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OECD WORK STREAM ON MOBILISING PRIVATE INVESTMENT IN LOW-CARBON, CLIMATE RESILIENT INFRASTRUCTURE: POLICY FRAMEWORKS AND INSTRUMENTS

FINANCING LOW-CARBON ENERGY FOR FROMAL LOW-INCOME HOUSING: THE CASE OF SASSA'S LOW-PRESSURE SOLAR WATER HEATER CDM PROGRAMME, SOUTH AFRICA

25 September 2012

South African Context: The LCR Opportunity

Jobs Priority	'New Growth Path' for manufacturing led growth – aim to reverse declining share of manufacturing in GDP and low level of investment in fixed capital. IPAP, NDP, PICC
Growing energy demand	50 GW new capacity needed in next 20 years. Renewables would be more job-intensive than coal – potential for up to 40,000 jobs if an ambitious level of renewables developed.
Climate change commitment	Copenhagen Accord commitment to enable a 34% deviation below BAU by 2020 and 42% deviation by 2025, *depending on the provision of finance, technology and support by developed countries.* Green Compact, National Development Plan 30 year LCR vision
Renewables opportunity	World class solar and wind resources - industrial policy to leverage public procurement for industrial growth. Recognition that large scale steady ramp up needed to build local industry.

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Short term growth and jobs vs. Long term LCR transition

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BARRIERS	ENABLERS
1. Goal setting and aligning policies across and within levels of government	
Triple aim: Reduce GHG Emissions, create jobs (value added), put electricity on the grid	
Different timing of policies Institutional arrangements Inherent design of government – innovation Uneven political commitment	Political commitment Copenhagen commitments National Climate Change White Paper Green Compact (stakeholders) Perception: green growth can create jobs Local level witnessing the CC impacts
2. Enabling policies and incentives for LCR investment	
Uncoordinated 'carrot and stick' approach No one-stop shop for incentive system Localization requirements barrier for some investors SA not known as R&D hub – skills/competing countries No industry-government engagement platform	Localization requirements , minimal local content based on value (REIPP) create a market for equipment manufacturers, end product costly R&D incentive 150% tax rebate (all sectors) National green building regulations + Investigating compulsory EE standards Updated national EE strategy with DOE

BARRIERS	ENABLERS
3. Financial policies and instruments	
No specific incentives for targeted technologies Procedures for incentives for recouping incentives aren't finalised Perceived as anti-competitive Eskom financial model - actual costs of coal not considered* Developers need underwritten debt – banks are kingmakers (only a few banks, not competitive)	IDC invests in local manufacturing (debt &/or equity) Manufacturing Competitiveness Enhancement Program tax free grant Subsidies for SWH and heat pumps CO2 tax renewables more competitive
4. Harness resources and building capacity for an LCR economy	
Quality of education Skills level within labour force	National Cleaner Production Centre – subsidising training of EE professionals
5. Promote green business conduct and consumer behaviour	
	Green business scorecard (National Business Initiative) ; SASSI

BARRIERS	ENABLERS
ENHANCING THE LCR PROFILE OF INVESTMENT IN STATE-SUBSIDISED LOW-INCOME HOUSING	
1. Goal setting and aligning policies across and within levels of government	
• Slow move towards a higher density model : Path-dependence • Slow move towards incorporating basic EE & RE features into programme specifications: Cost	
2. Enabling policies and incentives for LCR investment	
	• Recently introduced minimum EE standards for new buildings & extensions
3. Financial policies and instruments	
• Absence of financial incentives for other EE/RE technologies	• Availability of a large quantum of subsidy for low-pressure SWHs
4. Harnessing resources and building capacity for an LCR economy	
5. Promoting green business conduct and consumer behaviour	
	• Awareness campaigns on electricity saving measures

Case Study: SASSA LP SWH PoA - Features

- Scale: > 80,000 SWHs rolled out between 07/2010 and 05/2012 : about 58% of the low pressure systems delivered under NSWHP
- Business Model: subsidy covers installed cost of SWH+, whilst CER revenue provides maintenance, M&V and profit
- Private sector-driven in collaboration with municipalities
- High Local Content (> 80% ?); Job Creation (> 800 new jobs ?)

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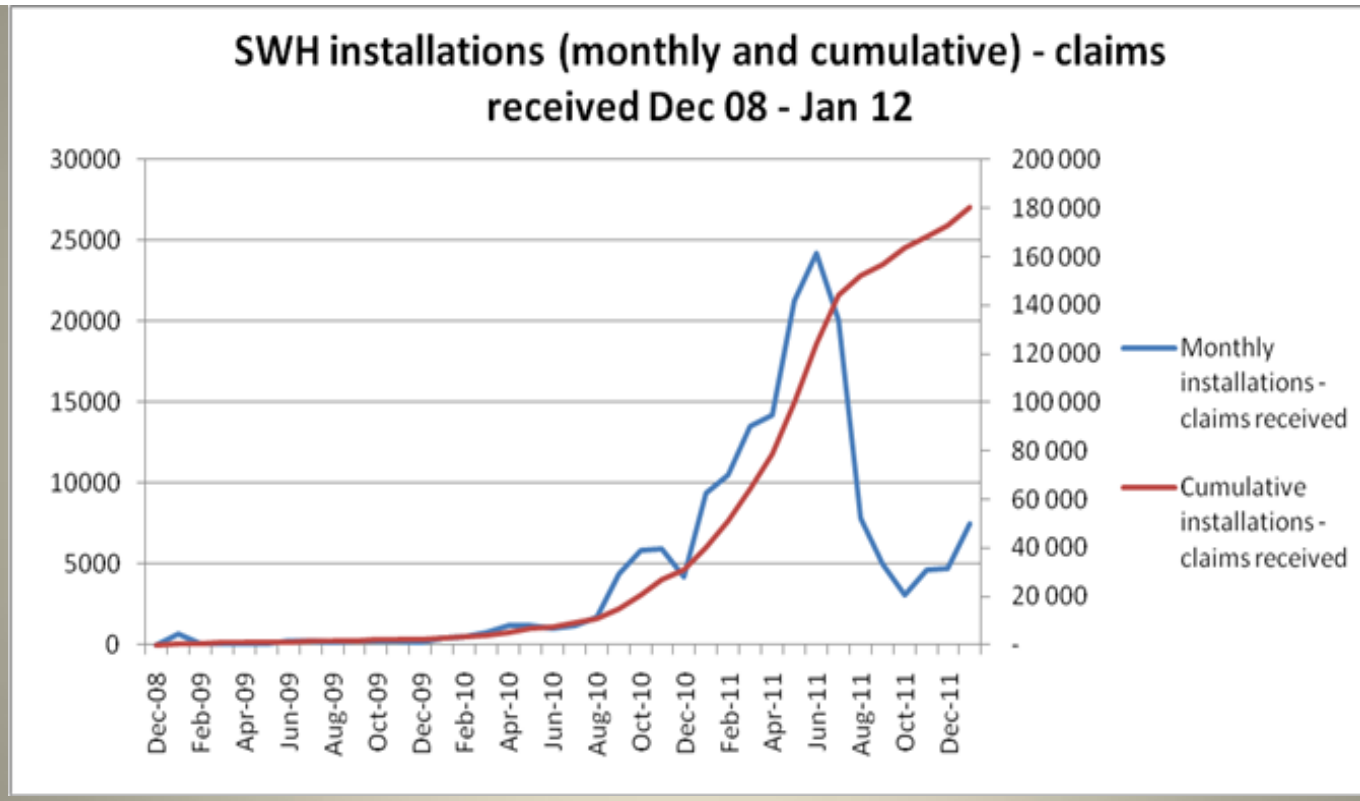
BARRIERS	ENABLERS
SOLAR ACADEMY OF SUB SAHARAN AFRICA, LOW PRESSURE SOLAR WATER HEATER CDM POA	
1. Goal setting and aligning policies across and within levels of government	
• Uneven political support across provinces	• National SWH targets for 2014 and 2020
2. Enabling policies and incentives for LCR investment	
• Absence of minimum EE standards until recently	
3. Financial policies and instruments	
• Uncertainty of subsidy stream trajectory of recent past and in future • Uncertainty of post-2012 climate finance landscape	• Availability of a large quantum of subsidy for low-pressure SWHs under NSWHP informed principally by socio-economic rationale • Suppressed demand methodology under CDM
4. Harnessing resources and building capacity for an LCR economy	
	• NSWHP review : domestic industry development and job creation sub-objectives • Training of installation and maintenance workers from beneficiary communities
5. Promoting green business conduct and consumer behaviour	
	• Community engagement and awareness raising

Subsidy Stream Uncertainty

(Source: Urban Earth, Theresa Ferguson, Consultant to Eskom, 2012)



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Recommendations

- Consider options for providing a consistent domestic subsidy and climate finance framework (e.g. alignment between NSWHP review and a sector-specific NAMA)
- Provide for the extension of regulatory support for EE and RE investment in buildings within a predictable timeframe (e.g. progressive extension of minimum EE standards to existing buildings)
- Incorporate LCR standards into the design of all public-led infrastructure projects
- Diversify stakeholder engagement and provide a new forum for standard-setting and consensus-finding (join Construction Sector Transparency Initiative)
- Implement a carbon pricing framework (e.g. through a carbon tax, a sectoral carbon budgeting approach, or elements of both)

Delink growth and carbon footprint

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