

Evaluation Summary

Sunref Program - Industrial Development Corporation

Country: South Africa

Sector: Energy

Evaluator: HORUS Development Finance

Date of the evaluation: October 2024

Key data on AFD's support

Project numbers: CZA1048 & CZA1117

Amount: Sunref 1: EUR 40m (credit line) + EUR 0.7 m technical assistance grant;

Sunref 2: USD 66m credit + EUR 3m technical assistance grant (revised down to 1.45)

Disbursement rate: 100% Sunref 1; 30% Sunref 2

Signature of financing agreement: June 2012 & July 2016

Completion date: 2023

Total duration: 11 years

Context

Following the 2007 national electricity crisis, which brought the country and the economy to a standstill, the national policies prioritized renewable energy and energy efficiency. The IDC's role, as outlined in its New Growth Path Strategy framework, would develop a viable green energy industry through supportive policy and access to affordable finance. At this time, many RE and EE technologies were still new to the country and were deemed expensive and/or unproven.

Actors and operating method

SUNREF 1 comprised of a EUR 40m concessional credit line for the IDC, supported by a EUR 700k technical assistance facility (TAF), shared with other SUNREF 1 participating banks.

SUNREF 2 was a USD 66m non-concessional credit line with a TAF of EUR 3m, funded by SECO. The commercial banks did not participate in SUNREF 2 making the IDC the sole participant. After disbursing EUR 1m, SECO exited the project and AFD allocated EUR 450k to ensure the continuation of the TAF.

The TAF was managed by SANEDI, a Government Agency established by the energy ministry to support the energy sector. The TAF's aim was to support financial institutions in building capacities to finance EE/RE projects, undertake studies to derisk potential projects, assist in deal origination, and to support AFD with administrative functions.



Objectives

SUNREF's goals were to reduce the carbon footprint and energy intensity of the South African economy. More specifically, the Project sought to incentivize financial institutions to develop dedicated green financing products targeting small and medium-sized businesses, which in turn would support job creation and the energy transition.

Expected outputs

- Creation of a pipeline of bankable EE/RE projects (with a focus on Smaller projects – under SUNREF 2);
- Strengthened technical capacities of IDC to identify, appraise and finance RE/EE related projects;
- Introduction and commercialisation of green financial products;
- Available concessional long-term resources to grant loans for EE/RE projects – especially for smaller projects

Performance assessment

Relevance

SUNREF 1 objectives aligned with the South African Government's priorities following the 2007 electricity supply crisis, and with IDC's expected role within the New Growth Path Framework. The long term concessional credit line was an appropriate instrument to support IDC's targeted intervention to establish and accelerate the green energy transition. The technical assistance facility was appropriately designed to address IDC's capacity building needs, although these were only partially covered.

The political economy had changed significantly for SUNREF 2. At the IDC, internal restructuring and a reprioritization of its objectives led to a reduced EE/RE project focus. Moreover, the higher interest rate of the credit line strongly affected its attractiveness, leading to the withdrawal of the commercial banks.

Effectiveness & Efficiency

After a late start, SUNREF 1's funds would have been entirely exhausted if the national project REIPPPP to support *small projects* had not been suspended. The remaining funds were transferred to SUNREF 2 which had the benefit of reducing the interest rate. However, only 30% of the second credit line was disbursed, and the IDC returned the unused funds (EUR 6m for SUNREF 1 and USD 11 m for SUNREF 2). In total, 11 loans valuing EUR 27.5m were granted (ZAR 385m equivalent). This comprised multiple RE and EE technologies and project sizes, and reflected the credit line's objectives.

While the overall national policy context, and the COVID pandemic, negatively impacted project performance, key operational factors added significant obstacles: a late and inefficient mobilization of the TAF; changes in IDC's strategic priorities; operational bottlenecks; and inadequate human resources – relating to internal reprioritizations during the second half of the 2010s'.

Impact

Both credit lines have delivered legacy projects, but not necessarily to small scale companies. The IDC can be credited for its willingness to accept the risk of new and innovative technologies that commercial banks and other financiers would not. Project developers, despite citing frustrations, confirmed that they could not have proceeded without the IDC. Moreover, there have been no payment defaults and from this perspective SUNREF has delivered net economic benefits to the economy.

Although the types of projects financed involved positive outcomes in terms of avoided emissions, more robust measurement methods and processes were needed and would have helped the IDC in its current ambition to report on its scope 3 emissions.

Sustainability

The (re)establishment of a dedicated IDC energy unit in 2020 to support South Africa's energy transition will allow to leverage on experience gained, although many skills were lost and will need to be rebuilt.

With no payment issues, at this point in time, the funded projects are successful and viable in the long term.

Added value of AFD's contribution

AFD was a pioneer of EE/RE financing in the South African market. Its target technologies supported the IDC to finance innovative projects.

Conclusions and lessons learnt

SUNREF 1 was highly relevant in the early 2010s, but a substantial and rapid change of the (national) political context from 2015, negatively impacted the second credit line. Beyond the national context, the project performance was affected by several factors including a late start of the technical assistance, reprioritizations and reorganizations within the IDC, and a non-attractive interest rate in its second phase.

Despite a low (39%) utilization rate of the credit line funds, the SUNREF supported projects of various types and sizes, with many of them being innovative and indeed first of their kind in South Africa, providing a proof of concept for future similar projects.

The Project illustrates the importance of a strong alignment between a thematic credit line's target sectors and segments, and the beneficiary institution's priorities.

The concomitance between the start of the technical assistance and the take-off of disbursements demonstrates TA's value when it comes to financing new technologies / market segments.

A more efficient project governance and management structure may also have improved the project's performance (e.g. with a TAF directly hosted by the IDC and a streamlined loan approval process).

Evaluation Summary

Transformational Line- Industrial Development Corporation

Country: South Africa

Sector: Multi-sector

Evaluator: HORUS Development Finance

Date of the evaluation: October 2024

Key data on AFD's support

Project number: CZA1160

Amount: USD 84.96m (credit line) + EUR 0.9 m TA grant;

Disbursement rate: 100%

Signature of financing agreement: February 2019

Completion date: 2024

Total duration: 4 years



Context

In 2018, when the Transformational Line was appraised, the IDC was a well-known partner, having already benefited from eight lines of credit from the AFD Group. The last, SUNREF 2, had not been fully drawn, with the IDC facing difficulties in generating eligible deals. AFD and the IDC wanted to explore new ways of collaboration, with a transversal approach to support the IDC's transformation.

Actors and operating method

AFD's intervention comprised a 12-year credit line of USD 84.96 M, with drawdowns triggered by the achievement of KPIs defined in a Matrix of Changes (MoC) that formalized planned activities and expected improvements.

The credit line was complemented by a EUR 900,000 grant to finance technical assistance needed to implement of the MoC and to support the IDC in other areas (eg. Climate issues).

The IDC directly acted as the Project Manager, with the Treasury Unit being AFD's main focal point. The IDC directly hired and managed the consultants in charge of the technical assistance activities.

Objectives

The Project's goal was to support the IDC in its strategic transformation in order to fulfill its mandate as a public development Finance Institution, and achieve the objectives assigned to it by the Government. More specifically, the Project sought to contribute to the growth of IDC's credit operations, lower its carbon footprint, and improve gender equality across the institution and its operations.

Expected outputs

The expected technical outputs related to four improvement areas:

- Gender: (i) implementation of an internal gender equality plan, (ii) improved credit offer and strengthened capacities to develop gender operations
- Operational efficiency and digitization: Increased efficiency in credit process through its digitization;
- Financial management: improved pricing modelling tools;
- Climate : identification of opportunities for IDC to support the revitalization of mining ghost towns.

The Project was also expected to provide the IDC with available long-term resources to support the growth of the credit portfolio

Performance assessment

Relevance

Overall, the co-definition of the areas for improvement allowed for a good alignment of the Project with IDC's strategic objectives and related needs. However, IDC's needs were not exhaustively covered. With IDC's strategic orientations being determined in consultation with the Government, the Project's objectives aligned with national policies and market needs. The credit line was primarily relevant to address the needs for additional funding to grow the credit portfolio.

Gender supportive national policies made the gender component even more relevant over the project period. As regards the climate component, whereas the topic was not a strong priority for the IDC at Project origin, recent developments in the climate/green finance environment and evolutions in IDC's objectives, reinforced the relevance of the workstream, although the activities could only have a marginal impact on IDC's carbon footprint.

Effectiveness & Efficiency

All the planned technical assistance activities were implemented or are being implemented, but with some delays due to the Covid-19 crisis and due to a misalignment of AFD's and IDC's procurement procedures. As a consequence, the first drawdown of the credit line was also delayed and the loan had to be repriced. The gender equality workstream supported the IDC's cultural transformation, with measurable progress in terms of women trained, promotions, and female representation in management and executive positions. Despite some difficulties relating to the consultant's performance, the gender in operations component allowed to identify opportunities and concrete actions that could be undertaken to increase operations with women-owned businesses. The operational efficiency and digitization components faced delays but led to improvements in process efficiency. The financial management and climate components achieved their objectives. The Covid – 19 crisis and the subsequent inflationary pressure affected the credit demand during the project period, which limited the performance of credit-related activities.

Impact

The gender equality component led to measurable improvements in terms of access to training and promotion. Whereas progress could be observed in financial management and operational efficiency it has not yet translated into visible effects in terms of credit portfolio growth and performances. Due to the nature of the considered activities, the climate workstream's impacts are marginal for now, but its introduction in the project's scope may have contributed to IDC's growing consideration for a climate-related topics.

Sustainability

By focusing on structural changes, the Project is likely to have long-term effects: the gender equality improvements are likely to be sustained over time, improved efficiency and financial management as well as gender operations will allow to grow the credit portfolio in the long term, provided that (i) it remains a priority for the IDC and (ii) the credit risk management process improves.

Added value of AFD's contribution

The transformational approach allowed to strengthen the relationship between the two institutions, adding on a strategic dimension and ensuring a high relevance of the support provided by AFD. The KPI-triggered disbursements provided incentives for the implementation of the transformation-related activities.

Conclusions and lessons learnt

The upstream strategic workshop held between the IDC and AFD has been key to design a highly relevant project. The two institutions could build on the experience to strengthen strategic dialogue, with possible support in areas such as small business finance and green or transition finance.

The comprehensive needs assessment relating to IDC's capacities to achieve its intended transformation, allowed to design appropriate technical assistance programmes. Key areas, such as credit risk management and the development of small business finance processes and tools were however not addressed by the project. In our view, these are fundamental if the IDC is to develop its credit portfolio in the longer term.

The project led to observable improvements and did effectively strengthen IDC's capacities to fulfill its mandate. The monitoring and evaluation framework allowed to efficiently monitor the implementation project activities. For future projects, the IDC and AFD may want to also integrate outcome-related indicators for monitoring and evaluation purpose and may consider supporting the development of methods and processes to monitor developmental outcomes in specific areas. This would also help formalize ambitions for future projects.