

Scaling JET financing

The role of the private sector

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What does Intellidex do?

Capital Markets Research



Equities, fixed income, credit, SOEs, politics, economics, impact investing

Strategy Research & Due Diligence



Understanding financial services companies, regulations & value generation

Market Research



Primary, on-the-ground first hand research

Social Economy Research



Impact strategies, ESG, sustainability, JET, philanthropy



Standard Bank



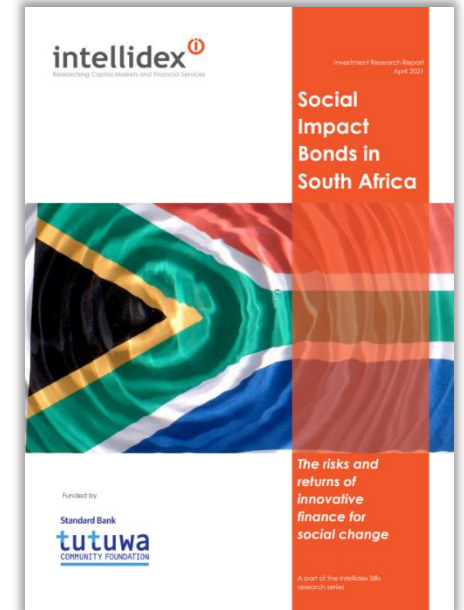
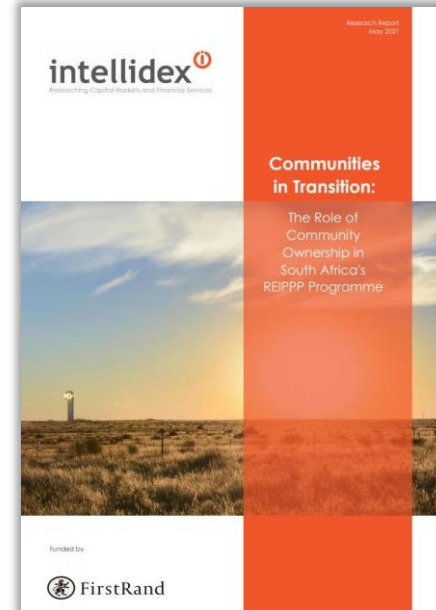
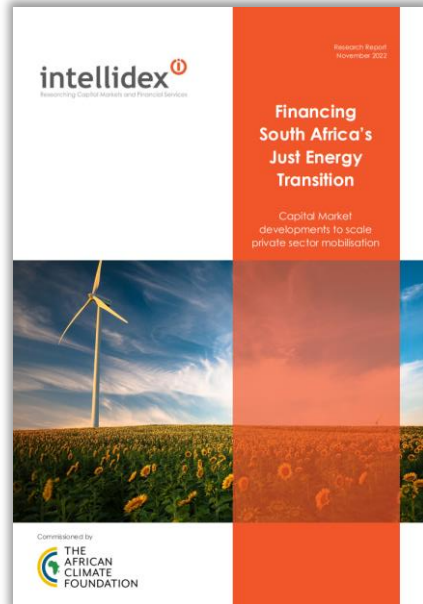
FirstRand



African Bank



Why Intellidex?



The Team



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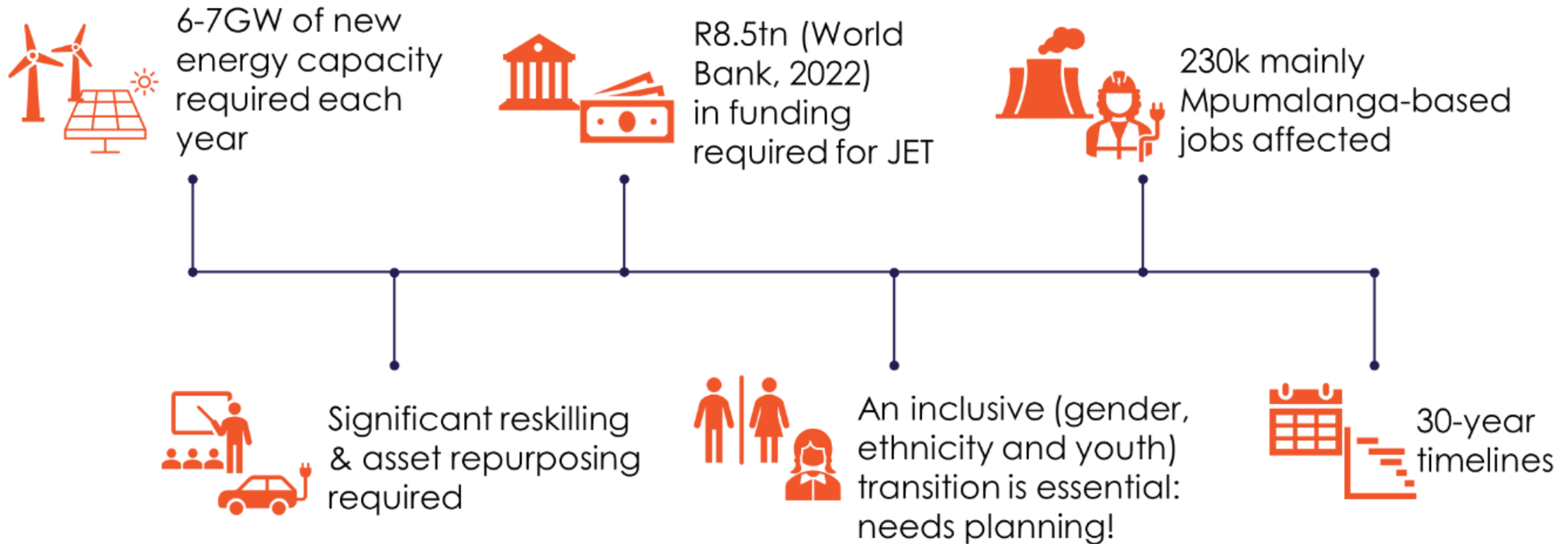
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Background

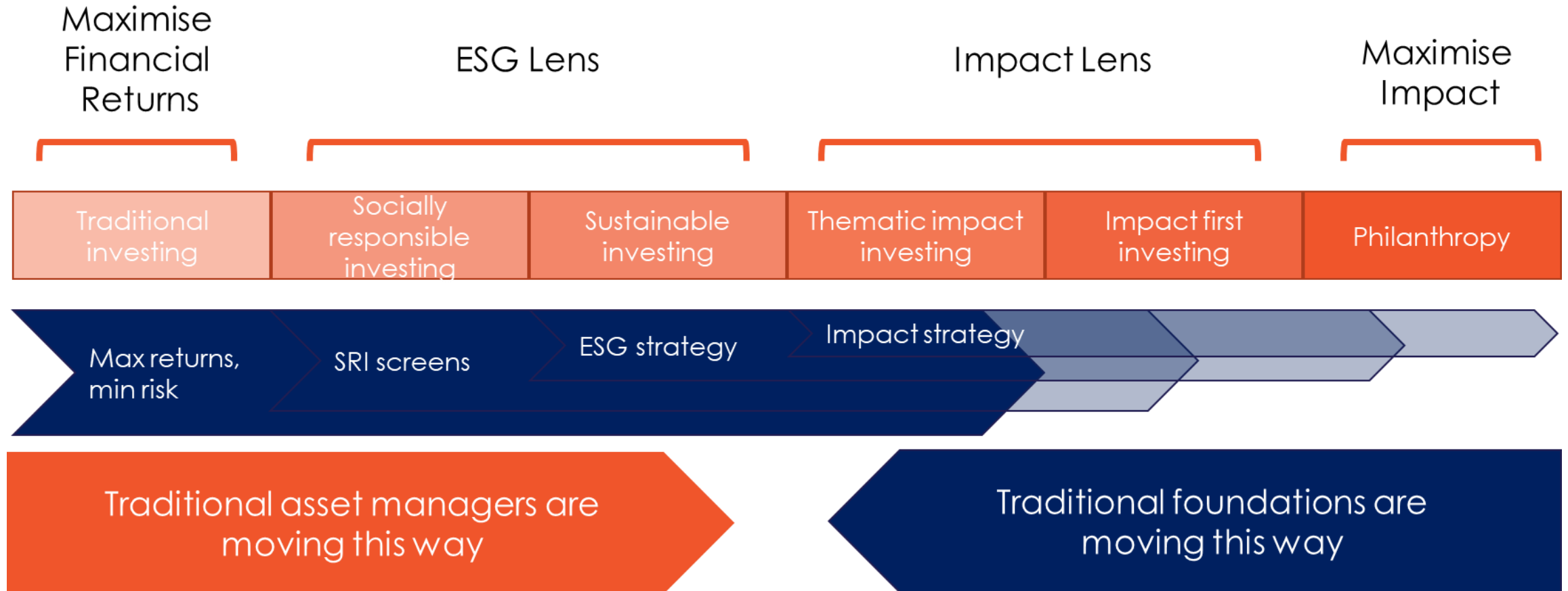
Practicalities of the JET

Rapid, large scale mobilisation of funding over a protracted period for various commercial and non-commercial elements



Intellidex's spectrum of capital

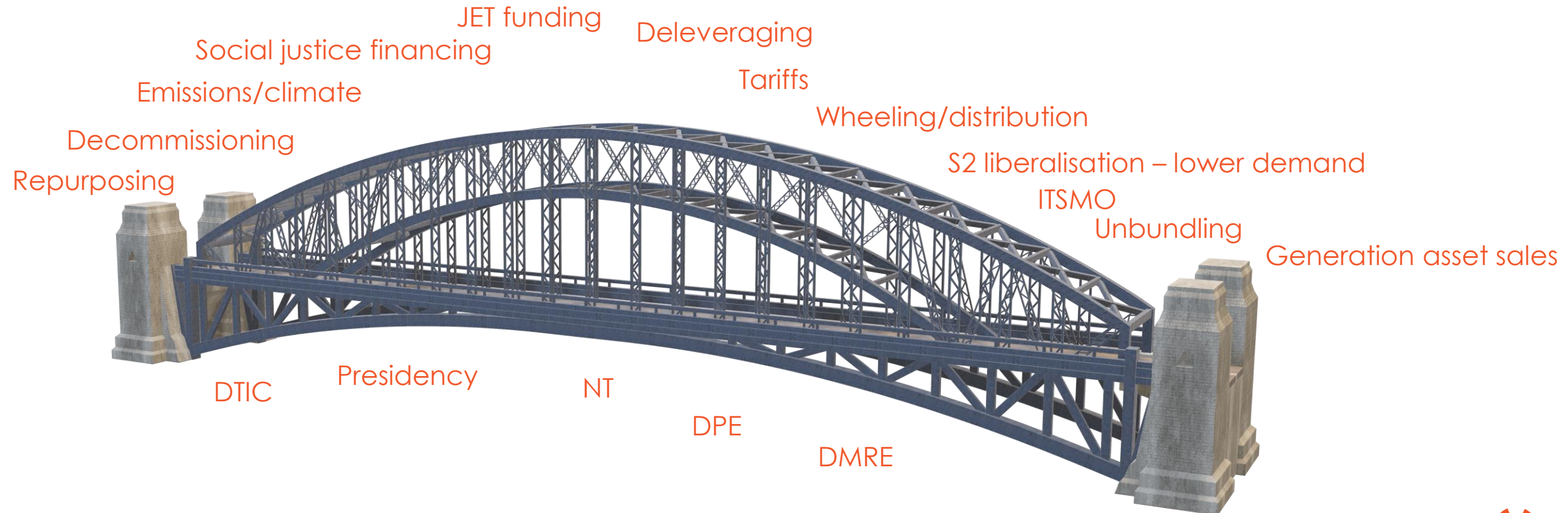
Experience dealing with full range of types of capital



Strategic topics in infrastructure and JET

Delicate balance/keystone problem on Eskom and energy

All things are not totally co-dependent (and are being treated as too much so by a risk-averse DPE and Eskom) – but still, a careful balance is required and interlinkages need to be understood.



Intellidex's work on JET

1. We are partnering with Banks, Asset Managers and Policy Makers

- How supply side of funding can take long run multi-decade views on a highly contested, uncertain political/policy impacted process.
- Look at innovative structures to manage risk in an emerging environment
- Particularly interested in private PPA market, Transmission, retail and the funding of social justice projects

2. Need for more work on scaling and systemic change has become apparent – hence **partnered with ACF on three papers:**

1. *Scaling broad private sector financing* into all areas of the transition (including mitigation and adaptation capital projects)
2. Particular focus then on what role there is for the *private sector in financing social justice projects*
3. A deep dive on reforms required in the realm of public finance to support Mpumalanga especially but also crowd in private sector financing

Financing South Africa's JET

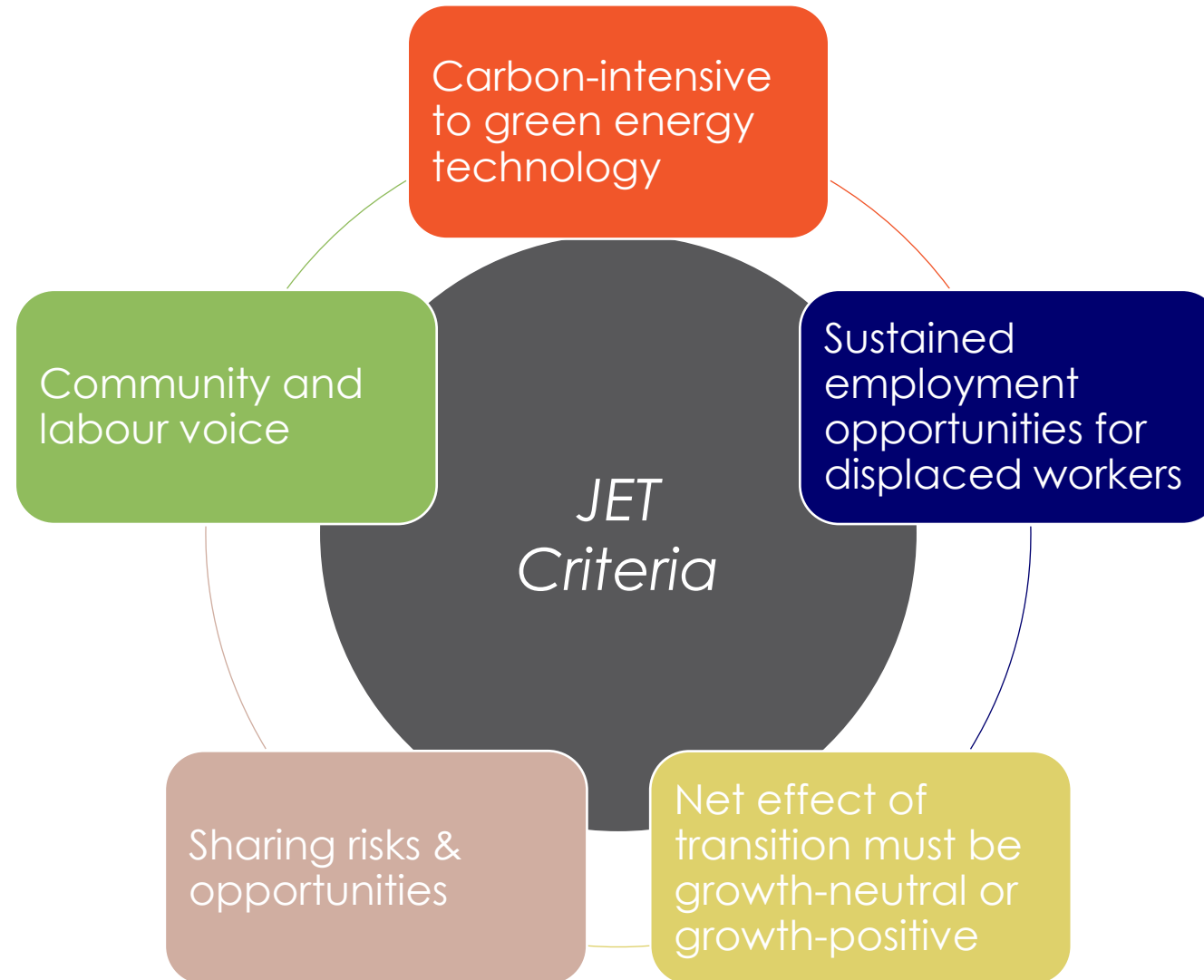
Capital market
developments to
scale private sector
mobilisation

November 2022

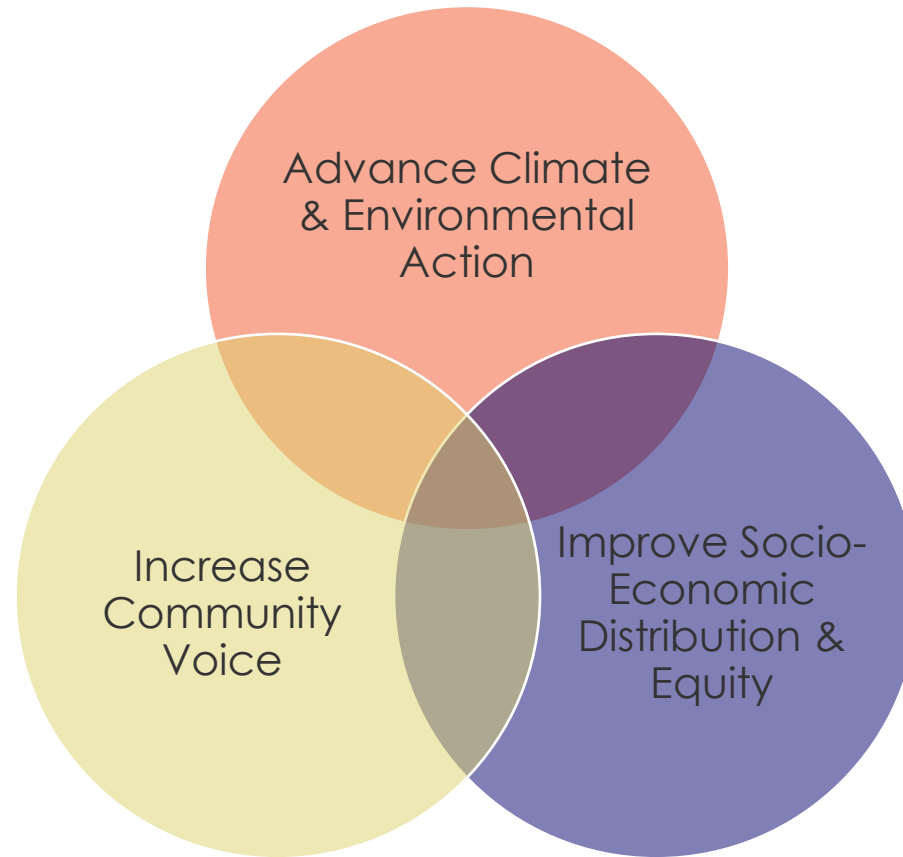
The JET challenge

The challenge for financing the JET is not only how to deliver large scale new renewable infrastructure and associated grid and storage capacity (as well as other components of the energy ecosystem), but also how to ensure that the losers from the transition are appropriately compensated or have a fair stake in the success of it, and indeed how those social solutions are financed.

Criteria for a just energy transition

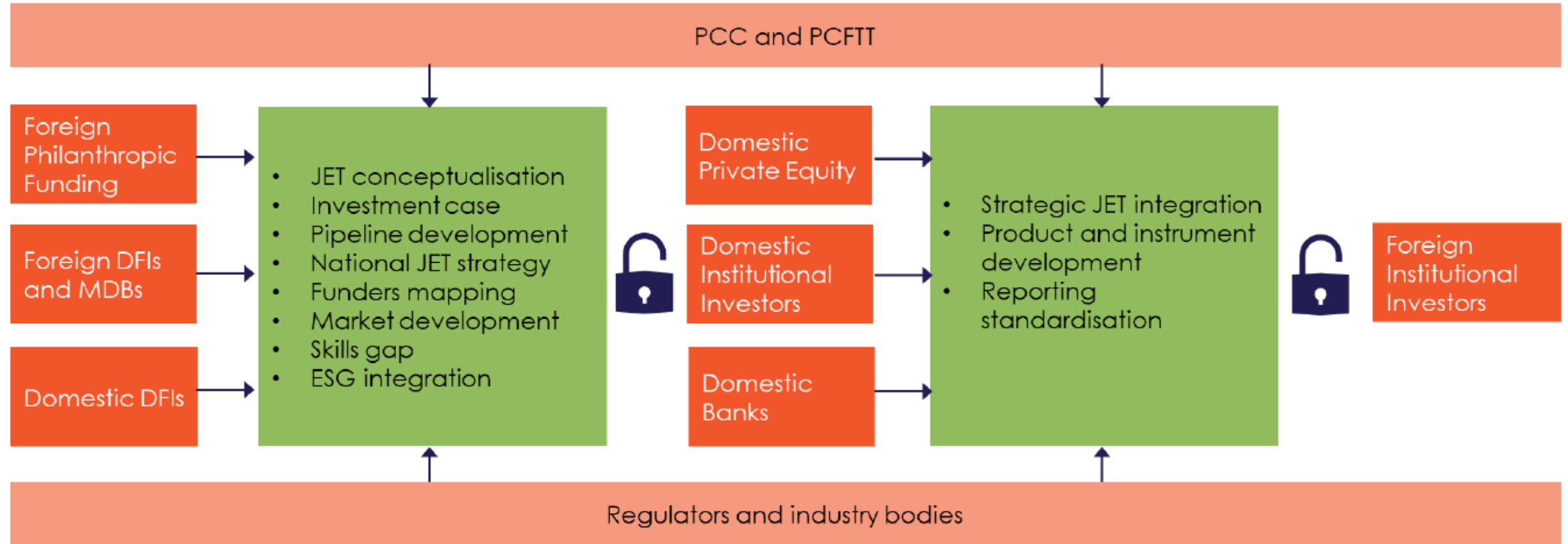


Impact Investing Institute's just transition elements



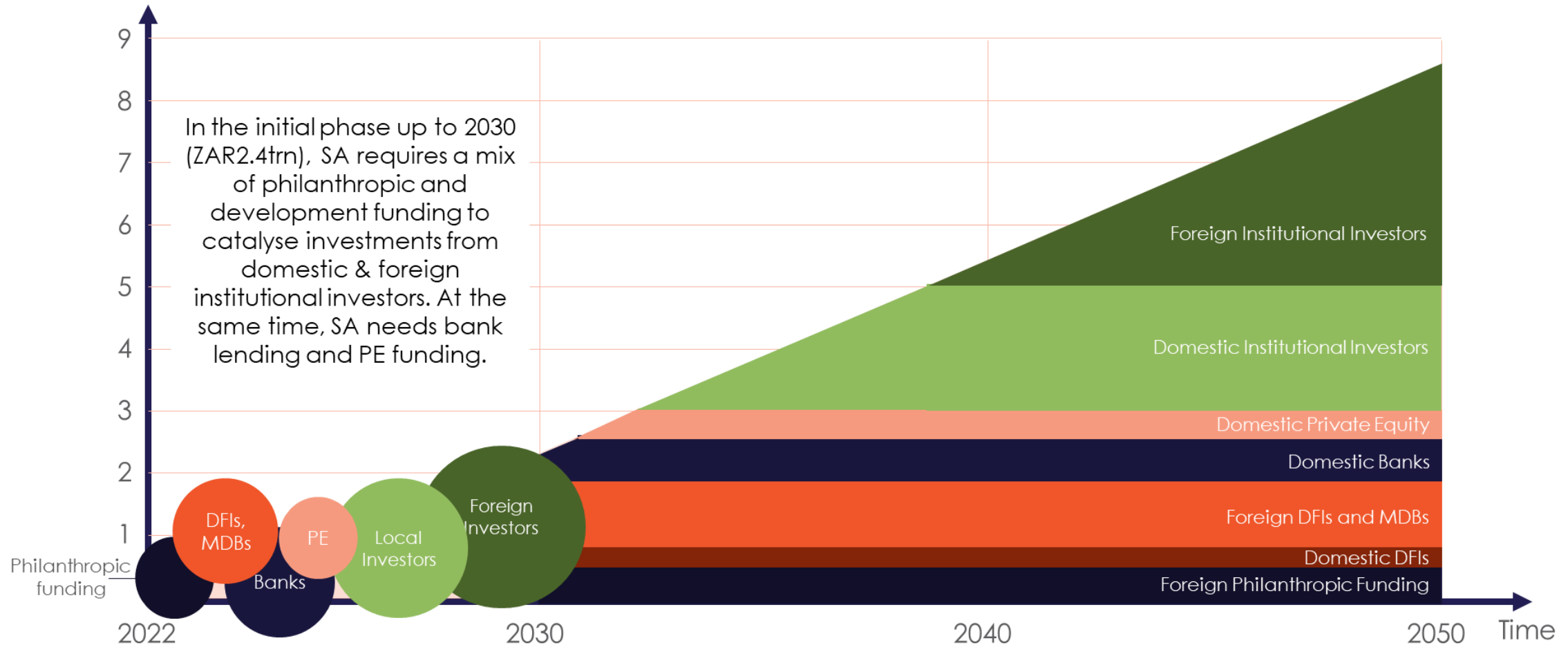
Source: Impact Taskforce (Sprengler et al., 2021)

The complexities of unlocking financing at scale

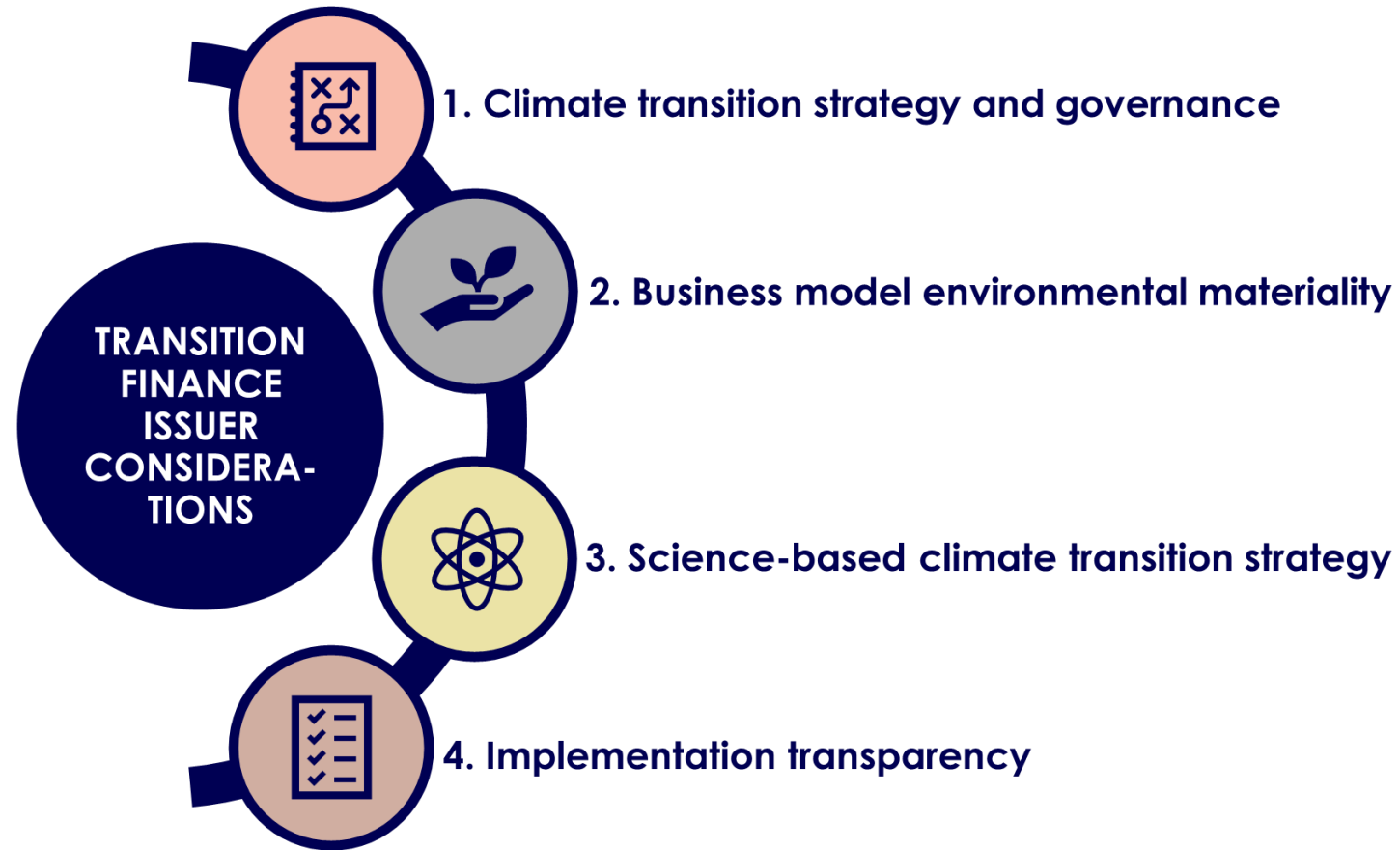


JET financing mix

Cumulative Financing
(NPV, ZAR trillion)



Case study: Transition bonds



Recommendations

	Government, DFIs, MDBs, regulators	Institutional investors, banks, asset managers, PE	Philanthropies
1. Build conceptual consensus on JET financing	✓		✓
2. Developing the investment case for JET financing through targeted, bank-by-bank and asset-by-asset-manage market engagement basis	✓		✓
3. Develop pipeline of bankable projects	✓	✓	✓
4. Design of a national JET strategy, including creating implementation capacity	✓		
5. Strategic JET integration (into core business strategies, development funding mandates etc.)	✓	✓	✓
6. Mapping various funders in the ecosystem to establish who can fund what	✓		✓

Recommendations

	Government, DFIs, MDBs, regulators	Institutional investors, banks, asset managers, PE	Philanthropies
7. Designing investment instruments that can unlock financing at scale, i.e. product development	✓	✓	
8. Supporting bank financing capacity (market development)	✓		
9. Building capital market infrastructure	✓		
10. Addressing the skills gap	✓		✓
11. Advocacy related to rethinking existing ESG integration practices	✓		✓
12. Reporting standardisation	✓		

Where to from here?

Some of the areas identified in the research that require further development are systemically important. Prioritising these areas is essential to accelerate the just energy transition, both in the domestic market and other developing economies.

This includes three important processes:

1.

Identifying **gaps in the local ecosystem** that need to be closed to crowd in commercial funders

2.

Identifying the key aspects from a **technical ESG application** perspective that need to be addressed

3.

Identifying the key areas for **philanthropic funders to provide catalytic capital** to achieve measurable, scalable and replicable impact on the JET

Funding social justice in the energy transition

A role for private
financing at scale?



March 2023

Financing social justice in the JET

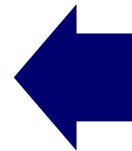
Where is the “J” in the JET?



The dominant approach: Some people will lose out in the near-term. How to compensate these people for their losses?

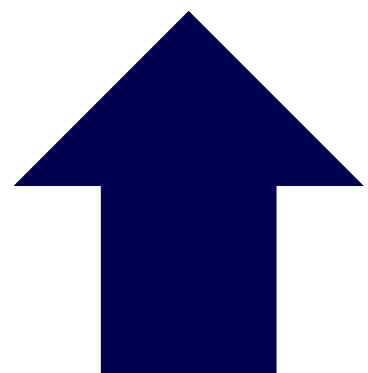


We argue for a broader approach: How can we ensure the new green economy is more inclusive?



Inclusivity requires breaking with historical patterns of exclusion, concentrated ownership and development.

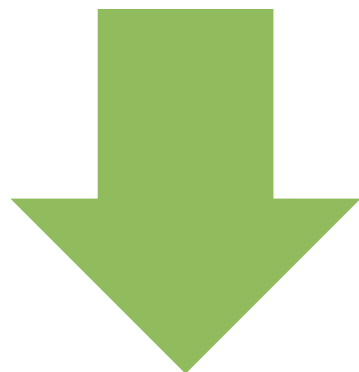
What needs financing?



**Transitioning
OUT**

- ❖ Decarbonisation entails immediate and longer-term losses for workers in carbon-intensive industries.
- ❖ Measures to counteract these losses: compensation; social protection; early retirement; reskilling; relocation

- World Bank estimates roughly **R2tn** is needed.



**Transitioning
IN**

- ✓ Building an inclusive new energy economy where people can meet their needs in the long term
- ✓ Energy production infrastructure and associated industries like transport and sustainable agriculture.

- What roles can the private sector play?

Recommendations

Institutional investors, private companies, asset managers: **Innovation and market development**

- Design new, and especially large, vehicles (specific investments, instruments), building on experience in SA
- Incorporate the JET into strategic decision making and operations (broad business design)
- Adopt better reporting that discloses contributions to JET outcomes
- Participate in, or develop, progressive business and investor forums that are committed to the JET
- All the above can be supported by adopting the Impact Investing Institute's Just Transition Investment Framework

Foundations: **Market development and catalytic capital**

- Incorporate the JET into foundational mission
- Participate in blended finance vehicles
- Build on SIB experiences
- Consider pooled funds

Recommendations

Government: **Market development, catalytic capital, and regulation**

- Provide clarity on current investment rules for NPOs and develop social entrepreneurship regime
- Participate in blended finance vehicles
- Combine catalytic 'carrot' approaches with stronger tax regimes (eg carbon taxes) and more rigorous enforcement of existing legislation (eg labour legislation)
- NB: Blended finance must be used with caution!

Individual investors: **Realise their role**

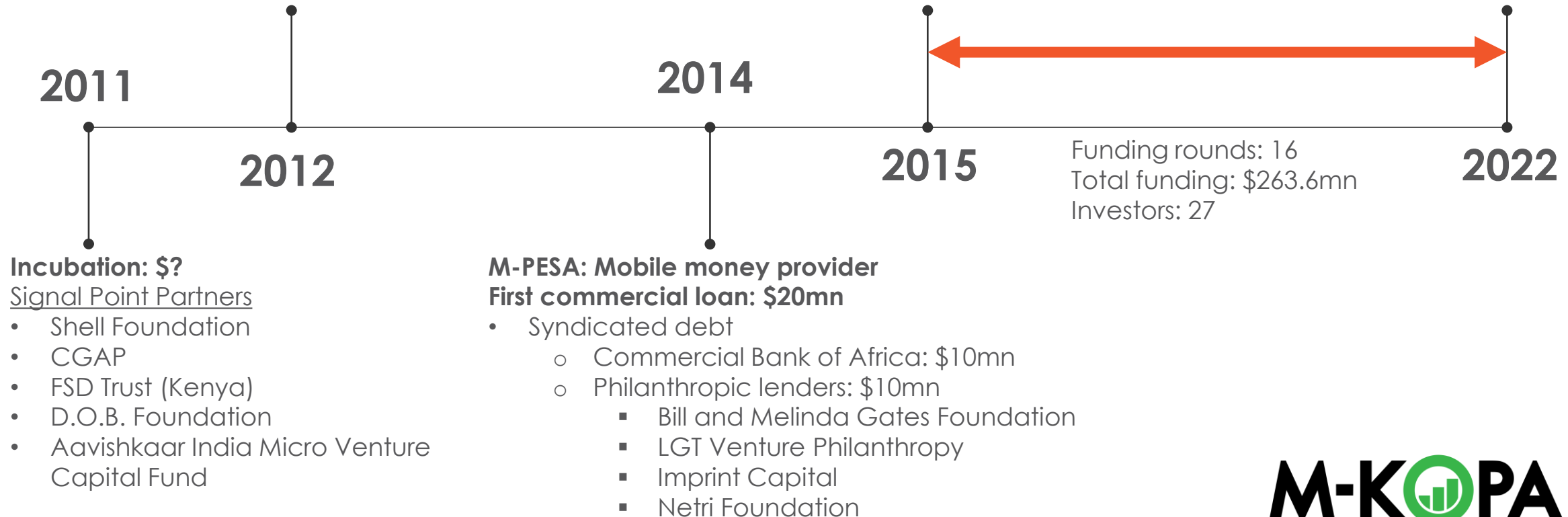
- Become more aware of where your pensions and other savings are invested
- Advocate for changes and for greater transparency in relation to how investments influence ESG (justice) outcomes

Case study: M-KOPA

First funding: \$2.5mn (estimate)

1. Donor funding
 - LGT Venture Philanthropy
2. Impact investment
 - Generation Investment Management
 - Blue Haven Initiative
 - Richard Branson

- ✓ 6 global offices
- ✓ 1,000+ employees
- ✓ >\$600mn in financing
- ✓ > 2 million customers



Where to from here?

Some short- to mid-term priority areas:

ESG investing for
the JET

Expansion of
community trusts'
roles

Pay for
Performance
programmes

Market-based
products for
renewable energy
access

Thank you

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