multi-stakeholder engagement and working together across sectors to achieve the required system-wide change. It illustrated some of the required changes through exploring the Green Home Pilot project and the changes that an individual family could make.

It also noted that the green economy represents a major economic opportunity and has enormous potential for job creation and economic growth. It referenced the Global Innovas report that estimates the global low carbon and environmental goods and services market to be $6 trillion per annum. It highlighted the number of jobs and economic value that a large-scale solar water-heating programme could generate.

The film argued that the green economy involves being smart, not only in using technology to help achieve change but also in being institutionally innovative. One important area highlighted was the link between the formal and informal economies and finding ways to enable poor communities to benefit from the change. It explored this through Credible Carbon - an innovative financing scheme that enables community driven green initiatives in recycling and energy efficiency through offsetting emissions that corporates generate against these emission reduction services.

It noted that South Africa is thinking of introducing a carbon tax in 2016 as part of meeting its international obligations to reduce carbon emissions and that this would have a significant impact on companies that are intensive green house gas...
emitters. It would also create opportunities for new growth in resource efficient low carbon products and services.

It pointed out that the green economy also involves game-changing technological innovations that can accelerate national economic competitiveness. It explored this through the work of Hysa based at UWC which does cutting edge research on hydrogen fuel cells which is an area where South Africa has a technological edge that can help create new industries and benefit from raw materials particularly platinum.

The film noted that the green economy touches on every aspect of the economy from household choices to industrial policy options. It noted that government had a key role to play in enabling the change and had a number of points of leverage – regulation, procurement, creating consumer confidence in green products, investing in marketing, R and D and business development and partnership facilitation. It concluded that success required coordinated joined up government and coordination between government and non-government partners.

The green economy and financing

Sharlin Hemraj focused on the green economy and climate finance outlining South Africa’s key national initiatives in this regard. She noted that South Africa had developed important policy frameworks and strategies to address climate change and ensure a coordinated, consistent government policy response including the National Climate Change Response Policy (NCCRP) with its target of reducing emissions by 34 per cent by 2020 and 42 per cent by 2025 relative to
a business as usual emissions trajectory and the National Strategy for Sustainable Development and Action Plan.

She outlined an economic rationale for government intervention to address market failures in regard to the environment and pointed to the range of policy instruments for bridging the financing gap between carbon intensive and low carbon, environmentally cleaner technologies including:
- Environmentally–related taxes and user charges that internalise externalities and provide a revenue source.
- Subsidies for the provision of public goods through critical infrastructure grants and loans in the energy, transport and water sectors (that have high upfront capital costs).
- Subsidies to encourage research and development of low carbon, environmentally cleaner technologies and promoting cleaner production practices.
- Tax incentives for R&D and low carbon capital investments.
- Environmental financing policies to derisk projects such as guarantees and concessional loans.
- Public private partnerships for pilot demonstration plants and facilities.
- Accessing carbon market finance including the clean development mechanism (CDM) and new market mechanisms.
- International funding including Green Climate Fund and other environmentally related funding accessible through the Global Environment Facility.

She pointed out that current national funding priorities include public transport, energy efficiency and renewable energy that are already aligned with the NCCRP and noted that there is a need to consider:
- the green house gas (ghg) mitigation potential and adaptation aspects of relevant programmes.
- The overall performance and impact of these programmes from a climate change, broader environment and development perspective.
- The potential to scale up these programmes.
- Assessment of the additional funding / finance needs.

She highlighted that the Renewal Energy Independent Power Producers Programme had been successfully implemented due to:
- A sound enabling policy environment, legislative framework and political will.
- A cost recovery mechanism via the electricity tariff (off-budget mechanism) and a policy guarantee that crowded in private sector investment.
- A well run, credible procurement process involving an effective collaboration between the National Treasury Public Private Partnership Unit and the Department of Energy.
She noted the potential to expand the programme to support additional renewables capacity and to develop a dedicated renewable energy fund for small-scale renewable electricity generation.

In conclusion she noted the following:

- A significant portion of domestic climate funding is already channelled towards the provision of public goods and infrastructure in the transport and energy sectors. This is already aligned with important priorities under the climate change response policy.

- Given the cross cutting nature of climate change impacts across different sectors, consideration should be given to building on existing dedicated financing mechanisms and institutions, ensure that climate aspects are considered in key programmes and explore the potential to leverage additional, innovative financial resources to enhance the effectiveness of these instruments.

- Appropriate regulatory and economic incentive instruments complemented by international and domestic financial support has an important role to play in facilitating the transition to a low carbon society and unlocking essential low carbon investments. This would help to further incentivise and crowd in private investment and finance.
• Multiple financing instruments may be needed for large-scale climate initiatives that face multiple barriers. A programmatic rather than project based approach would help to catalyse these investments and implement interventions at scale with greater impact.
• Implementing programmes would require institutional strengthening and capacity building. Greater collaboration between the National Treasury, Department of Environmental Affairs and sector departments is needed on the financing aspects.

Points made in the discussion included:
• South Africa should explicitly track how spending is greened and this should go beyond simply carbon tracking given other impending environmental catastrophes.
• Green procurement was important in both private and public sectors. The general approach currently was to develop guidelines for such green procurement. Because this was largely voluntary, there was lack of implementation. However, such guidelines are useful because they provide the information that enables people to make better decisions.

REIPPPP case study

Lolette van Niekerk started by highlighting that South Africa was now considered to be a world leader in renewable energy as confirmed in the recent case study of the Renewable Energy Independent Power Producer Procurement Programme by the World Bank authored by Anton Eberhard. She said that $US 14 billion had been invested and 64 projects mainly wind and PV had been approved over a three period that would generate 3 925 MW of energy. 86% of the finance had been raised locally. She noted that prices for PV energy had dropped 68% and those for wind energy had dropped by 42% over the three bid windows.

She said that another unique feature of the programme was the rolling bid format that attracted continuous market interest. The PPP unit was now preparing for phase four as well as for a second stage of first phase. The degree of market interest had induced more competitive offers thus reducing the price. She said the rolling bid format also allowed learning so that each bid window represented a refinement based on learning.
She highlighted five development issues related to the programme that needed to be addressed:

- The need to improve the coordination of the economic and social elements of programme.
- Enabling better benefit flow to communities via the community trusts.
- Bridging the skills and jobs mismatch in respect of locally sourced labour.
- Addressing the difficulties that some projects are experiencing regarding connecting to the transmission lines.
- Improving communication with stakeholders at local, provincial and national levels.

Alistair McMaster noted that there were almost no renewable energy projects in the Eastern Cape in 2010. However, over the past four years twelve wind farms and one solar farm had been or were being developed and R 1 billion had been invested in manufacturing facilities in the two Eastern Cape IDZs.

He noted that there was so much happening at an accelerated pace that the challenge was keeping up. He said that communication broke down at provincial and local levels. He said that there was very limited communication with communities, local and district municipalities and local suppliers during the bidding process. Once bids had been selected, the developer then approaches the community and the municipality advising them a wind farm is going to be developed and they need to sign the necessary forms. The tight closure timeframes mean that there is very little time to consult and inform properly.

He noted three key areas that needed to be managed:

- Awareness (so that municipalities understood the significance of the programme and what its implications for them were).
- Multi agency alignment (so that the securing of the many permits required for a wind or solar farm to be implemented could be expedited).
- Building local capacity (so that a range of local processes could be optimized from decision-making to SMME support to infrastructure implementation).

Mark Tanton noted firstly that the REIPPPP had been an amazingly successful programme and deserved to be celebrated. He noted that REIPPPP bids were evaluated on a basis where 70% was allocated to price and 30% to social development. This was unique because the ratio was normally 90% for price and 10% and social contribution.
He advised that it cost companies about R 20 m to develop a project that could be submitted to the REIPPPP. He said that the private sector required three things of government if they were to make that type of commitment to the process:

- A good procurement process.
- Policy certainty.
- Long-term commitment

He said that the REIPPPP in its initial phases had been was excellent in that all these elements were in place and its integrity is unquestioned. He expressed concern however that recent developments around the third window and beyond including delays in announcing the successful bidders, had the potential to undermine confidence in policy certainty.

He noted a number of other areas where planning, coordination and engagement could be improved such as addressing the current disjoint between Eskom planning and IPP planning regarding transmission arrangements. He particularly stressed the need for an enabling culture at provincial and local level. He noted that the responses to IPP requests were generally ad hoc and uncoordinated. Some departments seemed to view the IPPs in a negative light and made it hard for them to secure the necessary permits. The IPPs are making a very large investment in local economies and deserved local task teams on unblock problems.

He concluded by saying that the industry looks forward to working with government to ensure better coordination and results. He suggested that government concentrating around a major project area where all the different departments and agencies were playing their appropriate roles effectively was what joined up government was about.

**Overview of Green Economy projects in Kwazulu Natal**

Liesel Beires explained that the Kwazulu Natal Green Economy strategy adopted in 2011 was rooted in the three concepts of partnership, greening of existing economic activity and the creation of new opportunities.

She highlighted the Renewable Energy Action Plan with its focus on generation, manufacturing and energy efficiency. She noted that the province had established a green economy technical assistance fund to help get projects to a bankable level. She said that feasibility funding was a gap and was a difficult market to support. She was of the view that the provincial fund was probably too small scale to get bigger projects off the ground. She also mentioned the provincial renewal energy zones tool (accessible at kzngreengrowth.com) that was a GIS investment tool to help lower the costs of determining suitable locations. The provincial industrial symbiosis programme was another innovative programme that enabled resource exchange between companies where one company’s waste output can be an input to another company. Lastly, she noted that the province was serious about energy efficiency and was seeking to facilitate the retrofitting and introduction of smart meters to 25 public buildings.
Susanna Godehart described the eThekwini Eco-Industrial Park as an attempt to address the tension between industrial development growth and environmental impact by attracting companies that invest into environmentally friendly industrial and commercial developments to eThekwini. She noted that the Eco-industrial Park (EIP) concept was used worldwide and EIPs had been established in India, China, Turkey, USA and elsewhere. She noted that South Africa’s first EIP had been developed in Atlantis, Cape Town and that the eThekwini Eco-Industrial Park (EEIP) was planned as a new commercial and industrial zone within Cornubia. She also pointed out that a key concept in their model was in linking the development of an off-site eco market with the development of an on-site eco community.
Theme Findings

A series of themes was explored in smaller groups using a World Café method. Each theme table had a content expert as host supported by a facilitator also responsible for documenting the theme learnings. Participants rotated to three different theme tables in the course of the session and each group built upon the work of the previous group at the theme table.

The key learnings of each theme are outlined below:

Group 1 - Role of government in enabling green economy investment (REIPPPP lessons)

The following lessons from REIPPPP about how national programmes can create an appetite for investment were noted:

- The REIPPPP programme has become a global benchmark in terms of effective policies to expand renewable energy and there have been major roll-out successes in only 3 years.
- The importance of adopting a business-friendly approach in the design and implementation of the programme. REIPPPP has been functioning largely outside of a bureaucratic red-tape environment and government decision making processes.
- Exemption from PPP and PFMA regulations has enabled the development of a fit for purpose approach.
- The adoption of a quality bidding or auction system has contributed both to the downward pressure on prices and an upward pressure on IPP socio-economic development commitments.
- It has proved that the private sector can do projects on time and on budget. Despite the massive amounts required to be spent on the bidding process, the private sector has remained interested in participation in the programme.
- There is a need for collaboration and coordination with other government entities including other national departments, parastatals, the provinces and the municipalities.
- The broader enabling environment is very important. In this regard, the transmission grid planning and capacity has become a serious risk for programme roll-out and credibility from a long-term view perspective.
A key success factor was that the REIPPPP enabled the development of commercial, bankable projects. Contributory factors were National Treasury (sovereign) guarantees, policy certainty, good clauses around expropriation and a bankable power purchase agreement. Once a bid was selected, there was also certainty in terms of sharing the risk. It was noted however there was much less certainty about the current bid roll outs given the limited IRP allocations going forward, ministerial renewable energy determinations and grid problems.

Programme design and management was another success factor. This enabled both a programme of considerable size and a fast roll-out of new power generation. It also enjoyed political support that allowed a flexible institutional setting and facilitated sufficient programme resources and quality transaction advisors.

It was noted that an REIPPPP approach was replicable to other areas where the private sector could produce and sell a commodity at scale. It was noted that water shared these characteristics with energy and that there were many opportunities at city or municipal levels to roll out smaller initiatives building on the approach. However, replicability depended on issues such:

- Policy certainty and government commitment is critical. National Treasury support and flexibility around PPP and PFMA regulations was a key enabler of the REIPPPP success.
- At municipal level, the MFMA has to be interpreted in a manner that enables longer term commercial contracts. It was noted that the short-term view that prevails currently was precluding long-term contracting.
- Programme credibility was dependent on capacity. This involved leadership, the existence of a good programme champion, sufficient financial and technical resources and government backing.
- Coordination is essential. Close alignment and coordination is required between national ministries, within and within provinces and with municipalities. This also requires attention to inter-governmental fiscal relations.

**Group 2 – Global market for green economy goods and services**

It was noted that government had made major commitments to green growth including:

- Commitment to global conventions around the green economy (such as Rio+20).
- Creating an enabling policy environment including explicit green economy friendly strategies in the NDP, NSSD, NGP, Climate Change Response, IPAP and REIPPP.
- Increasing investment in green economy via the Green Fund, IDC, REIPP and research funding via Department of Science and Technology.
However, there were questions regarding the seriousness with which implementation was approached and whether there was the stomach for the radical steps required. It was pointed out that there was not enough focus in government efforts and spend did not follow the policy commitments. It was suggested that there was also a lack of alignment and coherence that sent out the wrong signals. For example, there was considerable confusion currently about governments respective energy commitments to coal, nuclear and renewables.

There was some discussion regarding measures to promote localisation and primary product beneficitation as elements of a green economy strategy. It was noted that there were constraints to localisation including the small size of the local market, local capacity and the scale of investment requirement and that localisation consequently needed to be narrowly and strategically targeted or it could hinder rather than help investment.

It was noted that government had a key role in promoting green economy growth including:

• Stimulating local markets for green goods though setting procurement targets as done with REIPPPP and other measures.
• Capturing good practices and sharing them to stimulate replication and market growth.
• Fostering a culture of learning and openness to experiences from the private sector and elsewhere in Africa.
• Marketing South African expertise and products in regional and global value chains and markets.
• Increasing investment in research and development. It was noted that government was under-spending on R&D relative to other similar countries. It was noted that there was a proposal that 1.5% of all National Treasury allocations be allocated to R&D.

In regard to government support for the commercialisation of South African research and development, it was argued that current funding was spread too thinly to have real impact and there was a need for better alignment of government efforts especially between the R&D, prototyping and business development phases. Areas where government could assist included improving
information sharing on instruments available to support commercialisation and sharing of R&D innovation. It would also be helpful to create better mechanisms for multi-stakeholder engagement around commercialisation and to find ways of timeously leveraging of private sector investment linked to R&D efforts.

**Group 3 – Green Economy as enabler of poverty reduction and job creation**

There is considerable potential to promote green economy income generating and cost reduction activities to reduce poverty and improve community quality of life. Income generating activities include community environmental services (such as waste collection, sanitation janitorial schemes, wetland and green space management and alien clearing) and recycling and other green product development projects. Cost reduction activities include community gardening and agriculture, local composting and water leaks repairing.

There are a number of ways to generate the funding required to support these activities including:

- Municipal funding for community based services (using CWP type approaches).
- Catalysing private sector involvement through major project contributions (like the REIPPPP socio-economic requirements applied to other sectors such as mining) and through mobilising union, CSI and green fund investments.
- Carbon offset mechanisms.
- Enabling local markets for community products.

It was pointed out that the soft issues of awareness, knowledge, values and behaviour were more important than technology in generating green economy activity in poor communities. In this regard, it was important to get buy-in for green services in poor communities and for green products such as solar water heaters to be seen as not “inferior”. It was also important to harness indigenous knowledge and local innovation and to build capacity at all points of the process.

It was noted that the formal and informal sectors should not be seen as polar opposites but rather as ends of a continuum and that appropriate support should be provided at every stage on the continuum to increase benefits and minimise negative effects. It was noted that understanding the value chains linking the informal and formal sectors was the foundation for effective management and support and that there was opportunity to facilitate the rights of “informal”
operators in engagement with the established private sector. An example given of this was the “waste rights” that informal recyclers had been able to secure in Brazil.

Group 4 – Mechanisms for financing Green Economy ventures

It was pointed out that there was no specific national Green Economy policy at this stage and that the framework emerged from various policies. The possibility of another Strategic Infrastructure Project (SIP) with a Green Economy component was noted. It was suggested that South Africa needed to think much more ambitiously about what it could achieve in the green economy area.

It was noted that skills development funding through SETAs and other agencies at a system level from school to tertiary level was critical to cultivate the capacity needed for green economy innovation.

It was noted that the commercialisation of local R&D required attention to protecting intellectual property and that it was important to match the various available funds with the stage of development of the project or venture. This required active facilitation to link the supply of innovative projects with available funding.

It also required thinking through how the particular venture fitted into a value chain and what potential linkages with other ventures could be exploited for mutual benefit.

It was suggested that green economy thinking needed to be embedded in local economic development practice and that opportunities at local level related to housing, agriculture, energy co-generation and other areas should be explored.

In regard to facilitating investment in renewable energy, it was noted that the high costs of bidding for REIPPPP projects was a barrier to entry. It was further noted that some provinces such as KwaZulu Natal were not competitive in the major renewable energy areas of wind and solar power relative to the Eastern Cape and Northern Cape and were unlikely to have many successful projects in the REIPPPP bidding process. However, KwaZulu Natal had better conditions for renewable energy than countries in the EU for example that had made
considerable renewable energy investments. There was therefore a case for KwaZulu Natal to promote renewable energy project investment even if this was outside REIPPPP and that current regulatory obstacles should be relaxed to enable provinces to facilitate such projects.

Conclusions
The following broad conclusions can be made from the workshop discussion:

- The green economy is a national strategic priority and requires sustained attention across sectors and at national, regional and local levels.
- A sound policy framework is in place but there are major challenges of translating policy commitments into practice due to funding, coordination and capacity weaknesses. There are however important successes to build on such as the REIPPP programme which has set a global benchmark for renewable energy procurement.
- It is critical to create an enabling environment at national, regional and local levels that facilitates private sector investment at scale into the green economy. This requires a combination of policy certainty, sound government procurement and regulatory processes and funding mechanisms that address the different stages of the innovation process.
- The sustainability of a green economy agenda in South Africa depends on the extent to which it enables opportunities for poor communities to share in the benefits. There is a need to scale up support for delivery in this area. A number and to build on the range of innovative approaches that have been developed.
- South Africa’s key economic regions all have green economy agendas and have a critical role to play to realizing the green economy imperative. However, the potential is only being realized at a limited scale thus far. There is potential in further work to accelerate implementation including shared learning, pilot programme collaboration and cooperation to improve the financing regime at national and regional levels.