



Climate Change Financing and Aid Effectiveness:

South African Country Analysis

April 2011

Jeff Zingel

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Acronyms

AAA	Accra Agenda for Action
AfDB	African Development Bank
AEF	Aid Effectiveness Forum
AFD	French Development Bank
CDDE	Centre for Development of Development Effectiveness
CDM	Clean Development Mechanism
CAHOSCC	Committee of African Heads of State for Climate Change
COP	Conference of the Parties
CTF	Clean Technology Fund
DEA	Department of Environment Affairs
DIRCO	Department for International Relations and Cooperation
EU	European Union
GEF	Global Environmental Facility
GHG	Greenhouse Gases
HDI	Human Development Index
IDASA	Institute for Democracy in South Africa
IDC	International Development Cooperation Directorate
MoF	Ministry of Finance
MTEF	Medium Term Expenditure Framework
MTSF	Medium Term Strategic Framework
MDG	Millennium Development Goals
NBI	National Business Initiative
NCCC	National Committee on Climate Change
NEPAD	New Partnership for African Development
NGO	Non-Governmental Organisation
NPC	National Planning Committee
ODA	Official Development Assistance
PD	Paris Declaration
PGAE	Partnership Group on Aid Effectiveness
REFIT	Renewable Energy Feed In Tariff
REMT	Renewable Energy Market Transformation project
SADC	South African Development Community
SADPA	South African Development Partner Agency
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNFCCC	United Nations Framework Convention on Climate Change

WB World Bank
ZAR South African Rand (Rates of Exchange: US\$1.6 : £1 - and - ZAR10.8 : £ 1.
April 2011)

Executive Summary

Introduction

This South African report is one of six African country studies jointly commissioned by the OECD's Development Cooperation Directorate and the African Development Bank. It considers the sourcing and application of climate change finance in terms of whether, and how, the Aid Effectiveness principles of Country Ownership, Alignment, Harmonisation, Measuring for Results and Mutual Accountability are being applied. Together with the other African studies¹ it will be discussed at a regional workshop in 2011. This report seeks to influence both the country and regional response, and stimulate debate regionally and internationally on strengthening how the continent responds to climate change. The work used the common structured interview matrix with 25 key stakeholders, followed up with further discussions where necessary. Use of the national, regional and global literature was made.

Background

South Africa, as a 2002 signatory to the UNFCCC and an Annex 1 Country signatory to the Kyoto Protocol, sees itself playing an influential role in international negotiations representing developing countries and Africa. This year it hosts the 17th UNFCCC Conference of Parties in Durban. Notably, the country is the largest producer of Green House Gases on the continent contributing 42% of total emissions. In recognising its global and national commitments, it consistently argues that financial support for national responses should not affect current development assistance levels.

South Africa prefers to determine and control its own development policies and growth path. In contrast to many African countries, Official Development Assistance (ODA) has played a special but 'supplementary' role; aid constitutes far less than 1% of budget. Whilst small, this finance is seen as valuable in leveraging own resources more effectively. It does not have an Agreement, Charter or Protocol on the Paris Declaration, but has enhanced a well developed and continually updated policy framework for ODA with an Aid Effectiveness Action Plan, updated in 2010.

The Role of Government and the Private Sector

¹ On Cameroon, Ghana, Kenya, Morocco, and Tanzania.

Climate change responses and planning are well embedded within government priorities and planning. However, their implementation is complicated by a complex inter-governmental architecture that spreads responsibilities across different national departments. A National Climate Change Coordinating Committee engages stakeholders in aspects of policy and implementation, with other ministerial committees and advisory committees also informing and managing policy and relationships. Achievements to date include the comprehensive engagement of a large number of stakeholders in policy formulation, the early political recognition to address carbon intensity and the development of a Long Term Mitigation Strategy. The Dept. of Environment has completed (among other mandatory initiatives) its second Draft National Communication, Greenhouse Gas Inventories and has stimulated a wide variety of activities across numerous state owned enterprises and elsewhere. These are unevenly spread nationally, provincially, locally and spatially with a wider emphasis on mitigation than adaptation characterising responses by all parties. Much impetus was given to the response by the 2007-2008 crises in the state owned electricity sector, with reactive planning to national power shortages leading to the commissioning of the 3rd and 4th largest new coal power stations in the world. This resulted in a development of activities from the multilaterals, bilateral institutions and national departments intended to support renewables and increasing energy efficiency, including a large injection of dedicated funding.

The country recognises that climate change finance will be required, with discussions underway to establish a dedicated central fund. However, there remains a lack of clarity how funds will be allocated from existing budgets, overseas sources and domestic private sources, and the respective proportional contributions of each. Government attention and work on climate finance is now intensifying, with the response to be crystallised in a White Paper. There is a strong national preference for a large component of finance to be sourced from well developed local private markets. The private sector have responded well in identifying and taking up opportunities, but challenges remain on the policy, regulatory and allocatory frameworks; these currently inhibit deeper participation in both mitigation and adaptation.

The Role of Donors or 'Development Partners'

Development partners have made significant material and conceptual contributions to the national response. However, much has been supply driven, piecemeal, incremental and not 'joined up'. In a 'busy' climate change cross sector, evidence of the implementation of the Paris Declaration principles is weak and country ownership, alignment and harmonisation are not clearly in evidence with some exceptions. Competition exists for 'carbon space.' However, ODA to date has brought significant innovation, addressed many gaps, introduced policy change and leveraged 'own resources' nationally. Good harmonisation in climate finance occurs in the Mutual Reliance Initiative between the European Investment Bank, the AFD and the KfW with the IFC/AfDB/IBRD Clean Technology Fund's \$500 million investments.

The Nature of Climate Change Financing

As indicated, South Africa is still developing its approach to co-ordinating the finance of its response to climate change. No total funding gap has been determined, and no estimates are yet available of the total costs for adaptation. Equally, there is not yet clarity on the proportional contribution of public, private and official development finance. The total contribution of external

finance at the end of 2009 was about ZAR 9 billion (US\$1.3bn) in loans and ZAR 3 billion (US\$440m) in grants, increasing significantly with over ZAR 7.5 billion (US\$1.1bn) committed or in the pipeline at end 2010, early 2011. However, much of this finance (with some exceptions) is not managed and allocated in accordance to the international definitions and reporting on ‘fast start finance’, nor of ‘additionality’.

Existing and proposed ‘systems’ in-country for the absorption of external finance (on a project or programmatic basis) are reasonably well developed, A ‘sticking point’ has been in Indicator 5a) the use of country financial management systems-where the PD Phase Two analysis suggests development partners’ HQ policies preclude greater alignment. It is notable that Government is cautious about applying to the Adaptation Fund, and would probably need more capacity building to implement it.

Conclusions

South Africa’s commitment to both international negotiations and the development of its national response to climate change has been comprehensive, but policy has yet to be fully implemented or applied. A large international community presence in country in alliance with many local stakeholders have contributed to policy making. Whilst there are limits to how well investments are targeted, there is clear evidence of innovation and implementation in the wide and diverse suite of investments nationally, provincially and locally. It is notable that civil society’s role is strengthening, is comparable to the best internationally, and is leading low carbon growth planning.

It is arguable that national policy and planning has prioritised the ‘green economy’ as a key instrument for economic restructuring and job creation, to the detriment of a wider targeting and investment in a more comprehensive climate resilience response. This is being partially addressed in ongoing climate change policy making, with the convergence between climate change, energy and green-economy-led growth. However, strengthening the policy that enables adaptation to climate change still requires further attention. It is also notable that the bilateral and multilateral financial contributions have prioritised mitigation, and when provided have done so unevenly across the country. There is thus a strong need for more refined targeting of finance for adaptation.

Development partner investment is trending towards greater use of local partnerships. If both partners and country leadership are to mutually address better defined priorities and challenges more comprehensively harmonisation and alignment need to be improved. Much still needs to be done to promote aid effectiveness in the climate change cross sector, although existing frameworks hold promise. Currently there are conversations regarding the establishment of an Aid Effectiveness Plan for Climate Change with the Treasury and the EU. A suite of studies on how to finance climate change are underway but need to be refined and applying their findings needs to be accelerated. This needs to be complimented with a stronger national and more coherent definition of priorities and implementation frameworks.

1. Introduction and background

This report is one of six African country studies jointly commissioned by the OECD's Development Cooperation Directorate and the African Development Bank. These follow a similar set of case studies undertaken in Asia, initiated by the Bangkok-based Centre for Development for Development Effectiveness (CDDE) facility² of the UNDP, again in collaboration with OECD/DAC. It is part of a regional dialogue process aimed at the comparative assessment and synthesis of country progression with the organisation and application of climate change financing, principally that derived from current external climate change financing mechanisms and agencies. The sourcing and application of this finance is considered largely – but not exclusively- in terms of whether, and how, the Aid Effectiveness principles of Country Ownership, Alignment, Harmonisation, Measuring for Results and Mutual Accountability are being applied- or not. The overall purpose is to develop a set of recommendations regarding the programming of climate change finance at the national level, aimed at strengthening the management of climate change finance by beneficiaries and development partners.

The process used a common, structured interview matrix with 25 stakeholders (bilateral and multilateral development partners, government, strong civil society organisations working nationally, regionally and globally, representative private sector organizations, and strong consultancies and think tanks active in the sector). Where necessary this was followed up with structured discussions, and use of a growing national and regional literature and the global literature in climate change financing was made. The work has benefited from discussions with the task team established for the national organization of both in-country and externally derived climate change finance within the Directorate: Policy and Integration of the Development Bank of South Africa.

Financial commitments and global arrangements and instruments for the organisation and allocation of climate change finance have intensified. On the 'supply' side, as at July 2010, 23 funds totalling a combined pledge of over US\$ 26 billion³ had been established in compliance with the United Nations Framework Convention on Climate Change (UNFCCC) requirements. At the Copenhagen Conferences of Parties (COP 15) 'Fast Start' pledges totalling about US\$ 29 billion were made by 16 developed countries and the EU for both mitigation and adaptation over 2011-2013.⁴ Estimates

²Supported by the Asian Development Bank, Government of Korea, Government of Japan, Swedish SIDA. More information can be found www.aideffectiveness.org

³ See: P7. Realising Development Effectiveness. Making the Most of Climate Change Finance in Asia and the Pacific. Capacity Development for Development Effectiveness Facility.

⁴ See: Höhne, N., Ward, M. and van Melle T. They maintain 'this financing is largely provided within the framework of Official Development Assistance, using the established bilateral and multilateral channels. There is heated discussion on what proportion of

were made of a desirable medium term funding of US\$ 100 billion annually by 2020, subsequently considered feasible by the UN Secretary General's High Level Advisory Group, where South Africa is represented by Minister Trevor Manuel, formerly head of the Dept. of Finance and now heading the National Planning Committee (NPC) in the Office of the Presidency.⁵

At COP 16 in Cancun, Mexico these good intentions were not translated into concrete commitments. Significant movement however was in the adoption of the Cancun Adaptation Framework (affirming that adaptation must be addressed with the same level of priority as mitigation), and the creation of the Green Climate Fund, with its board to be constituted to equally represent developed and developing countries, via a transitional committee.⁶ While there are divergent views on the likely outcomes of COP 17 in Durban, South Africa in December 2011, it is generally held that this conference should lead to the resolution of a binding framework and agreement for climate change finance.

The injection of existing and anticipated financial resources requires that capacity for coordination, implementation and monitoring be established to ensure the effective mobilisation and use of these diverse funding instruments. On the demand side, putting in place effective country-level governance arrangements to properly manage the resources will be critical, and this report is one contribution to the realisation of these objectives.

2. Country Context

South Africa's country context is marked by a strong history of post 1994 independence national development planning and strategy development. It has preferred to determine and have control over its own development policies and growth path, foregoing a development partner led Poverty Reduction Strategy, or a Country Assistance Strategy. The policy commitment throughout four main eras of national planning has been one of 'continuity of change', building on development successes, taking stock of ongoing challenges and developing strategic responses.⁷ In effect the country has moved from the initial post independence redistribution imperative, through a neo-

these pledges is "new and additional" and what "new and additional" actually means. International Climate Financing: From Cancún to a 2°C Stabilisation Pathway. Ecofys. February. 2011

⁵ See: Report of the Secretary-General's High-level Advisory Group on Climate Change Financing. This described 'the current range and potential of instruments available to meet the goal of US\$100 billion per year by 2020 point to the conclusion that it is challenging but feasible to achieve this goal. Reaching the goal will likely require taking a systemic approach to the financing of climate action. This involves carbon pricing as well as a wide variety of sources, public and private, bilateral and multilateral, including alternative sources of finance; a scaling up of existing public sources; and increased private flows. There were different perspectives within the Advisory Group on the appropriate composition of sources for reaching the goal.' P 10. November. 2010

⁶ According to Businessgreen; 'many developing countries had opposed proposals for the World Bank to operate the new fund, arguing that in the past it has failed to focus enough on climate change and has imposed controversial reforms on countries in return for access to finance. Instead the fund will be governed by a new board, supported by an independent secretariat. Significantly, the agreement invites the head of the UN climate change secretariat, Christiana Figueres, to convene a new transitional committee to begin work on the formation of the fund and second staff from the UN and other international institutions to support the work of the committee. The 40-strong transitional committee will include 15 members from developed countries and 25 from developing countries with seven each from Asia and Latin America, and two each from the groups of island states and least developed countries. <http://www.businessgreen.com/bg/news/1931989/cancun-green-fund-dominate-global-climate-finance>

⁷ The 1994 Reconstruction and Development Programme (RDP) was the 'plan of action' developed by the African National Congress as 'government in waiting', designed primarily as a framework within which legislation could be developed, and as a blueprint for transforming social, economic and political structures across the country. In 1995 the RDP was replaced by the highly debated and deeply contested Growth, Employment and Redistribution Strategy (GEAR), in recognition that 'development' would only take place in the context of an explicit macro-economic policy that placed economic growth at its heart. This pattern for growth was accelerated in 2006 with the adoption of the Accelerated and Shared Growth Initiative of South Africa (ASGISA). 2010 witnessed the tabling of the 2010 New Economic Growth Plan, with firmer emphases on supporting industrial policies and the inclusion of support instruments for transitions towards a 'green economy'.

liberal phase and now trends towards an indigenous version of a social democratic developmental state.

Since the 2009 election of President Zuma, a new structure for national government has been implemented, centred on four inter-connected areas of policy-development, planning, effective implementation and continuous monitoring and evaluation. The country has established 12 Priority Development Outcomes derived from a five year Medium Term Strategic Framework (MTSF). Climate change is subsumed within Performance Outcome 10 vis: 'Environmental Assets and Natural Resources that are Well Protected and Continually Enhanced'. Policy, budgeting and implementation are managed within the framework of a rolling three year Medium Term Expenditure Framework (MTEF). Policies, strategies and development plans at the sub-national, decentralised levels (nine provinces, nine metropolitan authorities and 282 municipalities) give guidance on the country's development priorities. The management of responses to climate change is a concurrent responsibility between spheres of government. South Africa has relatively well developed financial management systems and regulatory oversight in both the private and public domains, recognised internationally and reviewed regularly by international finance institutions and donor groupings,⁸ which enabled it to manage the macro economic effects of the recession well. In 2010 it was ranked first of 94 countries internationally, above New Zealand and the United Kingdom in independent open public budget analysts annual surveys.⁹

Given numerous policy challenges, there have been some less than optimal delivery performances, increasingly being recognised by leaders in government. In releasing the December 2010 annual National Development Indicators, the Minister of Planning in the Presidency, Trevor Manuel is reported to have said that policies to reduce poverty and increase South Africa's social safety net may be failing the country's poor majority.¹⁰ Civil perspectives on 'governance' have varied. There have been recent improvements in confidence and the reversal of a trend of declining confidence in public institutions, but confidence in political parties is very low. Positive socio-economic trends are seen in the achievement of macro-economic stability and fiscal robustness, a real GDP of ZAR 1.251 billion (US\$144 billion) in 2009 with real per capita GDP increasing 20% between 1994 and 2009 to ZAR 26,695 (\$3,075). The recession slowed growth to -1.9 % in 2009 but recovery is imminent with GDP per capita growth of 3.6% expected in 2012. It has managed to extend its social security net progressively to 14 million of the poor. Despite good macro economic performance, there has however been rising social dissatisfaction and unrest, continued deep poverty and high inequality, with the GINI coefficient widening to 0.66, one of the highest in the world.

The 2010 Human Development Index for S.A shows a rating of 0.597 and a country rank of 110th, falling from 104th in 2005 to 109 in 2009. In 1990 the index was 0.601 and in 2005 0.587. Its annual HDI trend between 1990 and 2010 is negative – albeit small. It has increased at a slower rate than sub-Saharan Africa's positive trend, but in terms of absolute value it is still well above the average for sub-Saharan Africa. It has fallen behind the world average, which shows a positive trend, whereas in 2005 it was only just behind and in 1990 it was well above the world average.

⁸ See: Certan, C., Dendura, J., and Quist, R.E. Republic of South Africa. Public Expenditure and Financial Accountability Public Financial Management Performance Assessment Report Client: European Commission Delegation South Africa. Specific Contract No: AFS/2008/159-145. Ecofys Nederland BV.

⁹ See: <http://www.internationalbudget.org/what-we-do/open-budget-survey>

¹⁰ From: 'State admits policies are failing the poor-Commission's scorecard says poverty has not been dented since 2005.' Lisa Moore. Business Day. 17th December. 2010

Despite its status as a middle income country, many of the socio-economic indicators are close to countries characterized as low income. The October 2010 National Millennium Development Goals Report shows serious inequality in education (specifically access) and in access to quality health care. Combined with the high prevalence of HIV/AIDS (the rate is 19%, one of the highest in the world), it explains why the country has not achieved some MDG targets related to outcomes such as employment and income levels (impacted on by education) and on life expectancy (impacted by health conditions). See Box One for a summary and an assessment of the extent to which the 2015 targets are likely to be met.¹¹

Box One: South African MDG's 2010.

Summary achievements and 2015 targeting ¹²	Extent of achievement of all sub targets
One: Eradicate extreme poverty and hunger	Achieved: 3 Likely:7 Possible:6 Unlikely:6
Two: Achieve universal primary education	Achieved:1 Likely:2 _ _
Three: Achieve gender equality	Achieved:3 Likely:3 _ _
Four: Reduce child mortality	Achieved: 0 Likely:2 Unlikely:3
Five :Improve maternal health	Achieved:1 _ Possible:1 Unlikely:3
Six: Combat HIV/AIDS, malaria and others	Achieved:2 Likely:1 Possible:1, Unlikely:2
Seven: Ensure environmental sustainability	Achieved:2 Likely:2 Possible:3 Unlikely:2
Eight: Develop global partnership for development	Achieved:2 Likely:4 Possible:4 Unlikely:1

Aid Effectiveness

In contrast to many other African countries, Official Development Assistance (ODA) or ‘aid’ has played a special ‘supplementary’ role in both pre independence and post independence support. From around 2007 it has been marked by four distinct, overlapping trends, in a) the partial ‘regionalisation’ of traditional development partner support and some changes in established focal areas towards ‘global public goods’,¹³ b) the adoption of more trilateral and ‘triangular’ cooperation relationships in Africa, c) the growth in the design and development of strong South-South relationships in development assistance, and d) the consolidation and expansion of South Africa’s own role as a development partner in Africa and elsewhere via the precursor to its new South African Development Partner Agency (SADPA).

Almost throughout these phases, South Africa has been and remains a paradoxical recipient of aid, as a confident, relatively resource rich middle income country with strong own resources for development finance. Proportionally aid constitutes far less than 1% of the budget (about 0.4% of Gross National Income), but in value terms it is significant. It is not primarily used as an additional source of finance, but in leveraging own resources more effectively, and in leveraging strategic partnerships within modes of trilateral and ‘triangular’ development cooperation for a growing suite

¹¹ Millennium Development Goals: South African Country Report, 2010; UN Human Development Index. Main and S.A Country Report. 2010

¹² Millennium Development Goals. South African Country Report. 2010

¹³ Two strong examples of this trend in Climate Change are DfID’s Southern African Regional Climate Change Programme: see <http://www.oneworldgroup.co.za/projects/climate-change/southern-african-regional-climate-change-programme-rccp/> and the SADC/UNEP: Southern Africa Sub-Regional Framework on Climate Change Programmes Report. N. Chhishakwe. February 2010 See: http://www.unep.org/roa/amcen/docs/AMCEN_Events/climate-change/southAfrica/SADC_Report.pdf

of regional and African priorities and programmes to which the country is committed. Its added value is in its implications for the transfer of knowledge, best practices, leveraging upstream policy change and in embedding innovative approaches.

Unlike other (newly) middle income countries who anticipate a severe reduction in largely bilateral aid due to this status,¹⁴ South Africa's geo-political and strategic position globally, in Africa, and within the 15 country South African Development Community (SADC) will ensure the continued importance and relevance of both bilateral and multilateral aid. Its centrality or proximity to major global concerns (for example fragile states, transcontinental migration, continental backlogs in infrastructure and services, severe water and environmental degradation and distress, global warming/climate change, limited livelihoods support and HIV/AIDS) promote the need, desirability and continuity of the overall aid environment. Over thirty traditional development partners, signatories to the Paris Declaration (PD), work in South Africa while the country now hosts a range of 'non traditional' development partners from the 'east' and 'south', not all of whom are signatories to the Declaration.

Aid has also become one 'instrument' for the widening and deepening of investment and trade relationships in the rapidly changing global economy where 'economic space' for transfers of capital, technologies and skills in traditional partner countries has contracted significantly. New business opportunities for development partners in the development sector, particularly in the health, agriculture, water, environment, energy, climate change sectors overall and in the related 'green economy' abound here and in the region.

South Africa has not developed a formal Agreement, Charter or Protocol on the Paris Declaration, preferring to use and update the 2003 National Treasury 'Policy Framework and Procedural Guidelines for the Management of Official Development Assistance'. This provided the first complete formal guide to processes and procedures, the 2010 update more closely reflecting Paris Declaration principles and the Accra Agenda for Action, strongly emphasising aid effectiveness principles and procedures.¹⁵ The most important national priority has been government ownership of ODA and reliance on government systems, strong and non-negotiable priorities-if not always adopted in practice. Following the 2007 PD Phase One Evaluation recommendations, an Aid Effectiveness Action Plan was established in 2008, and updated and refined in 2010. The impact of these national investments is only beginning to bear fruit. An exceptional development has been the January 2011 release of a 'second level' and sectorally based 'Aid Effectiveness Framework for Health in South Africa,' co- developed by government and development partners, which is generating growing interest internationally.¹⁶

The 2011 Phase Two Country Evaluation of the Paris Declaration found that a) local, regional and global development challenges are increasing exponentially, b) that aid from both traditional and non traditional development partners should continue to have a role, even with the countries middle income status and considerable own resources and c) aid continues to bring innovation and learning

¹⁴ See: N. Thornton: Climate Change Financing and Aid Effectiveness: Viet Nam Country Analysis. P.8. August. 2010

¹⁵ The Policy Framework and Operational Guidelines for the Management of Official Development Assistance. 2010. IDC, National Treasury. South Africa

¹⁶ The Aid Effectiveness Framework for Health in South Africa: Working together to implement the Negotiated Service Delivery Agreement and to attain the Millennium Development Goals. Department of Health. Government of the Republic of South Africa. January 2011.

from other regions and thus d) should continue to be used as a resource to trigger change, in affecting upstream policy development, in unblocking bottlenecks and thus promoting delivery at a greater scale. It showed that if aid is to be more effective in complex sectors, it must be better organised around the PD principles. In the extremely ‘busy’ and cross cutting climate change sector, evidence of the implementation of the PD principles is weak, with the ‘nexus’ of country ownership, alignment and harmonisation not well managed, with the exception of the Clean Technology Fund, the Clean Development Mechanism and in parts, the research sector. The evaluation recommended a) the need for a distinct national institutional platform or ‘house’ for climate change, supported by an Aid Effectiveness Framework or Plan, which would lead to b) better priority setting and targeting across the key areas of demand and gaps in need, and therefore improved aid effectiveness and better development outcomes. Much still needs to be done to promote aid effectiveness in the climate change cross sector.

The evaluation called for the adoption of principles similar to the Windhoek Declaration which aligns development partners to specific thematic areas, led by specific development partners who coordinate other ODA support for the SADC Secretariat for transnational development challenges as well as related SADC member country sectoral development. It held that the country would benefit by adopting a similar strategy in a ‘New Charter’ – practically negotiating that a lead development partner coordinate and manage support either i) sectorally or ii) across one of governments 12 national outcome areas defined in the 2009-2014 MTSF. This Charter should also provide for the establishment of a common platform, and arrangements for the incorporation of, non traditional development partners from the ‘South’ and promote their collaboration and participation with traditional partners nationally and regionally in a manner similar to Indonesia’s Jakarta Commitment. This provides a common platform for, and makes explicit the linkages between traditional bilateral assistance, South-South Cooperation and their collective roles nationally and in the respective region. The final recommendation was that this structure should conform with the common, continental African Declaration on Aid Effectiveness, currently being finalised for the 4th High Level Forum on Aid Effectiveness in Busan, Korea this year with the help of the NEPAD Secretariat.

As noted, South Africa has significant resources of its own for development finance, leveraged and managed through the Development Bank of Southern Africa (ZAR 8.25 bill in 2010), and the Industrial Development Corporation’s Agency Development Support Unit (ZAR 30 mill annually), both active regionally, and the latter with a ZAR 25 billion allocation in this year’s budget.

Total ODA committed over the period 2000-2008 was about \$8 billion, of which about \$6.2 billion (77% of committed) was actually disbursed. Top development partners by gross ODA disbursed are the United States, the European Commission, the United Kingdom, Germany, France, the Global Fund, Netherlands, Ireland, Denmark and the Global Environment Facility. Most ODA (63%) flowed through the public sector, 10% went through NGOs and Civil Society organisations, the balance between the Multilateral Organisations and a Public Private Partnership channel.

Climate Change

South Africa is a 2002 signatory to the UNFCCC and an Annex 1 Country¹⁷ signatory to the Kyoto Protocol and has played an influential role as a representative of developing countries and Africa in international negotiations. This year it is host to the 17th UNFCCC Conference of Parties (COP17) in Durban. It is the world's 19th largest emitter of green house gases (GHG's). Along with China, it is the world's most carbon intensive economy due to an historical economy built on extensive mining development and cheap coal fired energy. The latter energy sector contributes 79% of GHG's, with coal accounting for more than 90% of total CO2 emissions.¹⁸ It contributes an astonishing 42% of total emissions on the continent. Along with Small Island Developing States (SIDS) and the Least Developed Countries (LDC's), it is predicted to experience the impacts of associated climate change in a severe manner.

Through successive phases of policy development beginning with its early 2004 National Climate Change Response Strategy (see Country Ownership below), it has attempted to maintain three main principles vis: a) a non mandatory commitment to binding emissions reduction targets, while maintaining its growth path embodied in national planning, and its foci on promoting energy security and access, development, poverty alleviation and job creation; b) a commitment to and support for the common African position in climate change negotiations as defined by the Committee of African Heads of State for Climate Change (CAHOSCC), and c) the desirability of a second commitment period to the Kyoto Protocol, with an essential part being that developed countries make deep legally binding and quantified emission reduction targets.¹⁹ It has also consistently argued that financial support for implementation of a comprehensive response should not affect current development assistance levels.

Following from the UNFCCC'S Fourth Assessment Report, ongoing and updated evidence based research in the region informed its now renowned and participatory 2006-08 Long Term Mitigation Strategy (LTMS) and the targeting of key arenas of climate change impact, vulnerability and adaptation. These are in water resources and hydrology, agriculture, forestry, terrestrial ecosystems and biodiversity, health, rural livelihoods (the totality of capabilities, assets and essential services), the urban environment and low lying coastal areas. Box Two describes one general assessment of the overall impacts occurring and anticipated.

Box Two: A General Assessment of Current and Future Climate Change Impacts²⁰

The potential impacts on South Africa in the medium- to long-term are significant and potentially catastrophic. Under emission scenarios that are more conservative than current international trends, it has been predicted that by mid-century the South African coast will warm by around 1-2°C, and the interior by around 2-3°C. After 2050, warming is projected to reach around 3-4°C along the coast, and 6-7°C in the interior. Parts of the country will be much drier; increased evaporation will ensure an overall decrease in water availability significantly affecting human health, agriculture and

¹⁷ Being a signatory to the UNFCCC, South Africa has a general commitment to implement measures to mitigate climate change (UNFCCC, 1992: Article 4.1b). As a non-Annex I country, however, it does not have a *quantified* emissions limitation or reduction target under the Kyoto Protocol. In contrast to the 35 Annex 1 Industrialised and Economies in Transition (EIT's), Non-Annex I Countries do not have binding emission reduction targets for the first period (2008-2012) of the Kyoto Protocol.

¹⁸ See: Report of the Auditor General to Parliament on the Status of Climate Change Initiatives in South Africa.P19. January. 2010

¹⁹ These are a mid term target toward the upper end of the ranges of 25 to 40 % below 1990 levels by 2010, and 85 to 95 % below 1990 levels by 2050. In: One Step Forward and Two Sideward Regional Analysis of Climate Policy in 2010 and the Cancun Climate Conference (COP 16). Heinrich Boll Stifting. January. 2011.www.boell.de

²⁰ Drawn from: The National Climate Change Response Green Paper. P.5. Department of the Environment. October .2010

the environment in general; the increased occurrence and severity of veld and forest fires and especially extreme weather events such as floods and droughts will also have significant impacts; sea-level rise will negatively impact the coast and coastal infrastructure; mass extinctions of endemic plant and animal species will greatly reduce South Africa's biodiversity. In addition to the increased atmospheric CO₂ concentrations measured to date, some climate change impacts are already being observed to a lesser or greater degree. The sea-level around the South African west coast is already rising by 1.87 mm per year, around the south coast by 1.47 mm per year, and the east coast by 2.74 mm per year. Observed surface air temperatures over land as well as the number of frost days have changed with statistical significance since 1950, and these changes are consistent with, and have sometimes exceeded, the rate of mean global temperature rise. Increased fire frequency has been observed in the winter rainfall biomes of the fynbos and succulent karoo and significant increases in precipitation since the 1950s' have been observed in the south-west of the country and significant decreases in the northeast, especially in dry years.

The cornerstone of the national commitment to mitigate GHG emissions is through the 'Peak, Plateau and Decline' approach established in the LTMS for the next 60 years. Given current high levels of energy inefficiency, fossil fuel dependency and continued support for the 'minerals- energy complex', GHG emissions are, ideally, modelled to peak during the period 2025 to 2035, plateau over the 2050 to 2060 period and then decline, through a total decommissioning of all coal fired power stations over the latter period.²¹ These objectives are to be achieved within a 'Start Now, Scale up and Use the Market' approach. The LTMS was presented at Cop14 in Poznan in 2009 with strong international acclaim and subsequently from the multilateral organisations responsible for engaging and assessing national responses. The 2010 National Climate Change Response Green Paper²² reaffirmed its ambitious commitment to reduce GHG emissions intensity by 34% by 2020 and 42% by 2025 – but only on the condition that the developed nations commit to providing financial and technical support, and that a fair, effective and inclusive global deal is reached. The key issue is how to manage South Africa's emissions through a period of purportedly unavoidable – but highly contested- increases to the plateau.²³

Climate Change Financing

The magnitude and allocation of costs associated with the national mitigation and adaptation response have been estimated variously and are necessarily general. Within the 'Business Unusual and Start Now, Scale Up and Use The Market' approaches for meeting the 'Peak, Plateau and Decline' targets to 2050, the early estimates for a suite of well developed mitigation actions alone range from savings of US\$ 298 billion (if Start Now is effectively implemented), to a cost of US \$487 billion. Estimates of costs of all strategic actions to achieve the 'stabilisation' phase in 2050 are for about 1.8% of GDP annually (about US\$ 2.6 billion annually).²⁴ For renewables alone,

²¹ See: S.Raubenheimer. Facing Climate Change. Building South Africa's Strategy.P.1 Idasa. February. 2011

²² See: www.environment.gov.za

²³ These scenarios are now contested in South Africa following the recent World Wildlife Fund Global Energy Report which identifies the actual potentials for global and national reliance on renewable technologies by 2050. See WWF-SA Climate Change Programme Manager R.Worthington: 'The report goes a long way towards addressing perceptions perpetuated by Eskom and others that we will always need large-scale coal and/or nuclear power to provide adequate energy services for human progress, either in the South or elsewhere. http://www.wwf.org.za/media_room/news/?3760/Brave-new-world-fuelled-by-clean-economical-energy-possible-and-imperative-by-2050

²⁴ From: Draft South Africa Second National Communication to the United Nations Framework Convention on Climate Change. P.163. August. 2010. Dept.of Environment. www.environment.gov

projections of total costs for meeting a (now revised) but original 20GW 2020 target are US\$ 55 billion (about ZAR 375 billion), with an average annual incremental cost of US\$ 1.2 billion (ZAR 8.4 billion).²⁵ No total funding gap has been determined, with the country's climate financing strategy still a work in progress, and thus no available estimates of the total costs for the national adaptation response, nor estimates of any ideal proportional contribution of public, private and official development finance for both mitigation and adaptation. There is a range of related work in progress or planning, covered in relevant sections below.

To date, trends in ODA support to the 'traditional' but interrelated Environment, Water, and Energy sectors in the Climate Change cross sector can be broadly characterised as follows. Between 2006-7 and 2009-10 support to the Department of Environmental Affairs (DEA) increased from ZAR 27.8 million to ZAR 63.3 million. Over the same period, support to the Department of Water Affairs (DWA) increased from ZAR 206.7 million to ZAR 1.8 billion, and for the then Department of Minerals and Energy (now Energy), from ZAR 2.4 million to ZAR 59.4 million.²⁶

This can be classified as "Business as Usual" forms of ODA.

Since approximately 2004, when development partners began financing a wide variety of climate change related activities and investments, total support from both grants (about ZAR 3.5 billion) and loans (about ZAR 10 billion) has been in the region of ZAR 13-14 billion.²⁷ The ten largest grant funders ranked by value are Germany, the Global Environment Facility (GEF), the Gates/Buffer Foundations, Switzerland, DfID, the French Development Bank (AFD), Denmark, Norway, the Development Bank of Southern Africa, Finland and the United Nations Environment Programme (UNEP- through its role in the Clean Development Mechanism –CDM- in South Africa and Africa). The greater amount of loan finance is provided by the World Bank's Clean Technology Fund (CTF), the AFD, Germany via the KfW, and the European Investment Bank. The Development Bank of Southern Africa is included since its loan portfolio also on-lends from external sources. Overall, development partner financing is unevenly spread across different sectors and spheres of government, and has largely concentrated on mitigation activities, particularly renewable and energy efficiency.

Annex One provides the end 2010 EU Summary Table of the specific commitments of each Member State to a wide definition of 'green economy projects', by type and duration. Very little of this funding typically conforms with official definitions of 'additional finance' for climate change in the second definition of Box Two below, given that many programmes and projects are for research or capacity building.

Box Three: 'Additionality' in Climate Change Finance²⁸

Climate Change finance is, in theory, additional to normal development funding. To be eligible for climate change financing from UNFCCC related funds, projects must be able to demonstrate two

²⁵ From: Unlocking South Africa's Green Growth Potential .The South African Renewable Initiative. P.22. Department of Trade and Industries and Department of Public Enterprises. 2010

²⁶ From: Estimates of National Expenditure.

²⁷ From: International Development Cooperation Directorate and EU spreadsheets. 'Who's Doing What in Climate Change .FAO. September. 2009.

²⁸ See: Realising Development Effectiveness. Making the Most of Climate Change Finance in Asia and the Pacific. Capacity Development for Development Effectiveness Facility. Pgs 6.8.10.October. 2010

things; their additionality and that the impacts on carbon are measurable, reportable, verifiable (MRV). In Kyoto project-based mechanisms (i.e. the Clean Development Mechanism and Joint Implementation projects) additionality describes that a carbon dioxide reduction project would not have occurred had it not been for concern for the mitigation of climate change. It is thus beyond a “business as usual” project. To qualify for such funding, a project has to demonstrate additionality.

Additionality for climate change financing can also refer to donors providing funds beyond “business as usual” ODA levels, in order to enable communities and countries to adapt to climate change impacts. This means identifying the additional cost to development programmes and projects that adapting to climate change will require. It is also an area of considerable international debate, since developing countries argue (as they did at COP15 in Copenhagen) that this financing should not be classed as ODA.

3. Country Ownership

Prior to 2004 there was little political commitment to a climate change policy. Despite Article 1.1 sec. 24 of the Constitution, which creates a right to an environment that is not harmful to health or wellbeing, most captains of industry and government leaders then viewed the continuation of a conventional growth path – given the countries inextricable link to fossil fuel based energy supplies- as untouchable, and the only economically viable alternative to address post independence demands of extreme backlogs in services and poverty levels. These proponents held that the country should not commit to reducing GHG’s, this being the responsibility of the industrialised countries, and that South Africa needed ‘carbon space’ to grow and develop.

However those who were party to early international climate change negotiations knew that as a large emitter relative to its size, the country could not avoid its responsibility for mitigating its emissions forever. Political commitment thus began with the 2004 National Climate Change Response Strategy, initiated by the Cabinet, which mandated the 2005 National Climate Change Conference,²⁹ bringing together for the first time representative public, private and civil society organisations. Here, three important decisions were made, the first acknowledging that climate change was real and happening- with the science put on the map. The second was that South Africa would develop a climate change response policy through a transparent, participatory and scientifically informed policy development process, providing a focus for action. The third was that a set of mitigation scenarios be developed to inform the policy package, reinforcing the science-policy dialogue initiated at the conference and setting the table for the LTMS. Each grouping made national statements, with strong commitments to participate in ongoing policy development and to strengthen climate change related knowledge, networking and action in their respective constituencies.

Box Four: Early Political Commitment³⁰

“There is no greater asset for humanity than the long-term health and well-being of our planet. There can be no goal more crucial to our survival than the protection and nurturing of our natural

²⁹ See link: [National Climate Change Conference – 2005](#)

³⁰ Speech by Marthinus van Schalkwyk, Minister of Environment and Tourism. April. 2005. In: S.Raubenheimer. Facing Climate Change. Building South Africa’s Strategy.P.1 Idasa. February. 2011

environment. One of our most urgent challenges as the global community is to convince all nations to join and support the international effort to reduce the emissions of greenhouse gases. I have no doubt that the next few years will be crucial to move us out of an approach of stalling, of avoidance, and of excuses to one where we all accept our responsibility to deal with climate change within an inclusive multilateral international framework. Climate Change is a global scourge and requires a unified global partnership for action.”

Marthinus van Schalkwyk, Minister of Environment and Tourism, 2005

Subsequent political commitment, expressed variously, has grown exponentially through successive phases of the national response strategy. Much is due to a growing recognition of both the science and economics of climate change, the need to adapt to a ‘business unusual’ approach to conventional growth planning, and to maintain economic competitiveness in a low carbon world. However this commitment has not been expressed strongly or consistently across all key ministries or sectors. Much political dialogue has merely been diverted into national and local expressions and planning for a shift to a ‘green economy’, embodied in the New Growth Path, and in its constituent Integrated Resource and Industrial Policy Action Plans. There has also been a political determination to try and be a ‘good global citizen’, evidenced for example in the Cancun negotiations and the strong role the country has adopted in supporting and representing African organisations in global negotiations. This determination was reflected in the commissioning of the aforementioned LTMS process by the Cabinet in 2006, concluded in 2008. This participatory, research based scenario building process continued the inclusive participation of most key representative interests, while identifying South Africa’s emissions trajectory and a range of potential strategies to reduce emissions in a way appropriate to national circumstances and the countries capabilities. Currently being replicated in other countries, it became the framework for the 2010 National Climate Change Response Policy (see sub-sections below).

Box Five: Responses to the LTMS Process³¹

The Business Response	Civil Society Response
<p>Leadership in Sasol, one of the countries largest emitters have likened the LTMS to the Stern and McKinzie Reports in the U.K, as a major turning point which defined and clarified the nature of the challenge. For them it identified the specific options and their scale, for the country to pursue in an integrated way. It ensured that CEOs really started understanding the climate change challenge. Its most important element seen by them was in its awareness creation, and that the response was not in single ‘magic bullet’ technological solution. So overwhelmed were some by this realisation at the time that they even believed the problem required a ‘miraculous intervention’.</p>	<p>Leadership here admitted that most of their constituency had hitherto preferred, and represented, the search for an ideal solution, but were grappling how to get to that ideal practically. During the LTMS process leaders did not begin by engaging meaningfully with issues raised, preferring to make wider statements about growth, participation and the nuclear issues. However most came to recognise conflicting objectives at play in realising preferred energy outcomes, forcing them to consider and reconcile how to get from A to B. For them, the LTMS helped define the right starting place: how to develop, be competitive, and ensure that the economy is sustainable.</p>

The political response to climate change issues and commitments is also intimately related to a national energy crunch, and has been riddled with dilemmas and paradoxes since 2008 failures in the electricity system. The state owned Eskom power utility- responsible for both generation and systems operation- experienced major ‘capacity constraints’ given a) increasing demand estimated at 60% between 1994 and 2006, b) the historical and ongoing provision of cheap rates for large

³¹ Drawn From: S.Raubenheimer. Facing Climate Change. Building South Africa’s Strategy .Pp. 84-90. Idasa. February. 2011

consumers- mostly large multinational beneficiators of raw materials, some imported with the product re exported due to the rebate- and c) failures in implementing policy and plans to rehabilitate and upgrade the national grid.³² Industrial, commercial and domestic power rationing to prevent the system from collapsing affected the entire economy, leading to shutdowns of the largest mining operations and numerous businesses, with thousands of jobs at risk.³³ The 2008 recession also saw the loss of almost one million jobs.

Reactive energy planning going forward, premised on historical and new political and economic interests absorbed within the ‘minerals-energy’ complex of the economy led to Eskom’s ‘new build’ programme commissioning two new coal fired power stations at Kusile and Medupi (4800MW each), the world’s third and fourth largest, and partially financed by the World Bank (US\$3,75 billion).³⁴ Not reconciled with the Required by Science (RBS) formulations in the ‘peak’ component of the LTMS based planning curve, these investments increase the national GHG contribution considerably. The predominant political party’s financial arm, with strong interests in a multinational consortium to provide boiler components, was reportedly awarded the contract by Eskom after the consortium had originally been second choice bidder. The Chair of the Eskom Board was then a member of the ruling parties National Executive Committee, reportedly responsible for organising party funding. Despite an excessive public and media outcry internationally and nationally and a legal prosecution, action against these contracts and the conflict of interest did not succeed.³⁵

Incrementally these issues increased the political dimensions of awareness to climate change, energy and water related issues considerably. The national and international outcries – with government and the World Bank having to represent themselves in open forums- also served to stimulate a hitherto retarded and poorly coordinated stimulation of the renewable and energy efficiency industries.³⁶ They widened the space for a nationally owned 2009 Business Plan for the Clean Technology Fund- agreed among, and owned, by the Government of South Africa with the International Bank for Reconstruction and Development (IBRD), the African Development Bank (AfDB) and the International Finance Corporation (IFC) in support of the low-carbon objectives and priorities outlined in the LTMS.³⁷ They also strengthened the significance of the innovation that development partners have been sponsoring in these sub-sectors since about 2004.³⁸

In the 2009 Budget Speech, Trevor Manuel, then Minister of Finance, stated: ‘We have an opportunity over the decade ahead to shift the structure of our economy towards greater energy efficiency, and more responsible use of our natural resources and relevant resource based knowledge and expertise. Our economic growth over the next decade and beyond cannot be built on the same

³² Government has this year estimated a cost of ZAR 27 billion to repair and replace ageing distribution infrastructure (with some cabling in Johannesburg dating back to the 1930’s), and is considering an additional adjustment to the already heavy tariff increases covered below. See Business Day. March 23.2011 ensorl@bdfmf

³³ Eskom’s publicly reported direct emissions of carbon dioxide for the year ending March 2010, is 224.7 million tonnes, constituting around 45% of total estimated South African emissions. Six major companies contribute over 90% to total direct emissions. See: <https://www.cdproject.net/CDPResults/CDP-2010-South-Africa-JSE100-Summary.pdf>.

³⁴ It has capital up to 2013 to embark on a R385-billion (US\$51- billion) new power generation expansion programme. This plan includes reviving three older —moth-balled power stations. From: Draft Second National Communication. P.9. Dept. of Environment. August. 2010 www.environment.gov.za

³⁵ <http://electricitygovernance.wri.org/news/2010/12/egi-14th-international-anti-corruption-conference>

³⁶ See: Whos Doing What in Climate Change.FAO.September.2009 . The World bank Loan for Medupi was conditional on Eskom stimulating these subsectors with a subsidiary loan provided via the Clean Technology Fund.

³⁷ See: Draft Clean Technology Fund Investment Plan for South Africa. Dept. of Environment. October. 2009 www.environment.gov.za

³⁸ Who’s Doing What in Climate Change. FAO. September. 2009.

principles and technologies, the same energy systems and the same transport modes that we are familiar with today.³⁹ There has also been a political conflation of climate, energy, development and economy, best exemplified in a 2009 speech of then acting President Kgalema Motlanthe maintaining that “acting now on climate change presents the best possibility to overcome the challenges of the global economic crisis through investment in pro-poor, job creating and sustainable green growth.”⁴⁰ This year the ANC’s May Local Government election manifesto ‘Together We Can Build Better Communities’ has an explicit commitment to ‘municipalities playing a part in the national climate change strategy and to create work opportunities to support the domestic manufacture of components in the green economy through the further installation of solar water heaters in our low cost homes’.⁴¹

Along with three annual electricity price increases of 25% each to 2012 in Eskom’s Multiyear Pricing Determination, this dialogue deepened public consciousness of both energy and its related climate change issues – a heavy component concerning water’s availability, allocation, quality and increasing costs. It strongly incentivised the intensification by all spectrums-organised business, civil society interests, faith communities and the countries strong trade union movement and organised local government- to promote a structural shift to a low carbon economy and the official adoption of a much stronger renewable component – and a carbon constraint - in the planning of countries energy mix embodied in the Integrated Resource Plan.

Finalisation of the National Climate Change Response Green Paper was preceded by the Dept. of Environment drawing together over 900 leaders representing these interests in the 2009 Green Economy Summit titled, ‘Towards an Effective South African Climate Change Response Policy’,⁴² formally continuing the inclusive policy making process begun in 2005. It debated the desirable contours of the future national policy response, formally agreeing on about 16 key areas for immediate attention and agreeing to disagree on others, particularly energy planning and its mix. Its outcomes were a joint position paper going forward identifying and substantively detailing key actions and the responsible actors and departments, substantially refining the policy direction.

Beyond these representative interests within established forums, increasingly intensive media coverage (particularly leading up to Copenhagen) promoted a more widespread recognition of interrelated issues in climate change among the general citizenry. Coupled with the growth of dedicated civil society networks and the strong presence in policy making processes of global NGO’s such as the World Wildlife Fund (WWF) and Oxfam, awareness continues to increase. This is also promoted by the ongoing establishment of new local partnerships developing an innovative suite of climate change adaptation projects in both high risk peri-urban and rural areas (hot spots).⁴³ Awareness is more predominant in middle income groups (but including trade union leadership who represent a protected labour elite) and is more urban than rural (although rural-urban linkages

³⁹ From: S. Raubenheimer. Facing Climate Change. Building South Africa’s Strategy.P.82. Idasa. February. 2011

⁴⁰ In: The 2009 Green Economy Summit. See:

http://www.ccs Summit2009.co.za/Downloads/Media/2009.03.06_Climate_Change_Summit_2009_Statement.pdf

⁴¹ From: African National Congress. 2011 Local Government Manifesto. Together We Can Build Better Communities. A Better Life for All. P.12. 2011

⁴² The 2009 Green Economy Summit. See:

http://www.ccs Summit2009.co.za/Downloads/Media/2009.03.06_Climate_Change_Summit_2009_Statement.pdf

⁴³ See for example a corporate funded Eco-schools programme: <http://www.engineeringnews.co.za/article/greening-education-2011-04-15>

are strong and kin networks can disseminate awareness).⁴⁴ A wider range of government initiatives for increasing awareness are being introduced, in education particularly, but with uneven distribution and limited targeting as yet. National programmes such as Working for Water, Working for Energy and the Expanded Public Works Programme, active in rural areas and around small towns are increasingly being retooled to maximize climate resilience and various new modes of energy efficiency (including cogeneration).

The publicity currently being directed to preparations for COP17 is increasing awareness and incentivizing politicians, parliament, government, business, labour, and civil society to build their respective cases and profiles, and to showcase their capabilities to give effect to a national shift towards a green economy and associated mitigation and adaptation priorities and possibilities.⁴⁵ South African civil society leadership—with global alliances— are working hard for an unconditional, equitable, just and binding global agreement. Some actors liken the potentials in the event to those of the recent FIFA World Cup held in this country. Government communications departments are developing national communications and climate change awareness strategies and programmes.

Box Six: The Roles of Civil Society⁴⁶

At end 2010, civil society representatives were partly supportive but still concerned about the implications of the adoption of the LTMS as the basis for national policy development. Much of this could be a function of the way in which it has been adopted in national policy making processes. Some maintain it was unrepresentative, and amounted to a short-term licence for the growth of South African emissions. There is ongoing civil society criticism of the modelling for the nuclear energy contribution, evidenced again in March 2011 over the minor percentage reduction of its contribution to the national energy mix in the Integrated Resource Plan (from 25 to 23 percent). The energy and climate change environment and debate is now deeper and much more intense, with civil society engagement increasing commensurately. It is reported to be leading on the thinking around low carbon planning and in this regard, on a par with the best internationally. Their challenge has been described as the need to ‘match rhetoric with evidence, realism and practicality. Once it can do so comprehensively, it will truly lead the agenda.’

Overall, the incentives for government to lead the agenda include, a) the honouring of its international obligations as a high emitter with a significant mitigation and adaptation challenge, b) maintaining its competitiveness in a low carbon global economy by ensuring the carbon intensity of the economy is reduced, c) using this ‘green economy drive’ as a way to facilitate a transition to a more knowledge-intensive economy and thus increase employment, d) use it to increase technology transfer and attract climate finance to the country, e) minimise the threat of climate change to growth and development and livelihoods while strengthening climate resilience, and f) helping Africa in attaining a robust international multilateral climate change agreement.

⁴⁴ The One Young World 2011 Survey in South Africa reveals that 72% of 494 young leaders in their twenties- drawn from all backgrounds- are extremely concerned about climate change, that the worlds leaders are moving too slowly to combat it and that South Africa’s economic development must not be at the expense of the environment. See www.oneyoungworld.com

⁴⁵ See, for example, ‘South Africa should use COP17, with its 25 000 to 30 000 visitors to Durban, to establish a joint and collective effort in showcasing what is being done in South Africa and Africa around climate change, what the concerns are and what collaboration with counterparts could take place.’ Joanne Yawitch. Former DDG. Dept of Environment. Mach 17.2011 <http://www.engineeringnews.co.za/article/business-should-aim-for-deeper-engagement-in-climate-talks-2011-03-17>

⁴⁶ Drawn from: S.Raubenheimer. Facing Climate Change. Building South Africa’s Strategy.P.85. Idasa. February. 2011, and . Business Day. March.18.2011. Renewable energy set to play a big role in SA. njobenis@bdfm.co.za

Across these processes, the multilateral agencies and bilateral development partners have played a strong role. The introductory section on climate change finance above indicates the extent of this increasing contribution. Much has been in support of mitigation, but not necessarily promoting strong domestic ownership. Much support has been supply driven – acting as ‘seed’- given delays within government in both identifying and investing in strong priority areas for support while mobilising its national strategy and response. A fairly strong measure has not balanced mitigation and adaptation demands, nor been well targeted sectorally, spatially and in terms of ‘need’, and often done in terms of the respective countries in-house preferences and ‘niche’ expertise.

However, there have been significant areas where development partners have done much to incrementally support and strengthen the response in certain ministries (particularly in environment and energy), and in so doing leverage some upstream policy change, but individually. As elsewhere, development partners can be and often are seen as a threat in that they are perceived as trying to influence or drive their own agenda, or that of the developed world, with undue conditionalities or ‘tied aid’ and the use of own country companies and consultants.⁴⁷ Many donors are trying to manage this and minimize the risk, with a growing emphasis on changing the traditional ‘donor-recipient’ relationship to one of partnerships among equals, with, for example DFID funding and crafting a Regional Climate Change Programme managed and implemented by a South African based (and owned) development organization and consortium.

The government’s well developed and evolving policy framework and objectives in its national response has been partially described in foregoing sections. The responsible lead agency is the Dept. of Environment’s (DEA) Sub-Directorate for Global Climate Change (established in 2009), with added responsibility for ensuring that South Africa’s obligations in terms of the UNFCCC and the IPCC are fulfilled. It is assisted by other Directorates, particularly the Branch: International Cooperation in coordinating climate change finance (see sub section below). As noted, the Green Paper on the national response was released in October 2010, now ending its public comment cycle.

The DEA maintain that they have a suitable structure and staff, with available officials having more than sufficient technical knowledge, expertise and skills to identify climate change needs in-country, and effectively transform them into strategic objectives and action plans and allocate financing as per the MTEF allocation for the department. However they believe they could benefit from further capacity and support. Capacity at national level is far greater than that at provincial and local levels. The organised government response has an elaborate cross-sectoral institutional architecture. An Inter-Ministerial Committee on Climate Change oversees the Intergovernmental Climate Change Committee (IGCCC), which consists of the relevant government departments, with terms of reference to advise the Directorate on the formulation of the National Climate Change Strategy and Policy. The National Committee on Climate Change (NCCC) is a multi-stakeholder forum and advises the Minister. Within the DEA, the Chief Directorates for Air Quality Management and Climate Change set up a Government Committee on Climate Change (GCCC) to advise on matters relating to national responsibilities, composed of relevant government departments including Agriculture, Health, Housing, Local and Provincial Government, Minerals, Energy, Trade and Industry and Transport. The GCCC participates equally in the NCCC to strengthen the

⁴⁷ See: The South Africa Country Study. Thematic Study: The Developmental Effectiveness of Untied Aid: Evaluation of the Implementation of the Paris Declaration and of the 2001 DAC Recommendation of Untying Aid to the LDC’s. Development Network Africa. November. 2009

Government’s position. It also sits to discuss proposed Global Climate Change projects, including proposals under the Clean Development Mechanism (CDM) and other flexible mechanisms.

Despite this elaborate (and incompletely covered) architecture- or perhaps because of it- many interviews indicate that the policy and operational response is not well coordinated, without a suitable focus cross-sectorally and with policy objectives not always coherent and comprehensive, nor relating sufficiently directly to South Africa’s vulnerability to climate change. Coherence is said to be good in the national view taken to international negotiations regarding long term cooperative action, mitigation targets and global climate finance. The NCCC has been reported to be struggling to perform optimally.⁴⁸ Staff changes and personnel moving out of the sector can lead to loss of policy coordination and coherence.

The Green Paper has been described as a significant achievement, especially concerning frameworks for participation, the science–policy interface in the development of the ‘peak, plateau and decline’ formulations, and well informed (with sector based information drawn directly from the Draft Second National Communication). Its commitment to a– narrowly substantiated- balanced approach to both mitigation and adaptation has been lauded. It has also been criticised for a lack of comprehensiveness and insufficient ‘hard’ policy commitments, indicating ‘weak political will’, particularly when placed against the interests in the ministries of Minerals, and of Energy. The necessary convergence between climate change, energy and green-economy-led growth is visible but is said to require more work. Overall, the Dept. of Environment is said by many interviewees to be seen by other departments as a relatively ‘junior or sister ministry’ with perceptions of the climate change imperative relegated to ‘the environment’, yet it has been burdened with an incredibly significant cross-sectoral mandate.⁴⁹

Box Seven: Comments on the Green Paper

A ‘lack of comprehensiveness’, with insufficient ‘hard’ policy commitments was held to indicate weak political will in a relatively junior or sister department, particularly when placed against the ministries of Minerals and of Energy.	The convergence between climate change, energy and green economy led growth was held to be needing more work, connecting the strands in the Integrated Resources Plan, the Green Economy initiative, the carbon tax proposals and the industrial policy action plans.
The Green Paper was held to not sufficiently define policy options for action, their feasibility and timelines for implementation of the options for both mitigation and adaptation.	Its integration with other policymaking was held to be weak, with some climate limits been established in the Integrated Resources Plan (IRP2).
It was held that DEA should not be leading climate change, since it is downgraded to an ‘environmental issue’ by others and potentially better led by the National Planning Commission or the Dept. of Trade and Industry, for example.	One respondent maintains that in its attempt to place vaguely stated carbon constraint in energy planning, ‘identification and selection of technologies should be based on objective, thorough understandings of full lifecycle costs.’

The outstanding commitment is the National Climate Change Response White Paper- due in June 2011 - which will translate decisions into fiscal, regulatory and legislative packages. It will reinforce the Green Paper’s mandate that: ‘in order to ensure that climate change considerations and the

⁴⁸ Interviews with R. Worthington. WWW-SA Climate Change Programme.

⁴⁹ Interviews and comment from, among others: WWF. One World. British High Commission. Idasa. March. 2011

climate change responses outlined in this policy are fully mainstreamed into the work of government, all three spheres of government, all government departments and all state owned enterprises must a) by 2012, conduct a review of all policies, strategies, legislation, regulations and plans falling within its jurisdiction or sphere of influence to ensure full alignment with the National Climate Change Response Policy, and b) by 2014, ensure that all policies, strategies, legislation, regulations and plans falling within its jurisdiction or sphere of influence are fully aligned with the National Climate Change Response Policy'.⁵⁰

4. Climate Change Finance

In-country, the organisation of climate change financing within and across government is now receiving increasing attention. The matter is complicated by the allocation of the response to the DEA –International Relations, while the National Treasury have been tasked to develop a coherent approach to domestic and international funding, including the use of economic instruments. DEA lead on international negotiations and there is a climate finance expert on the negotiation team, yet the Treasury and Dept. of Finance as relevant ministries are reported to ‘not own’ this coordination. Further complications can arise since the Department of International Relations and Cooperation (DIRCO) have been tasked to manage South Africa’s bi-lateral and multi-lateral engagements in climate change. They will lead COP 17, but interviews indicate there is a limited policy framework for local organisation, and while part of the S.A. international climate change negotiations team, does not have the capacity the DEA has on climate change and related policy. Some gaps in the considerations on climate finance in the Green Paper are highlighted by expert comment.

Box Eight : Limits to Climate Change Finance as addressed in the Green Paper⁵¹

There is not sufficient clarity on the extent to which current sector-specific activities by government – through the normal budget process – are adequate or whether enhanced capability and investment are required to reduce the impacts of climate change more effectively. There is also a lack of ‘crystallisation’ of the key policy focus areas. The paper tends to give a ‘laundry list’ of options, which can tend to confuse stakeholders about ‘which eggs are going to be put in which baskets, when and by whom.’ Moreover, it is unclear about how the various options are to be funded. The paper points to the creation of a climate change fund, but leaves open the important issue of its institutional location, and therefore the efficient coordination and allocation of funds .it is also unclear about its sources – from existing budgets, overseas and domestic sources. The paper also does not define the proportional dependence on international finance and the relative use and application of domestic sources, and the contributions of each of these into specific sub-sectors, nor any envisaged timelines in mobilizing such resources.

The Green Paper states that ‘government will consider establishing a National Climate Change Trust Fund to mobilize resources from international and national sources for investment in both climate change mitigation and adaptation’, and a feasibility will be undertaken and its conclusions incorporated in the forthcoming national Climate Change Response Strategy White Paper’.

⁵⁰ See: www.environment.gov.za Green Paper. P.3.1 October.2010

⁵¹ Drawn from; S. Fakir. World Wildlife Fund. In: Engineering News. February 11. 2011 and relevant sections in the Green Paper

Work in pursuit of this policy commitment and model is currently in a state of flux, with new initiatives and considerations burgeoning. This is held to be a good sign that government is grappling with the complexities in the issues.⁵² At present, four work streams of ongoing research work have been commissioned by different institutions, but not yet assimilated within a view of any final policy coherence and integration. All are purportedly in support of the White Paper process, but yet to be publicly available due to their current draft form. One exception is the South African Renewable Initiative (SARi) within the Dept. of Public Enterprises, concentrating on designing and establishing a viable financing mechanism to catalyse a critical mass of renewable investments aimed at blending domestic commitments with (some international) concessionary resources and risk guarantee instruments, to be channelled through intergovernmental cooperation.

Box Nine: The South African Renewables Initiative (SARi)⁵³

SARi works from the developing economy view that the global issue of carbon mitigation needs to be embedded in national initiatives relating to mitigation and adaptation which are in support of an economic development strategy.

They believe this requires the identification and creation of a critical mass of demand for a technology and associated equipment to enable investment in plant, skills and technology in the related industrial supply chain. Their challenge is that the technologies have a cost and risk premium in relation to the more established carbon producing technologies, and how to fund these premiums. It is trying to channel the international contribution in a programmatic way (ie to achieve critical mass) towards paying this premium. SARi is arguing that such contributions will result in increased jobs, growth and taxes, and part of future tax revenue should supplement international finance. Their view is that donors interests should be in moving from project based funding mechanisms to something more programmatic and strategic, and that the key national challenge is to capacitate appropriately flexible and capacitated institution to design the deals required to embed technologies at a critical mass. SARi is seeking advice and guidance, gaining insights from international experiences and drawing on this and local expertise to inform the design of a SARi fund. At the same time, it is contributing to development of confidence and trust between domestic and international players.

It is calling on all players to take it from a promising concept to a working mechanism, attracting significant funding flows, delivering tangible outcomes, and is aiming that the process is well advanced in time for COP 17. All role players are currently confirming the potentials for its basic proposal to draw on a blend of domestic and international funding for scaled development. Critical design challenges described by SARi include determining the counterparty for loans and establishing how finance, and risk burden, can be blended without increasing transaction costs of multiple due diligence processes. They maintain that to achieve scale and provide assurances of long-term commitment, the DFIs need to have a higher level programmatic funding mandate. Advancing SARi towards implementation will require strong commitment from both South African and international players. The key to unlocking international finance is in government-to-government requests and a public implementation structure. It will need its own institutional mechanisms for core functions of attracting, negotiating and mobilising funding, ensuring coordination between institutions and policy domains and securing accountability from the different players involved.

⁵² From: Discussions and communications with the DBSA CC Finance Task Team.

⁵³ Drawn from a) Meetings and notes with Edwin Ritchkin, Special Project Advisor to the Minister of Public Enterprises, b) South African Renewables Initiative Workshop Summary Briefing, c) Unlocking South Africa's Green Growth Potential –the South African Renewable Initiative. Update Briefing December. 2010. Supported by DfID and the European Climate Foundation.

Within the private sector, extensive work has been done on the economic risks and opportunities in climate change.⁵⁴ It has responded alertly beyond participation in policy development, often leading the way in delivering commercial solutions to interrelated climate change requirements. Presently 74% of the top 100 companies on the Johannesburg Stock Exchange voluntarily disclose emissions via the South African leg of the global Carbon Disclosure Project, which strongly promotes investment in climate change mitigation and adaptation.⁵⁵ It is run by the National Business Initiative (NBI), which has facilitated the formation of climate working groups and represents organized business, but through Business Unity South Africa (BUSA). It is the official interlocutor with government's NCCC for all stakeholder groups.

Comment suggests that business could be better organized -lobbying organizations could benefit from more plurality (with too much concentration of power and messaging from certain corners of organisations) and government could foster more dedicated, informal formats for private sector inputs in climate policy including finance.⁵⁶

Issues in innovation and the coordinated application of private sector finance are thus getting attention, but are dispersed (with similar issues in staff turnover and loss of institutional memory and capacity as reported for the public sector). Some current research is assessing the market needs of the South African financial system to match current and future funding demands. Within a multitude of identified opportunities for finance and investment from diverse sources,⁵⁷ the predominant opportunities lie in addressing the mitigation response in the renewables and energy efficiency sub- sectors (including water, bio-fuels and co-generation), particularly within a regional scale. These sub-sectors have strong industry associations.

Beyond the organisation and operation of the Clean Technology Fund and the Clean Development Mechanisms' incentives, mechanisms put in place by government to date include the aforementioned allocation of ZAR 25 billion to the Industrial Development Corporation for on-lending into a widely defined pipeline of 'green economy' investments. Others are the Renewable Energy Feed-In Tariff (REFTT) process established via the National Energy Regulator, where opportunities exist for accessing financial support – local and international- for the subsidy period required before cost equivalence is achieved with conventional technologies, some tax breaks in place for renewable energy, subsidies for demand side management of power, and tax breaks for attaining building efficiency standards and for bio-fuels production.

The Renewable Energy Market Transformation (REMT) Project, a joint initiative with the Dept. of Energy and the World Bank, makes available matching grants for renewable energy power generation projects and for solar water heating projects, targeted to assist project developers with the pre investment phase of projects before being brought to bankable stage. Other international initiatives in place or under consideration include a French loan support mechanism of E120 million (ZAR 1.2 billion) for an Environmental Credit Line to the ABSA and Nedbank private banks, via the Industrial Development Corporation, a German loan of E34 million for an Open Programme

⁵⁴ See for example: Climate Change: Risks and Opportunities for the South African Economy. An Assessment of Mitigation Response Measures: Camco, Trade and Industrial Policy Strategies, and British High Commission. May 2010

⁵⁵ See: <https://www.cdproject.net/CDPResults/CDP-2010-South-Africa-JSE100-Summary.pdf>.

⁵⁶ Conversations and communications with UNEP-Standard Bank. April 2011

⁵⁷ Including: Listed companies, asset management companies, the reinsurance industry, private equity and venture capital, commercial and investment banks, microfinance institutions, etc..

for Energy Efficiency – via an institution still to be decided, and Phase 2 of an EU led ZAR 1 billion Private Sector Risk Capital Facility (the Evolution One Fund). This is a private equity sustainability fund advancing innovation and deployment of clean energy in South Africa and SADC. The United Nations Environment Programme (UNEP) have seconded an energy economist to Standard Bank – also working in sub Saharan Africa, and principally with the CDM.

There is strong opinion in South Africa that domestic financial innovations in the private sector should be developed to ensure that it is a primary investor in the country and in regional response measures. Current inhibitors to the engagement of private climate finance- considered broadly here- are both policy and regulatory uncertainty and operational blockages. Two recent examples include firstly, a sudden downward revision in the REFIT tariffs.⁵⁸ Wind association representatives maintain that no new wind energy investments have been made in the two years since initial feed in tariffs of ZAR 1,25/kWh were agreed, describing this subsequent adjustment as a slap in the face for the industry.

Secondly and paradoxically, the Cabinet recently increased the planned contribution of renewable energy into the national power mix for the next twenty years from 30% to 42%, moving from 10,000 MW to 17,800 MW to 2030. This new mix also comprises 8,400 MW of photovoltaic solar, 1000 MW from concentrated solar power and 8,400 MW from wind, while simultaneously downgrading nuclear power from an initial 25% in the Integrated Resource Plan to 23 percent. The ‘new coal’ derived energy contribution will drop 1% to 15%, imported hydropower from 9% to 6% and open cycle gas turbines from 15% to 9%, while the imported gas share will increase by 1% to 6 percent. This revision has been contested publicly.

Cabinet also approved an Independent System and Market Operator Bill (run in the interim as a buying and scheduling office ring fenced within the state owned Eskom), which paves the way for a more ‘unfettered’ introduction of independent power producers. This belated innovation suggests considerable progression in a country generally reluctant to relinquish its hold on an inherited ‘state power’.

Box Ten. Policy and Regulatory Uncertainty and Private Finance⁵⁹

A lack of clarity on how the government wishes to make use of the current and future instruments to realise its long-term mitigation strategy tends to limit industry and financial sector responses. More positive long-term policy certainty and better coordinated efforts to access international climate financing would together promote this. Private sector banks such as Nedbank have maintained that regulatory uncertainty in the energy sector has made it more difficult to progress with renewable energy projects. This bank is heavily involved with a number of wind farm projects in the Eastern Cape province, but none of these are as yet near closure. They want certainty in place with the renewable energy feed-in-tariff (REFIT) before they can make any investment decisions

⁵⁸ For wind energy, dropping from ZAR 1,25/kWh to ZAR 0,95/kWh by 2013, for small hydro from ZAR 0,94/kWh to ZAR 0,68/kWh, photovoltaic power from ZAR 3,94/kWh to ZAR 2,33/kWh and for concentrated solar power (CSP) from ZAR 2,09 kWh to ZAR1,96/kWh, while the tariff for photovoltaic power will drop from ZAR3,94/kWh to ZAR 2,33/kWh. Business Day. March.18.2011. Renewable energy set to play a big role in SA. njobenis@bdfm.co.za Nersa maintain that this is due to reductions in the inflation rate from 8% to 6%, and in the cost of debt from 14,9% to 9,93% since the initial assumptions were made. Business Day. March.23.2011. njobenis@bdfm.co.za. Other interviewees maintain that this measure can inhibit rent seeking by developers, while reducing the cost to the fiscus and taxpayer.

⁵⁹ From: <http://www.engineeringnews.co.za/article/regulatory-certainty-needed-to-spur-renewable-energy-investment-2010-07-14> and from comments received from UNEP.

regarding concentrated solar power plants, given the high capital costs for such projects. They maintain that ‘capital is scared. Certainty on the projects must be ensured.’

Leaving the private sector and the regulatory environment, wider issues concerning the integration of climate change into national development plans is progressing variously. The ‘message from the centre’ is in the two policy directives in the Green Paper and forthcoming White Paper (covered above), setting a 2012 deadline for all spheres of government, departments and state owned enterprises to review all policies and plans in terms of their compliance and alignment to the national policy, and a 2014 deadline for implementing full alignment.⁶⁰

Several departments, state owned enterprises and provinces are beginning to address their needs and obligations at various levels, including, but not inclusive of, assessments, strategy, policies, planning and implementation respectively. Some are said to be addressing energy issues as ‘a proxy’, not under the banner of- or integrated with- the climate change response. Many are said to be ‘not well advanced’. Responsive departments include the Dept. of Science and Technology, Dept. for Economic Development (its National Growth Path and Green Growth strategies), the Dept. for Trade and Industry (in its Green and Energy Efficiency strategies), the Dept. of Energy (with some broadly stated climate limits in its Industrial Policy and Action Plan –IPAP2) and in Agriculture.⁶¹ The Dept. of Water Affairs is said to be lagging.

The Western Cape province launched their Climate Change Strategy and Action Plan in 2008. The city of eThekweni (Durban) has a comprehensive strategy,⁶² and Cape Town produced an Energy and Climate Change Strategy in 2005. The Gauteng province is initiating theirs, as is Transnet (addressing ports and transport issues).⁶³ Other stakeholders are reported to be making headway, for example the Development Bank of South Africa (DBSA), SASOL,⁶⁴ Eskom, and the aforementioned National Business Initiative. There are a few provincial green industry strategies emerging. Local Governments for Sustainability organizes the local government sector, with Africa headquarters in Cape Town.⁶⁵ Some municipalities have begun to make the critical links between climate risks, climate change adaptation and planning. Efforts to better prepare coastal cities for climate change are being undertaken, assisted by advances in research on storm surges and other developments in marine science. A number of climate change adaptation plans and strategies are being developed or in early phases of implementation. However, most current climate change related planning activities are largely focused on mitigation-type actions that do not expressly consider potential adaptation benefits.⁶⁶

In terms of capacity and structure, only a few agencies have established institutional homes in the organogramme to accommodate dedicated climate change activities. Most are subsumed within sub-directorates in related disciplines or functions. Durban and Cape Town are notable exceptions.

⁶⁰ See: www.environment.gov.za Green Paper. P.3.1 October.2010

⁶¹ See for example: [Mapping South African Farming Sector Vulnerability to Climate Change and Variability](#)

⁶³ See: Municipal Climate Protection Programme(MCPP). http://www.future-megacities.org/seiten/tagung/dokumente/keynote2/keynote_2_sutcliffe.pdf

⁶³ The state owned enterprise responsible for roads and rail.

⁶⁴ The aforementioned conglomerate responsible for Coal to Fuel (CTF) production.

⁶⁵ See: <http://www.iclei.org/>.

⁶⁶ Drawn from various sources, including the Second National Communication.

Despite these gains, interviews and commentary suggest the following omissions and limits in planning across some spheres of government.

Box Eleven: Reported Shortcomings in Planning and Programmes

The achievements to date have been described as minimal when viewed against the magnitude of the challenge, nor well integrated. This is said to have resulted in little commitment and spend by the national Treasury.	The considerable work above on developing strategies is said to be insufficiently integrated into government systems, not leading to strong Ministerial mandates which align development objectives to low-carbon objectives.
There is a view that the Industrial Development Plans only mention ‘green industries’ and treat it like a potential jobs lottery rather than a serious climate change related policy issue.	While climate change is addressed in energy planning-this is held to be ‘in theory only’ with outcomes suggest electricity’s share of GHGs is increasing as a result of the IRP2.
One respondent has reviewed the national Food Security, Agriculture, Land Reform and Social and Economic Development Plans during 2010, and indicates there is no mainstreaming of climate change into these plans.	Multilateral experience with CDM maintain that government and municipal driven projects have in cases proved to be disasters/ massively over budget, needing better mechanisms for joint public- private management of climate finance.

Climate change actions are ideally identified in national and sectoral budgets under Vote 30, Programme Four. Most actions are not programmatic to date, not going beyond projects or specific funding priorities, with climate change not yet mainstreamed into public sector budgets, as noted elsewhere. The key Dept. of Environment reports that ‘the Climate Change Branch was only established in the financial year 2009-2010 and that while there may have been voted funds that were inadvertently supporting climate change efforts, as the funds are directed to units that are responsible for climate change actions, thus far, there has not been a direct budget allocation for climate change actions.’⁶⁷ In the Dept. of Energy, votes deal with energy issues, but not necessarily under the banner of climate change.

The 2011 budget speech announced ZAR 800 million over the next three years for ‘green economy’ initiatives, ZAR 2.2 billion for environmental employment programmes, ZAR 66.5 million to establish a South African Energy Development Institute and the ZAR R25 billion to the Industrial Development Corporation (IDC) to on lend to low carbon business developers at concessionary rates. It also announced carbon emissions taxes on new vehicles over certain designated capacities, and there is an existing 3c/kwh carbon tax on non renewable electricity, with strong debates regarding whether environmental taxes intended to change behaviour should not be used to raise general revenues, but rather dedicated to support climate resilience, mitigation and adaptation (‘hypothecation’). National Treasury and the office of the Attorney General cooperate to ensure overall reporting. Oversight belongs to parliamentary portfolio committees, especially the generally respected Standing Committee on Public Accounts.⁶⁸

⁶⁷ Interviews. N.Vithi. Director. International Governance and Relations. March. 2011

⁶⁸ Drawn from numerous interviews undertaken for this study.

The links between planning and financing are in the main poorly developed, with few national departments having budgets for climate change (with some funding only projects or studies). Most are awaiting further attention re mainstreaming planning and financing from the policy development processes and White Paper. With the exception of KwaZulu Natal and the Western Cape provinces, where climate change is clearly recognized as a direct threat to provincial economic growth, there is limited budget available. The Western Cape province has a comprehensive, stakeholder-led, cabinet approved climate change response, energy strategy and action plan, including planning with the provincial treasury and cross and multi-sectoral planning. Stakeholders were involved from government, provincial level line ministries, local authorities, the Cosatu trade union federation, civil society, communities and the private sector.

Most provinces have ‘unfunded mandates’ at provincial and municipal levels, and have to request funding which is usually unavailable, since climate change is not seen as a relative priority. The Gauteng Department of Agriculture and Rural Development, whose mandate it is ‘just do the climate change planning’ is a case in point. In many instances development partners have initiated and supported planning and programmes, but this financing is not necessarily recurrent. Normally, budgets are devolved to municipalities through an Equitable Share arrangement from the national purse, and they can spend their (limited) funds as they like, as long as they comply with national legislation. Metros and municipalities can also apply to the multilaterals.

The strongest inhibitor to the coordination of climate change financing has been the spread of responsibilities across the Treasury, DEA and DIRCO for different aspects of the national response, as well as the involvement of many other departments within a complex intergovernmental coordination system. This complexity of interests leads to delays in attaining clear policy direction in terms of its coordination, assimilation and application. Across the respective spheres of government co-ordination between municipalities (including metropolitan municipal authorities), national government, and the provincial sphere of government has also been reported as poor.⁶⁹ Expert comment has highlighted the lacunae existing regarding the ‘how’ of funding the respective strands in the repose overall, with the critical issue being ‘not so much a fund but the efficient coordination and allocation of the money, because it will come from existing budgets, overseas sources and domestic sources’.

As noted elsewhere and in Box Nine (SARi), government is grappling with these challenges as it gathers strands of research in support of the optimum arrangements and allocations for the ‘overall mainstreaming’ required by 2014. Research is currently being debated inter-governmentally in the White Paper drafting process with core departments with collective interests in the ‘green economy’ said to regularly contribute to a growing discourse financing, including the Presidency, the Economic Development Dept., the Dept. of Trade and Industry, Dept. of Environment, Dept. of Science and Technology, and the Treasury. The current view is that the White Paper will establish clear implementation and action plans –the framework for mainstreaming climate resilience into the national budget and throughout the economy, supported by an agile and resilient financial system. Significant further research will be commissioned to continue towards an effective implementation and action plan, and to refine the diagnosis and funding estimates.⁷⁰ Despite this attention, ongoing

⁶⁹ Lebogang Mokwena: Municipal Responses to Climate Change in South Africa: The case of eThekweni, the City of Cape Town, and the City of Johannesburg. Centre for Policy Studies. 2010

⁷⁰ Drawn from various discussions with the Climate Change Finance Task Team constituted in the Development Bank of South Africa.

or planned, one multilateral respondent reports that a stronger level of national capacity would help, particularly in a more cooperative engagement between the Depts. of Energy and Environment to ensure that climate change finance is mainstreamed and aligned with national priorities and strategies, and also to avoid overlaps from different bilateral sources.⁷¹

Throughout the passages in the formulation of these various national, provincial and metropolitan strategies, policies and planning (covered above and in earlier sections), the respective contributions and collaborations of bilateral development partners, Cabinet, certain ministries, and multiparty stakeholders from all the key constituencies of business, labour, civil society, faith based movements, and communities have been significant. Strong consultancies also play a role across these various levels of engagement, as do some of the multilaterals. While many issues are strongly contested by definition, the remarkable degrees of collaboration and partial consensus achieved to date are a singular outstanding characteristic of the South African response to date.

International engagement in establishing and embedding policy priorities and institutional requirements has been fairly well developed, assisted by South Africa's recognition of its international commitments. The country has adopted a process of incorporating outcomes of decisions into national policies and legislation for the purposes of implementation. As a Non Annex One signatory to the Kyoto Protocol it is not bound to establish mandatory emissions reduction targets but has done so. It honours its contribution to African forums, and is a strong leader in international negotiations. It has submitted its draft Second National Communication.

The multilateral Clean Technology Fund (CTF), in a partnership with the Dept. of Environment - and the Clean Development Mechanism (CDM), with its Designated National Authority (DNA) in the Dept. of Energy- have been well bedded down, if not slowly, and well accepted.⁷² The latter moved from 2 to 17 registered projects since 2006 (with 125 submitted – 96 at project information note stage, 29 at project design document stage), and anticipates an emissions reduction in the order of 2.96 million tons of carbon dioxide equivalent. It is ranked first in a CDM Investment Climate Index for Africa (86.1 points), followed by Morocco (79.8), Tunisia (77.2), Egypt (74.6) and Senegal (67.9), largely due to its high emissions from coal fired power generation, overall institutional environment and favourable investment climate and financial infrastructure.⁷³

The country is currently cautious about the UNFCCC Adaptation Fund, which requires a National Implementing Entity to be institutionalized in-country to ensure governments manage their own climate finance, and is not considering this option at present. Applications for climate change finance from the GEF are reportedly not well coordinated, although line departments at provincial, national and sometimes local authority level are submitting finance proposals relating to climate change.⁷⁴ Work is underway identifying NAMAs. Comment indicates that the feed- in REFIT tariff and carbon tax could qualify as NAMAs but are never framed as such. While the transfer of technology is an international priority and a Climate Change Technology Needs Assessment has been undertaken, it is reported that this area is undersubscribed, with the private sector's National Business Initiative calling for it to be translated into well defined implementation plans by 2012.

⁷¹ From: Discussions and communications with UNEP/Standard Bank : RISOE and CDM funds.

⁷² One province has set up its provincial desk, with others to follow. Projects involve renewable energy, cogeneration, fuel switching, waste gas reduction, energy efficiency. Most potential annual emission reductions are fuel switches at 73% and cogeneration at 10%.

⁷³ Source: DEG - Deutsche Investitions- und Entwicklungsgesellschaft mbH . *For calculation method, see www.kyoto-coaching-cologne.net*

⁷⁴ Interviews. One World

5. Alignment

Previous sections and Box Twelve below have summarised the significant and growing strands of external climate change finance from about 2004 to early 2011. Its provision and alignment in response to climate change needs identified by government is, in principle, well channelled. The International Development Cooperation Directorate (IDC) within the national Treasury coordinates all aid flows into the country, including to central, provincial or local government. As provincial and local governments are autonomous, in the context of a decentralised model of decision-making and since there is not a statutory body that centralises aid allocation decisions, all spheres and departments are in principle free to approach donors for funding. However the national ODA guidelines stress the importance of coordination and the negative impact of a ‘free for all’. It therefore established a system where all requests for funding need to flow through the IDC and all donors need to approach work in South Africa through the IDC. Provinces and local authorities may not sign international agreements (only national Ministers are authorised to sign). The President signs all aid agreements. Aid coordinators operate at national and provincial level in some departments, often having other responsibilities besides ODA. Some provinces have central ODA coordinators (sometimes units) that direct and monitor aid flows to the province. It does not ‘replace’ the departments work in implementing ODA programmes, nor does it go into their day to day operations.

Within the operation of this structure, external multilateral and bilateral climate change finance is agreed to by government. This having been said, it does not mean that all such finance has been provided for needs identified by government ministries. As noted elsewhere, much has been delivered within a supply side approach and often based on the respective interests and capabilities within the bilateral partners. Alignment can occur when it suits partners and a fair amount of cherry picking occurs. Most interviewees maintain that insufficient coherence from government in the definition of its plans has to date inhibited development partners aligning suitably. Support has been ‘piecemeal but incremental and not joined up.’⁷⁵ However within the key Dept. of Environment there has been close collaboration with the GEF and the Germans in both priority setting, and in ensuring that funding is directed to the financing of government climate change objectives – ‘in this sense it can be said that external financing was considerably responsive- with a concerted effort of both partners to align objectives to those of the South African government.’⁷⁶

The same respondent describes how there have been many instances where members of the development community approach municipalities, local authorities and other agencies directly, making it difficult for national departments to account for programmes, apply customary oversight, and align them with national objectives. There is a ‘scramble’ to occupy the highly competitive ‘carbon space’ in South Africa, with views that individual members from the development partner community are wanting to further highlight their presence within this space, particularly ahead of COP 17.

Apart from the aforementioned organization and operation of the CTF and CDM (and to a lesser extent in implementation of the GEF), where country ownership and alignment are strong -the

⁷⁵ Interviews with One World and various contributors.

⁷⁶ Interviews. N.Vithi. Director. International Governance and Relations. March. 2011

reality therefore – evidenced in other sections – is a creative but relatively uncoordinated and planned national ‘nexus’ of promotion, initiation, design, implementation and measurement. Ministries may listen to partners, co-define needs against national objectives and agree to take ownership and provincial oversight, but capacity constraints can imply they are often not in a position to comprehensively review funding flows and their outcomes. The Dept. of Environment did not have its annual donor coordination forum last year. The Dept. of Energy’s International Relations Division- responsible for coordinating ODA- is increasing staff from two to nineteen in 2011.

A key determinant of ownership and alignment is the capacity of the aid receiving department. There are few ODA coordinators at provincial level, who can find it difficult to articulate national, provincial and local priorities, weakening processes to align ODA. Where ODA units are well established and ODA coordinators have the prerequisite competencies and confidence to engage with development partner counterparts in terms of project cycle management, there is strong ownership and alignment. When senior leadership in departments see ODA as important, develop a clear vision on how ODA should be used and becomes involved in programme design and oversight, the department owns and drives ODA programmes. In contrast some departments do not see ODA as important. Institutional restructuring and high staff turnover can undermine ownership and alignment.⁷⁷

As of late 2009 donor mapping showed there were at least 33 different development agencies implementing or preparing around 100 projects – now escalating significantly with, for example, about twenty five of some eighty EU ‘Green Economy’ commitments beginning in 2010 or 2011 and further investments by the Clean Technology Fund and the Clean Development Mechanism.⁷⁸

About 85% of ongoing and planned development partner financing has focused on a wide definition of mitigation activities, targeting the energy sector for either renewable energy or energy efficiency, or in combination (the targeting of both renewable energy and energy efficiency together comprising about half of all financing). Grant funding targets about 40% of both renewable energy and energy efficiency, and is growing. The balance of financing (14%) focuses on adaptation and other activities such as research and capacity building, previously for Copenhagen (COP 15) and now for COP 17. Only about 17% of development partner funding targets government recipients, some in capacity building (such as supporting the Dept. of Energy enhance capability to manage the Clean Development Mechanism programme-British High Commission, Norway and Denmark) as well as in the Department of Environment (Denmark and UNEP) and the National Energy Regulator of South Africa and Parliament (British High Commission, AFD, Norway). Municipalities receive about 14%, with about 87% of this support for mitigation. The bulk of this financing has gone to the larger metropolitan municipalities of eThekweni, Cape Town and Johannesburg. Danida’s Urban Environmental Programme stands out (covering four cities and focusing on emissions reduction). Provincial governments are relatively poorly supported, with only 2% of all climate change finance and about 2% of all grants, with the focus on the Gauteng and Western Cape provinces, and on renewable energy. Low income constituencies are the focus of only 25 % of grant financing, with only 25% of adaptation funding targeted toward communities (of which about 57% is geared towards research institutions).

⁷⁷ Davies,T., Fölscher.A. and Smith. M. Development Cooperation Review III Final Report.P.8. July 2010.

⁷⁸ This section draws from: Climate Change; Who’s Doing What in South Africa. FAO. September .2009. Funding spreadsheets made available by the IDC 2010, KfW and spreadsheets on past present and future ‘ Green Economy’ commitments within the EU and its Member States. December 2010. See also Appendices One and Two.

In contrast, the private sector is engaged with 55% of financing. Approximately one third of all financing (if the Clean Technology Fund is excluded) is to projects with an exclusive national focus, and only about 8% with a regional or SADC scale and scope. This is being rectified with Austria, Finland, Norway, the UK, Denmark, Sweden and Germany now more active regionally, also within the trilateral and triangular partnerships that are emerging. The priority of transport for mitigation and adaptation has been relatively neglected with only three projects associated with the FIFA World Cup (largely via Germany). This is receiving increasing attention from German and French Development Bank grants, for example. Of all funding for adaptation, over ZAR 800 million has gone to research institutions, about ZAR 330 million to low income communities, ZAR 100 million to national government and State Owned Enterprises, with ZAR 75 million going to agriculture and ZAR 175 million to ‘other’ sectors.

Going forward, Box Twelve indicates a non- exhaustive summary of the *larger* investments in place or planned at the end of 2010 and early 2011. Again, there is a strong mitigation and urban (energy) bias, with increased support for private sector finance than previously, some new policy work on adaptation in vulnerable sectors and the increasing support mentioned for possibilities in mitigation across the SADC region.⁷⁹

Box Twelve: 2010 and 2011 Commitments Going Forward-Multilateral and Bilateral ODA

Country	Source	Amount	Co-financing	Fund Type	Institution	Period	Description
Clean Technology Fund. a) IFC & AfDB, b)IBRD and AfDB, c)IFC and AfDB	Multi-Lateral	\$500,000,000.0	\$1020,000,000.0	Concessional loans a) IFC/ AfDB/EIB/ AFD b)Ibid-IBRD/ AfDB/EIB/ KfW c)Ibid-IBRD/ AfDB/EIB/ KfW	a)Dept. Environment b)Eskom c)Eskom	2010-On	a)Energy Efficiency/ Solar water heaters b)Concentrated Solar Power c)Wind Power
Global Environment Facility(GEF)	Multi-lateral	\$25,710,000.00	n/a	Grant	Dept. Environment – Focal Point	2010-14	a) Transfer of innovative low-carbon technology. b) Market transformation for energy efficiency in industry and building c) Enhancement of carbon stocks through sustainable management of land use, land-use change, and forestry. d) Enabling activities and capacity building.
UNEP-	Multi-Lateral	E 3,200,000.00	n/a	Sector Budget Support	Dept. Environment? SEED-SA	2010-12	Green Economy and Social and Environmental Entrepreneurship
Austria	ODA-	E	n/a	Grant	Energy &	2010-12	Mitigation: Regional

⁷⁹ From: Spreadsheets on past, present and future ‘Green Economy’ commitments within the EU and its Member States. December 2010 and March 2011.

	not Fast Start	100,000,000.00			Environment Partnership. Southern and East Africa		Renewable Energy & Energy Efficiency
France	ODA	E 100,000,000.00	n/a	Loan	Durban	2011-14	Mitigation; Energy/Urban Services : Sustainable Durban
France	ODA	E 120,000,000.00	“	Loan	IDC, ABSA Bank, Nedbank.	2011-14	Mitigation: Environmental Credit Line
France	ODA	E 700,000.00	“	Loan	Central Energy Fund/S.A Energy Devt. Institute	2011-14	Mitigation: Technical Assistance/Environmental Credit Line
France	ODA	E 100,000,000.00	“	Loan	Durban	2011-14	Mitigation: Sustainable Durban-Urban Energy
Finland	ODA	E8,500,000.00	“	Grant	Above Partnership with Southern and East Africa	2010-12	Mitigation: Regional Renewable Energy & Energy Efficiency
Germany	ODA	E50,300,000.00	“	Soft Loan +Grant	Energy Efficiency Programme: IDC	2010-14	Mitigation: RE and EE
Germany	ODA	E65,000,000.00	“	Soft Loan	Renewable Energies in the Southern African Power Pool	2010-14	Mitigation: Renewables
Germany	ODA	E 0,000,000.00	“	Soft loan	Solar Water Heaters DBSA	2010-12	Mitigation: Energy Efficiency
Germany	ODA	E 5,000,000.00	“	Grant	Polokwane, Johannesburg, Cape Town.	2010-13	Energy Efficiency- Non-motorised transport
Germany	ODA	E 4,000,000.00	“	Soft Loans	To be determined	2011-15	Mitigation. Open Programme for Renewable Energy FC Component
Germany	ODA	E10,000,000.00	“	Grant	DEA, DoE, DST	2011-15	Ditto
Germany	ODA	E 6,000,000.00	“	Grant	Four Cities	2011-14	Mitigation: Integrated Solid Waste Management
Germany	ODA	E4,800,000.00	“	Grant	SADC Project Preparation Development Fund	2011-14	Mitigation: Renewables and Energy Efficiency
Germany	ODA	E 697,500.000	“	Grant	DEA: Policy Support Adaptation Baseline	2010-12	Adaptation: Vulnerability assessments and cost benefits across key sectors
Sweden	ODA	E700,000.00	“	Grant	Global Crisis Solutions SA	2010-12	Climate Change and Conflict
EU	ODA	E3,000,000.00	“	Risk Capital Facility	Private Sector Support Programme Risk Capital Facility Ph. 2	2010-on	Mitigation. Evolution One Fund. Private Equity Sustainability Fund-Innovation- Clean

funds are now well bedded down. With the GEF, there have been difficulties with implementation conducted through a regionally placed multilateral executing agency, with funds therefore not transmitted through the country channels. The Dept. of Environment maintains this inhibits both ownership and alignment and have taken it up with the GEF Board. Conversely, there have also been reported incidences where one development partner was reluctant to allocate funds to approved projects due to turnover in the Chief Financial Officer function and thus uncertainty over capabilities to manage governance requirements of partner funding.⁸¹

The PD Phase Two Evaluation and more recent DAC Monitoring study have reported significant progress with alignment but a ‘sticking point’ has been in Indicator 5a) the use of country financial management systems-where the analysis suggests despite some promising pilots, HQ policies preclude greater alignment. The IDC view is that it is in alignment to systems, rather than to priorities that there is ‘a huge problem’.

Capturing and reporting on all external climate change finance is managed as follows. How development partner funds are used is always agreed between the government and development partner. Even when the budget support modality is used, development partner funds are not part of the South African government budget process. They are allocated by a different process, often through direct discussions between development partners and the beneficiary government departments, and are not voted on by parliament. This means that ODA funds are off budget rather than on budget as is the case in many other recipient countries. One of the main developments since the Paris Declaration was agreed is that it has become more common for development partner funds to be shown in expenditure estimates and reporting – the annual Estimates of National Expenditure. This is not a requirement of development partners under the budget support modality but of the South African Public Finance Management legislation. This means how development partner funds are used is reported on and can be tracked even if it is not part of the governments’ budget. The Dept. of Environment indicate that funds that flow – from this system- through the DEA budget systems that have been allocated for climate related projects are specifically earmarked within the DEA budget system and kept in a separate fund (donor allocations) which has specific project codes allocated to them. The MTEF guidelines state that ‘national and provincial entities are required to provide a schedule over the Medium Term Expenditure Framework period together with a brief description and timelines on how the funds will be spent. Where monetary value cannot be attached to in kind contributions, a brief narrative description of the content must be provided. Performance information, including specific outputs per project must also be recorded on programme and donor funded sheets and summarized separately to inform evaluation.’⁸²

The EU has a mechanism for recording all Member States’ contributions to the ‘green economy’ overall, and the IDC records other traditional partners’ country contributions simply in a list. Capturing and reporting is further complicated since the ‘non-traditional’ development partner contributions are received and managed by DIRCO are not systematically recorded at all.

Up to the present, climate change finance per se has been tracked – or not- through these arrangements. The Green Paper alludes to a Climate Finance Tracking Facility ‘to track flows of climate finance in both the private and public sectors and will be responsible for reporting on mitigation actions’. However it did not establish under what conditions such a facility would be

⁸¹ Interviews with Swedish Embassy. December. 2010

⁸² Report of the Auditor General to Parliament on the Status of Climate Change Initiatives in South Africa. P.14. January. 2010

useful and why. It is anticipated that the White Paper and subsequent work- covered above- will clarify the specific arrangements for tracking and reporting on the various strands of finance.

With additionality, within the CDM there are a variety of consulting firms which assist the DNA (Dept of Energy) and the NBI aggregates total direct emissions reductions reported by large companies- though the extent to which these mitigation investments are supported by development partners is not well reported. As yet no central mechanisms for identifying and reporting on additionality are in place, with baselines remaining unclear and likely to be clarified in the White Paper. Some individual partners do attempt to quantify total emissions reductions in funded projects, but only in terms of the ‘substitution effect’ on the drawdown from the national power grid of renewable pilots and investments, and these are apparently not aggregated anywhere.

Modalities for assistance –most captured in box twelve- include the use of a combination of concessional loans with national co-financing, loans, soft loans, soft loans and grants, grants, budget support and ‘special funds.’ Direct assistance, technical assistance and technical assistance with partner organizations and NGO’s are all used. From a country perspective, use is made of call for proposals around a specific theme for research or projects each of around ZAR 1 million. In a limited number of cases, more programmatic funding of ZAR 5-20 million is made available over up to 3 years.

There is a fairly strong degree of pressure on development partners to disperse, so ‘exploratory’ and innovative grant financing has been a predominant trend, now towards ‘partnerships’ that can be supported initially via grants and/or loans as seed, and then prove sustainable on partner exit.⁸³ The IDC report a significant reduction in the use of parallel implementation units due to their (lack of) impacts and integration with line function activities and costs, and are now only agreed to on special request and accompanying justifications. Nevertheless, donor support to NGO’s in adaptation programmes can tend towards separate, if not parallel, implementation units and the integration of these with national, metropole or local planning and objectives can become contentious.

Incentives for development partners to use government systems lie in demonstrating their commitment to climate change, hopefully ensuring that that funds will be spent more easily and flow more directly, and in enhancing the national integration of the climate change response. Obviously, development partners want to see a stronger climate change and green economy agenda nationally – reducing international emissions and perhaps, the pressures on developed countries. Partners also are obviously pressured to pay for climate change responses in the developing world in line with their level of culpability for the climate problem. Integrating support instruments into government systems should strengthen ‘climate resilience’ overall and minimize the risk, thus ultimately reducing the level of donor country investment in resolving the problem in the longer term. For government, incentives for alignment are in the improved access to climate funds, and enhancement of co-investment opportunities with treasury funds and the private sector in project finance.

Internationally the predictability levels of global funding streams (and instruments) can be weak and as is well known in the former case, the SA Govt. and African negotiators are arguing for more predictability in the multilateral processes, a major agenda item at COP 17. Interestingly, none of the funding identified in Box Twelve are classified as ‘fast start’ commitments after Copenhagen. Nationally, commitments identified above from the national budget conform with the 3 year

⁸³ Interviews and communications with Swedish and Norwegian Embassies. February. 2011

Medium Term Expenditure Framework (MTEF). Development partner aid predictability has increased over the period to the PD Phase Two Country Evaluation, with a general estimate of all available commitments indicating a three year average for over 120 loans and grants.⁸⁴

Other related sections above refer to the work going on in-country into *inter alia* a) the predictability and programmatic parameters for the national response, b) the financing gaps and the costing therein at national, sector and sub-national levels and c) the further roles and ongoing contributions of the private sector, with an emphasis on a strong nationally derived private sector contribution. As noted, this is work in progress – covering a range of agencies, instruments and modalities which will continue beyond the anticipated June approval of the White Paper process, which will ideally finalize, in the absence of such finalization in the recent Green Paper, both the principal and subsidiary parameters for all of these considerations.

The extent to which the various climate change finance instruments are designed in ways that align with government preferences varies between financial instrument, with some being better aligned toward facilitating direct budget support and programme based approaches than others. Unlike in other sectors, little funding has yet to be allocated into sector budget support, generally acknowledged as an instrument for alignment (with budget support however under review within the EU). Funds allocated to the Dept. of Environment from development partners for the purposes of implementing climate change adaptation and mitigation projects have largely gone through the government system (RDP Fund) which in effect aligns with the principle of using country systems, thereby being in accordance with government preferences for financial instruments.⁸⁵

There is as yet no clarity on how climate change financing will make use of procurement systems, although certain public procurement procedures as prescribed by the Public Finance Management Act and operationalised through the MTEF will probably apply to the procurement of finance assisted incentives, as is the case with the REFIT process.

6. Harmonisation

The ‘extent to which development partners are willing to harmonise among themselves will depend on the extent that they share development objectives not overshadowed by other commercial or political objectives incompatible with development needs’.⁸⁶

Thus far a commitment from external partners to harmonisation has not been stipulated in formal processes. However the IDC has insisted that development partners at least operationally harmonise their efforts. In so far as the Dept. of Environment is concerned, this has not as yet been translated operationally as they are still approached individually by various members of the development community. This remains a crucial requirement and increasingly Member States at least, are working more closely with the EU around these issues and hope that funding will be more ‘joined up’ in future. There is no single comprehensive programme and budget framework used for all sources of finance for climate change. This has been identified in interviews as a serious and perplexing problem.

⁸⁴ Drawn from: EU and IDC Spreadsheets as of end 2010, early 2011 on funding commitments to the ‘green economy’.

⁸⁵ Interviews. N.Vithi. Director. International Governance and Relations. March. 2011

⁸⁶ From: Evaluation of the Paris Declaration Phase 2. Approach Paper. May 2009.

Some harmonization of external financing between development finance institutions occurs in the Mutual Reliance Initiative (MRI) agreed between the European Investment Bank, the German KfW and the French Development Bank (AFD).⁸⁷ The agreement is one of co-financing within a division of labour and a lead financier. To date the MRI has supported the EU–Africa Infrastructure Trust Fund regionally, and in South Africa it has contributed significantly to the large Clean Technology Fund (both IFC-AfDB and IBRD-AfDB) investments which together provide \$500,000,000.00 of concessional loan financing against \$1020,000,000.00 in national co-financing into the Dept. of Environment’s solar water heating programme and Eskom’s concentrated solar power and wind energy programmes (in Box Twelve above).⁸⁸

The greatest inhibitor to the harmonisation of external finance is the dispersed nature of country recipient and partner institutions (the IDC, DBSA, Treasury, line ministries etc). Others are in the aforementioned flexibility in the way financiers/development partners can approach the different spheres of government despite procedure, and the delays and flux in policy making and policy decisions re the organisation of a coherent national funding architecture which can a) coherently assimilate national, sectoral and sub-sectoral priorities and b) simultaneously harmonise external finance alertly. As noted, there is considerable – but dispersed -work in progress.

Regular donor meetings to coordinate are only occurring within the currently informal EU working group, and largely among Member States although this may be extended into an EU+ group. Discussions are more about future cooperation in new partnerships where there are commonalities of interests and capabilities, rather than more effective coordination into the cross sector. The EU and the IDC have registers, with DIRCO the exception. Government is in the process of developing a register- a central database- of future climate change response activities. There is however a database of current projects across different sectors and/or organizations within the Dept. of Environment.

Formal processes for donor co-ordination and harmonization of donor procedures enhancing governance arrangements have been partially covered elsewhere. Separate ‘systems’ are established in ministries but where the modality demands it (GBS or SBS), support can be accommodated programmatically within the 3 year MTEF cycle- which manages and prescribes all of the four points of i) reporting, ii) budgeting, iii) financial management and iv) procurement at line ministry, metro and local levels. Capacities to manage these effectively vary. Specialist Bid Committees are set up for highly technical tenders, for example those involving energy technology. This expertise is largely in place in South Africa, but spread across the public and private sector.

Government incentives for greater harmonization are in; a) achieving coherence between different instruments at the national level (such as the REFIT and the carbon mechanisms for example, which would promote harmonization at the international level), b) a reduction in the ‘free for all’ and intense competition for visibility in the ‘carbon space’, b) economies of scale (more bang for the buck), c) intensification and better organization of resource, innovation, skills and capability

⁸⁷ Joint Communication to AFD/EIB/KfW staff by EIB President P. Maystadt, KfW Board member N. Kloppenburg and AFD Director General, J. Severino about the Mutual Reliance Initiative. Undated. Sourced from KfW Pretoria.

⁸⁸ The three parties contribution to the total CTF indicative investment is \$500 million, about 22% of the total indicative funding at November, 2009. Source: Climate Investment Funds. Clean Technology Fund. Revised Investment Plan for South Africa. Meeting of the CTF Trust Fund Committee. Washington, D.C. October. 2009

transfers in addressing emerging challenges and gaps more systematically (similar to point a) and d) easier/better alignment ultimately. Currently there are discussions on grouping partners into thematic areas which can, with government, collectively identify gaps and challenges and cooperatively address these. Disincentives for government can lie in a loss of flexibility to address a wider range of challenges as these emerge, if partners are collectively committed to other activities.

For development partners incentives are increasingly being seen in the advantages of; a) more efficient use of increasingly scarce resources, b) maximizing impact -collectively contributing more effectively to the outputs and outcomes of key international, national and local priorities (where these are now more clearly established), c) in better targeting – sectorally, provincially and locally and d) in promoting ‘joined up’ support for the desirable balance between mitigation and adaptation. Disincentives or inhibitors include a) loss of ownership- that ‘visibility and primacy’ in the race for a slice of the same climate change space, b) the lack of clear policies, prioritization and coordination as well as c) risk aversion.

Capturing additionality is as yet very underdeveloped, with few development partners working on this either individually or in terms of any collective contribution. For example, all Member State ‘green economy’ contributions are currently identified as ODA only, without any inventory to capture the particular contribution in terms of its additionality – as defined in Box Three. As noted, within the CDM process there are a variety of consulting firms which assist the DNA. Some individual partners do attempt to quantify total emissions reductions in funded projects, but only in terms of the ‘substitution effect’ on the drawdown from the national power grid of renewable pilots and investments, and these are apparently not aggregated anywhere.⁸⁹

7. Results

Results frameworks for measuring the impact of externally provided finance are limited within government to the MTEF systems for capturing outputs and outcomes, covered above. For the multilateral funds, the Dept. of Environment report that they rely quite heavily on the results framework- or monitoring and evaluation processes- that are conducted by the UNDP as a requirement of the GEF. Other development partners have their own dedicated M+E and reporting processes, which can and do ‘conflict’ with government and NGO systems but are increasingly being harmonized in certain sectors. There are currently no formal relationships between the monitoring systems for normal development policy and programmes and climate change programming. Private finance is not subject to ex post monitoring where this is applied to public finance. The private sector finance contribution to emissions reductions is not directly monitored by the NBI via the Carbon Disclosure Project

There is no single responsible national agency overseeing the monitoring of results of externally funded climate change activities. However, M+E processes have recently been centralised within the office of the Presidency but the results of external support, and specifically external climate change investments are not integrated into a complex system. Monitoring and evaluation is currently undertaken through the processes of bi-lateral or multi-lateral implementing and executing agencies. These donor mechanisms need co-ordination between themselves to monitor and evaluate collective

⁸⁹ Interviews; KfW and others. March.2011

results. Idasa, the large African civil society umbrella organisation and its partner organizations globally are currently aiming to contribute to the development of a framework. They have recently proposed that the White Paper provides for a transparent, participatory and peer reviewed monitoring system. The paper will determine whether either the Dept. of Energy or Environment – or one of their agencies- will bear this responsibility. Idasa also recommend that the National Committee on Climate Change (NCCC) could possibly be reconstituted as a statutory body, with such structure needed to facilitate better monitoring and evaluation of how climate change mitigation initiatives are being managed overall.

A national results frameworks resulting from international standards for measureable, reportable and verifiable actions (MRV) on climate change will lead to improved transparency, and improved results leading to better informed and targeted response strategies and an increase in investment (and confidence) into climate change by funds and development partners. However, there may be problems encountered with their complexity. Thus, constraints on capturing and reporting include capacity, co-ordination and complexity. No clear definitions of, and frameworks for, reporting on climate change funding have yet to be adopted. There is as yet no agency with responsibility for monitoring. Moreover, information and data is of limited depth and needs enhancement.

8. Mutual Accountability

Commitments to predictability in climate change funding is partly determined by development partners tending to commit on a project by project or programme basis. Thus predictability of commitments is related to type, and the extent to which they are programmed into government systems. These vary from one year grants to loan finance mechanisms of up to 6 years duration. General budget support is usually for three or four years. The average predictability of over one hundred support instruments within the EU at end of 2010 was for three years. There is the underlying risk that funding could be withdrawn at any point (e.g. a crisis elsewhere in the world resulting in diversion of funds, shifts in HQ priorities, and global economic crises).

There are limited mechanisms for providers of external finance to be formally accountable to citizens. Those in place are embedded within South Africa's strong governance system of national oversight and reporting, with all new investments from development partners, both traditional and new, reported and discussed (and available for open public scrutiny) in Parliament, and reviewed by established oversight committees within Parliament. This ensures a full measure of public engagement, via different media, and promotes vigorous open debate. National Treasury and the office of the Attorney General cooperate to ensure overall reporting on climate change investments. Oversight belongs to the respected Standing Committee on Public Accounts.

There is also a parliamentary network on climate change with a mandate to enhance awareness and transparency, currently engaging with parliaments and citizens globally and nationally in preparation for COP 17. Various parliamentary associations are being supported in the SADC region by the British High Commission to facilitate discussion on critical issues- especially of a transboundary nature- in climate change mitigation, green economic development and the impact of national climate change policies. The focus is on the role of parliaments and their cooperation with ministries

and civil society organizations.⁹⁰ There is a strong interest from Idasa in partnering with other civil society organisations in monitoring the overall response. This will be a challenge to address capacity and coordination issues across the cross sector.

Constraints to developing effective mutual accountability mechanisms for climate change financing can occur. The 2010 PD Phase Two evaluation showed dissatisfaction within the IDC regarding the performance of some development partners regarding mutual accountability. The view is that while they have established annual forums for the joint review of programme progress and performance, integrate support data into Estimates of National Expenditure, and have had unqualified Audits on these transfers and report them to Parliament, they do not get such reciprocal attention. The 2010 Development Cooperation Review 3, refers;

‘Regarding mutual accountability the period saw the institutionalisation of mechanisms at the central level for joint review of programmes and projects between development partners and the South African government. These aggregate level efforts however were weakened in their effect by inconsistent replication at institutional level. Poor information flows, the lack of incentives for better information flows and poor local demand for accountability contributed to this. While strong examples of mutual accountability at institutional level can be found, many development partners ODA management practices did not support strong local accountability or mutual accountability.’⁹¹

The IDC attribute this ‘sticking point’ to the 2008 financial/economic crises and other unforeseen circumstances, with the budget of some partners tightening and changing, contributing to unpredictability in their operations and thus in results and reporting to the annual forum. Noting this, the evaluation elicited from a number of development partners that their ODA programmes tend to be most successful when there is more joint responsibility, ownership and mutual accountability for development results.

The key message for mutual accountability in climate change finance is therefore to get the above parameters consistently in place, to secure consistency and predictability in the commitments and in actual allocations, and develop the right incentives for mutual reporting and performance reviews. In the climate change cross sector these will need to be well developed in terms of wider criteria such as the required additionality, and the contribution of the investments to a well established and integrated system for MRV. It seems that these are likely to be an increasingly important consideration for future finance to South Africa.

9. Conclusions

Within the limits of the mineral- energy complex determining its historical growth path, South Africa’s commitment to international negotiations and the development of its national response to climate change has been consistently comprehensive. A strong presence of the international community- and an impressively comprehensive suite of relevant local stakeholders- have since at

⁹⁰ The Association of European Parliamentarians with Africa (AWEPA) and the International Institute for Environment and Development (IIED) organised a Regional Seminar for the Parliaments of five SACU countries on 1-2 March 2011 in Cape Town.

⁹¹ Davies, T., Fölscher, A. and Smith, M. Development Cooperation Review III. Final Report. IDC. July. 2010

least 2004 played a strong role in many aspects of policy making, innovation and implementation of a wide and diverse range of investments nationally, provincially and locally as this policy and practice has developed. Civil society's role is strengthening considerably but is dispersed.

Political commitment – and government structures for – the advancement of the national agenda have been comprehensive, but complicated by overlapping roles and the central location of the response in a weaker 'sister' ministry. There is a trend towards an over reliance of support for a 'green economy' in stronger ministries as the key instrument for economic restructuring and job creation, at the expense of a wider targeting and investment for a more comprehensive climate resilience nationally and regionally. This is being addressed only generally in ongoing climate change policy making, and the convergence between climate change, energy and green-economy-led growth needs to be worked on.

The large development partner and multilateral financial contribution has similarly tended to over concentrate on support for mitigation and needs to step up its commitments to assist in deepening the understanding and implementation of a wide potential in adaptation. There is also a strong need for a more refined targeting of, and innovation in adaptation nationally, provincially, locally, and sectorally as well as spatially, with a strong evidence base existing in the national Risk and Vulnerability Atlas.

Consolidation of the instruments and arrangements for the coordination and allocation of international, private and public sources of climate change finance is only now being considered more systematically, and is hampered by responsibilities being held across three different ministries. This will ideally be addressed in the forthcoming White Paper and be ongoing. Current policy is very unclear on this. There is a relatively strong architecture in government systems for programmatic adoption of future strands of international and other finance but this needs further refinement.

A key theme across this report is the uncoordinated nature of the response across many ministries and the respective spheres of government and much work thus needs to be done to simplify the institutional architecture to better direct and coordinate the response, and therefore accelerate both capability and investment. This is particularly so for climate change finance.

The PD evaluation recommended a) the need for a distinct national institutional platform or 'house' for climate change, supported by an Aid Effectiveness Framework or Plan, which would lead to b) better priority setting and targeting across the key areas of demand and gaps in need, c) more and better harmonisation and alignment and therefore improved aid effectiveness and development outcomes.

Development partner investment has been innovative and supportive, some leveraging upstream policy development and change, but has been competitive, not 'joined up' and incremental. It is trending towards greater use of local partnerships among equals which is an essential prerequisite which needs to be deepened. If both partners and country leadership are to mutually address better defined priorities and challenges more comprehensively there needs to be far more harmonisation of the support. This needs to be complemented with a stronger national and more coherent definition of priorities for this. These aspects are beginning to be addressed but need to be accelerated and refined, and will be the key challenges going forward.

In summary then, despite the potentials for the programmatic integration and alignment of external (and other) finance, and in keeping with the objectives of this report, 'putting in place effective

country-level governance arrangements to properly manage the injection of existing and anticipated resources will be critical', and the proposed further work (comparative, regional and second phase Country Plans) in this series of African country studies by both international and domestic partners would make a significant contribution beyond this report for the proper realisation of these objectives.

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Annexes

Annex One: EU Member States contributions to 'green' economy' related investments at end 2010.
Attached spreadsheet.

Annex Two: Stakeholders consulted.