Kind regards.

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6 November 2009

Ms P Nyamza
Office of the Secretary
Parliament of the Republic of South Africa
PO Box 15
Cape Town
8000

Dear Ms Nyamza

Public hearings on the political, economic, legal, gender and social impacts of climate change

Nedbank welcomes the opportunity to participate and make the following written submissions of our views in respect of (i) existing legislative and policy gaps and (ii) the gaps in government's response to climate change and sustainable development for consideration at the public hearings. We specifically discuss the issue under the following headings:

1 Education
2 Fiscal incentives
3 Policy, legislation, regulation and institutions
4 Markets

We would also be willing to make verbal representations on these submissions at the public hearings on 17 and 18 November 2009 if required.

Kind regards

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Nedbank submission to parliamentary session Covering letter_9398/ees/mw/6-11-2009

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Submission to Parliamentary Committee

Political, economic, legal, gender and social impacts of climate change

1 Education

In South Africa greenhouse gas (GHG) emission management is a relatively new topic for the broader business community. As a result, there is a relatively low level of awareness among individuals, businesses and financial institutions regarding the ability of tax incentives and carbon credit yields to boost returns on investment in energy efficiency or renewable energy projects. Consequently, the levels of investment by SA business in the green economy are suboptimally low.

There is a role for government to play in engaging the private sector as far as existing incentives for investment in green initiatives are concerned, and in supporting a central green economy knowledge resource that business can tap into.

2 Fiscal incentives

Government has recently introduced tax incentives for developers of projects registered under the UNFCCC Clean Development Mechanism (CDM), resulting in the proceeds of sales of certified emission reductions (CERs) generated by these projects being tax-free.

However, the CDM excludes certain project types, for example avoidance of deforestation. Furthermore, CDM project criteria are onerous and project registration is costly. Government should therefore extend these tax breaks to projects generating credits registered in terms of acceptable voluntary emission reduction (VER) standards.

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3 Policy, legislation, regulation and institutions

Government has recently made several positive policy decisions that encourage the growth of the green economy. However, some barriers to the implementation of positive policies remain:

- Legislation with regard to renewable energy feed-in tariffs (REFIT) that will provide the framework for entering into power purchase agreements with the Eskom Single-buyer Office is not yet in place. This is the single largest barrier for all renewable energy projects in this country.
- There is limited coordination at government level for leveraging biomass opportunities with a view to creating renewable energy. Examples of these would include initiatives such as Working for Water/Working for Energy programmes involving the clearance of invasive species and environmental rehabilitation projects. Waste-to-energy programmes represent an attractive and potentially cost-effective partial solution to the country's current energy crisis.

To encourage investment in the carbon industry in South Africa government also needs to put additional institutions in place:

- There are currently no African designated operational entities (DOEs), resulting in carbon project developers having to absorb excessive project validation and subsequent performance verification costs.
- There is currently no credible South African carbon standard in terms of which existing international registries have been accepted or the adoption of ISO14064 carbon standards have been declared (detailing a minimum social and environmental framework drawn from World Bank, UN and other international guidelines). Government should take a lead in establishing this standard with assistance from local and international experts.
- Some projects, which may deliver very beneficial community and environmental benefits, are too small to justify the costs associated with registration. Government can assist by supporting a credible voluntary carbon framework for small-scale community development projects, which will promote job creation, community development and an effective response to climate change.

4 Markets

There are several major types of hurdles to the development of green markets in South Africa, each requiring specific government response:

- Green entrepreneurship

  Green entrepreneurs often struggle to obtain bank financing for three reasons, namely they may not have sufficient cash to get their businesses to a bankable stage, they may not have the requisite track records or balance sheets required in terms of the lending criteria of banks and their businesses/projects may not be sufficiently profitable to repay debt on commercial terms.

  In the same way that government provides developmental support to small, medium and microenterprises that require mentoring and funding on preferential terms, it should provide support to green entrepreneurs. Government can assist by establishing a rebate or funding system to reduce or subsidise project funding costs, as these costs are generally the reason for small-scale projects not being developed.

- Green technology

  The use of recently developed technology increases the risk associated with lending to a business deploying the technology. Commercial financial institutions typically provide funding once a sound track record has been established for a specific technology. If government provides the developers of new technology with pilot funding, this will allow for a greater number of projects to obtain commercial funding.

- Market liquidity

  There is currently almost no market for VERs or CERs in South Africa, resulting in little incentive for carbon project developers without international links to invest. While CERs can be sold to international compliance buyers and a range of brokers, VERs are currently primarily sold over the counter, limiting liquidity for these financial instruments. Government can improve market liquidity by supporting the development of a domestic voluntary carbon exchange.

- Market certainty

  Investors look for predictability, stability and certainty when making investment decisions. The expiry in 2012 of the Kyoto Protocol terms currently governing the UNFCCC CDM and the lack of a replacement framework for the subsequent period currently limit project certainty and make medium- to long-term financing of CDM projects difficult. There is therefore an imperative for the SA negotiating team to push for a replacement framework with a view to providing business with continuity and increasing current investment levels.