



Meeting the financing challenge in low income housing for a low carbon and climate resilient future: Sustainable Settlements Facility

The Challenge of Building Climate Resilient Homes

In South Africa there are 1,2 million households located in 2700 informal settlements. The existing stock of low income housing is considered inadequate in terms of the poor quality of building structure and the provision of decent shelter to South Africa's low income sector. A gap exists between the need for low-income housing in southern Africa, and the capital available to pay to build it. The Department of Human Settlement's (DHS) new build programme for low income housing provides a subsidy of R54 000 per household. A further R15 000 - R20 000 per household is estimated for improved energy efficiency measures, creating an additional financing requirement to support large scale low income housing delivery.

An opportunity exists to scale up the delivery of low income housing while integrating alternative technologies and improved energy access. To realise this opportunity, a robust financing strategy is required that effectively blends public and private capital.

Participants at the COP17 Side Event will be given insight into the SSF as a mechanism that combines climate risk adaptation and mitigation aspects with South Africa's low income housing challenge.

The challenges emerging from a fast tracked delivery programme are twofold:

- i) **USER-FINANCING:** Low-income households are unable to afford the use of energy and water beyond the free basic minimum.
- ii) **RESOURCE CONSTRAINTS:** Accelerated infrastructure delivery is being executed in the midst of resource scarcity and a need for cleaner energy sources.

Opportunity for Change

The DHS' low income housing delivery programme presents an opportunity to improve the quality of people's lives through improved housing quality and energy access while reducing future carbon emissions through the integration of several key government initiatives, e.g.:

- the Department of Trade and Industry's (DTI) recent inclusion of energy efficiency requirements in the national building regulations,
- the Department of Energy's (DoE) One Million Solar Water Heating programme and the Green Accord promoting the use of clean stoves.

The convergence of these positive government initiatives provides the impetus to immediately integrate national development priorities with climate mitigation and adaptation interventions.

There are a number of demonstration projects in South Africa where low income housing delivery has included energy efficient building adaptations. These interventions are largely funded on a grant basis. Among these demonstration projects is the Kuyasa Clean Development Mechanism (CDM) project. The project was the first Gold Standard and CDM programme of activities (PoA) registered in Africa. Kuyasa delivered 2309 low-income houses in Khayelitsha with SWH, insulated ceilings and energy efficient lighting, resulting in a saving of approximately 2.85 tonnes of carbon per household per year. Significant social and economic benefits resulted from Kuyasa including reduction of negative respiratory health incidences, access to hot water and disposable income savings. The project also enabled local job creation during installation and ongoing maintenance of technologies. In this light it was designed to impact not only on the financial and environmental system but also to impact on people, jobs and development. Other examples include Witsands in Cape Town where alternative technologies have been utilised in delivering low income households within the constraints of the existing budget and local government framework.

The “Sustainable Settlements Facility”

The SSF emerged as a concept from the lessons of the Kuyasa project addressing methodological design issues in terms of carbon credits for projects of this nature.

SSF has the support of the South African government as a Nationally Appropriate Mitigating Action (NAMA) and is identified in the National Climate Change Response White Paper as a potential financing mechanism for the Energy Efficiency Flagship Programme.

The SSF is envisaged as critical element of a wider national climate finance strategy.

BUILDING THE INVESTMENT CASE FOR LARGE SCALE SUSTAINABLE LOW INCOME HOUSING

Key issues to be addressed to realise opportunity to integrate development and environmental objectives:

- Approved alternative technologies
- Delivery of economic and social benefits (jobs, localisation)
- Utilising carbon finance
- Supplementing public capital with private sources
- Packaging low income housing as an investment proposition

SSF Progress to Date:

2006	Analysis & interrogation of carbon methodological work at Kuyasa funded by REEEP
2007-10	Extensive methodological design work financed by DBSA, DANIDA, South African Export Development Fund & Energy Development Corporation
2010-12	Design phase of programme delivery funded by KfW integrating carbon methodological designs, public and private capital sources
2011	COP17 High level consultation on SSF design features
June 2012	Target date for SSF to be operational and accessible to financing partners for low income housing delivery

Key Goals for the COP17 Consultation

- Confirm the financing challenges that SSF seeks to address
- Critique of the current SSF design features
- Propose technical, financial and institutional enhancements
- Identify partners for large scale delivery of low cost housing
- Set targets for implementation of first project

We begin with short **presentations** by DBSA and SSN on the history, financial and institutional models, scaleability, technologies and project partners. We then move to the more substantial part of the session, a **facilitated dialogue** by Graham Sinclair (Sinco), aimed at generating ideas for financing. The dialogue will open the opportunity to identify partners and explore key issues, including the risks to be mitigated, programme design, appropriate governance and institutional arrangements and similar important issues.

For more information, contact climatefinance@dbsa.org.