THE PRESIDENCY
REPUBLIC OF SOUTH AFRICA

Keynote address by Mr Daniel Mminele, Head: Presidential Climate Finance Task Team, at the Policy Discussion on Just Transition Finance, convened by MISTRA, 09 May 2022

INSIGHTS ON JUST TRANSITION FINANCE FOR SOUTH AFRICA

Introduction

Good afternoon ladies and gentleman,

Thank you to Mistra for the kind invitation to deliver the keynote address at today's policy discussion, and for creating this platform and convening us as key stakeholders and role players, to exchange views and share ideas on how we should think about, and act, as we confront this very strategic challenge of Just Transition and how to finance it.

Allow me to take this opportunity to also congratulate and commend the editors and the broader Mistra team, on their leadership in conceiving and compiling the recent publication on the Just Transition. Given the many views on Just Transition that exist, thoughtful and considered policy research is essential to draw together the fragments into coherent narratives. This research is imperative to underpin more coherent and pragmatic actions as the transition unfolds.

When discussing the complex and intertwined topics of climate change, climate finance, just transition, just energy transition, and just transition finance, one will always struggle to do justice to the task on hand in the allocated time, and it is quite easy to get lost in the forest. In my remarks today, I will restrict myself to touching on the nature of the Just Energy Transition Partnership (JETP) between South Africa and our international partners, and the structure and process we have put in place to pursue the partnership; then I will focus on South Africa's approach; provide an update on where matters currently stand, and next steps; before offering some final thoughts as I conclude.

The JETP

You will be familiar with the Political Declaration issued at COP26 on 2 November 2021, wherein the governments of South Africa, France, Germany, the United Kingdom, the United States and the European Union established the Partnership to support South Africa's transition to a low-carbon economy and a climate resilient society. In terms of the Political Declaration, partner countries pledged to mobilise an initial US$8.5 billion to support South

Africa's transition through a combination of financial instruments, including grants and concessional loans, over the next three to five years.

Since the announcement, the international interest in the Partnership has been increasing, with many countries keenly watching and hoping that South Africa will set a precedent for how to engage international climate resources to support a just transition. A distinguishing feature of the Partnership cited by many is the emphasis it places on how justice is achieved for affected workers and communities that are presently dependent on the fossil fuel industry for their livelihoods.

The Political Declaration aims to capture the motivation and direction of South Africa's response to climate action. In particular, the Partnership proposes that the funding be used for the accelerated decarbonisation of South Africa's electricity system, for the development of new low-carbon sectors such as green hydrogen and electric vehicles, and to ensure a just transition for affected workers and communities, in the context of South Africa's growth and development priorities. The energy and transport sectors currently hold the highest potential for emission reductions for South Africa, hence the focus on them.

The single biggest contributor to South Africa's carbon emissions is electricity production (41% of emissions), and reducing emissions in this sector is one of the focus areas for the Partnership, which must also position South Africa to take advantage of opportunities in green technology, in particular from new energy vehicles (NEVs), and the production of green hydrogen for local use and export. The development of these industries requires substantial public and private sector investment to achieve their potential and the resultant job creation and economic growth.

It is important to mention that this is an *initial* amount, and as a country, we recognise that the transition costs for South Africa are immense – and we will need more partners, not only those that signed up to the Political Declaration. This is already happening as we have been approached by other governments showing interest, which is evidence that the Partnership holds catalytic potential to mobilise critical future funding. The scale of investment required for South Africa to achieve the ambitious targets outlined in its updated Nationally Determined Contributions far exceeds US$8.5 billion, and support from a broad range of partners is necessary to mobilise additional funding.

For green hydrogen alone, for example, it is estimated that South Africa requires initial seed capital of US$1 billion to expedite green hydrogen export of 20kt per year, and a further US$13 billion to scale production to 270kt [1]per year. I was fortunate to witness the potential of this on Friday (6th May) at the launch of the proof of concept of a green hydrogen-powered, zero emission mine haul truck.

As regards electric vehicles, South Africa has been an integral part of the international division of labour in the motor industry for many decades, with the country serving as a hub for

[1] Kt = kilo-tonnes

exports of certain vehicle models, with the sector contributing to approx. 15% of export revenue and directly employing over 100,00 people.

The structure and process to deliver on the JETP commitments

Let me now briefly share the structure and process around the Partnership. The apex structure for interacting and negotiating with our international partners is the Presidential Climate Finance Task Team, which was established in February this year. The Task Team reports to an Inter-Ministerial Committee chaired by the President.

My task, as head of the Task Team, is to bring to Cabinet, via the IMC, final recommendations on an investment plan and a financing package negotiated with the international partners, which primarily demonstrate the centrality of just transitions through a managed transition and investment process. This is a daunting task, as you may well imagine, which while targeted at the initial US$8.5bn, needs to be executed within the context of a broad, systemic lens as opposed to a climate finance lens only. Multiple, complex, urgent and challenging issues are at play, which affect South Africa's development and growth trajectory. As a nation, we already face increased evidence of climate vulnerability (e.g. recent KZN, EC floods) and the associated losses and response strategies, existing high levels of inequality and poverty, continued energy and water security threats, and the looming carbon border tax adjustments of our trading partners in the global north.

I am very grateful for the support of stakeholders across government in working on this important task. The Assets and Liabilities Management team from National Treasury are playing a critical role, in particular analysing the financial implications on the fiscus of any financing package (its composition, affordability, and alignment with our regulatory environment, and impact on the national borrowing programme and budgets).

The structure of the Partnership comprises a three-tier structure, consisting of the South African Presidential Climate Finance Task Team and its counterpart, the IPG (International Partners' Group), supported by an independent secretariat, which facilitates technical and related engagements and also coordinates, at the third level, a number of technical working groups that reflect the areas of priorities agreed upon.

The South African Presidential Climate Finance Task Team is made up of a diverse multi-disciplinary team of individuals with relevant expertise and experience. I am privileged to work with individuals that were responsible for fostering the Partnership at COP26, securing development and climate-related resources for South Africa, and with others that will strengthen the ability to co-design large scale public-private sector investment programmes through a just transition lens.

We are in the process of forming three sector-focused working groups and two working groups focusing on finance and implementation. We made a strategic decision that each of these groups have to conduct their work through a just transition lens – which allows us to embed, and not see as separate, the imperative of centralising just transition in the investment plan and financing package. The Secretariat is funded by the Climate Investment

Funds (CIF) on an arms-length basis, and is chaired by Ms Joanne Yawitch. Many of you will know her from the National Business Initiative.

We look forward to drawing on inputs, insights and support from a broad range of domestic stakeholders to ensure as inclusive a process as possible. In this regards I would highlight the extensive work on which the Partnership is able to draw specific to the just transition - to name a few: the initial just transition work by the National Planning Commission, the just transition framework of the Presidential Climate Commission, COSATU's Just Transition Blueprint, civil society's Just Transition Open Agenda, and the many contributions by business, academia and policy thinktanks, including MISTRA.

We do not aim to start from scratch – our aim is to build on what has been done, and consider their contributions to the task at hand. I am hopeful that what might appear to be fragmented propositions, can soon be consolidated, and that any areas of additional insights required can be identified and addressed. We will also draw on the work already done by IPG members, multinational development and financial institutions.

South Africa's approach to the Just Transition

I believe several key messages are important to highlight at this stage for South Africa's approach to the just transition:

1. **Recognition of the importance of addressing climate change**: South Africa has submitted an ambitious Nationally Determined Contribution (NDC) submitted prior to COP 26, which commits us to a target range of 420 MT CO_2-eq[2] to 350 MT CO_2-eq. The intention of the partnership is to help us to achieve this target, which is in line with the Paris goals and compatible with a global temperature increase not exceeding 1.5°C. Achieving this will not be easy, and will require substantial new investment to enable our transition to a low-carbon economy It will also require substantial and managed divestment or shifts in high carbon emitting industries as transition implies a two-way shift.
2. **Translation from declaration into practical**: The IPG and related development finance institutions have expressed a strong commitment to support South Africa's ambition to transition to a low-carbon economy and more climate resilient society. It is essential that such a commitment translates into tangible financial support, on terms and conditions that positively contribute towards South Africa's objectives and do not create unintended consequences that may negatively impact future generations of South Africans.
3. **Building resilience in our nation**: The Partnership should support South Africa's economic growth and job creation efforts alongside reduced carbon emissions, to ensure that workers and communities benefit appropriately from our shift to a greener future. In this regard, South Africans must ensure that country-specific

[2] Per million tonnes of carbon dioxide equivalent

circumstances are fully considered, to demonstrate ownership and leadership in this process.

4. **Setting pace of transition**: It is essential to emphasise that the pace and extent of decarbonisation in South Africa will be determined by the extent of available resources. The Partnership should offer long term cooperation, commensurate with the timeline for South Africa's just energy transition.
5. **Pragmatic short term action**: South Africa's investment plan will include a short-term programme to identify and secure funding for critical projects to be initiated before COP27, and a longer term programme, both of which will contain essential features that enable the just transition.
6. **Growth in fixed capital formation is essential** for South Africa to achieve its social and economic aspirations. The decarbonisation of the electricity sector, and investment in green technologies through the Partnership, provide an opportunity to grow fixed capital investment towards the 30% of GDP targeted by the National Development Plan (from the current level of about 15%).
7. **Sequence of investments**: The investment plan should significantly contribute towards strengthening South Africa's future energy security and not jeopardise this imperative. By decommissioning coal-fired power stations through a managed process and rapidly expanding alternative sources of power, South Africa can achieve greater security of supply, reduce the risk of load shedding and accelerate economic growth and job creation. The Partnership needs to also manifest, and enable investment in the energy sector in the short term to contribute towards this imperative. In addition, investments in green hydrogen and EVs are essential complementary investments necessary for the medium to long term, and the plan should include components that can be addressed in parallel to the energy investments.
8. **Our partnership, not government's**: Government must work with the private finance sector to facilitate its contribution to the Partnership and the country's transition efforts more broadly, with a view to effectively using the international financial support, and mobilising domestic resources to complement such support.
9. **Inclusive engagement**: South Africa is undertaking extensive engagement with social partners, including through the Presidential Climate Commission, and building on the work of the National Planning Commission, to ensure that its transition plans reflect the needs of affected constituencies and ultimately achieves a just and inclusive impact. Some of you may have participated in the PCC Conference last week as part of this process.

These principles ultimately should manifest in a financing package and investment plan, through the Partnership, that addresses South Africa's fiscal realities and priorities, and upholds the development and climate finance principles applicable to developing countries generally. In practice, this means:

- *Developed countries are obliged to support mitigation and adaptation* measures in developing countries, which needs to be evidenced by both the quantity (amount of flows) and the quality (access, design and implementation modalities) of the financing package.

- *Financing instruments should reflect South Africa's unique needs and fiscal challenges*, and incorporate appropriate and equitable risk-sharing arrangements. These include, for example, risk mitigation instruments, grants, concessional loans and other appropriate tools (financial or otherwise) that contribute towards the costs of the country's transition without inhibiting or negatively impacting the country's national borrowing programmes and budgets.
- *Any debt-related terms should be more attractive* than the country could secure in the capital markets without unduly onerous reporting requirements.
- The *level of concessionality of any debt related instruments* must reflect both the obligation of developed countries to finance mitigation and adaptation measures in developing countries, and the significant cost of these measures.
- Finance flows from the partner countries through the Partnership need to be *predictable and certain*, to enable the sustained momentum of South Africa's investment plan necessary to achieve its target of net-zero carbon emissions by 2050.

Where things stand

Intensive discussions with the IPG are currently underway, with a view to better understanding the necessary detail regarding the funding elements to be provided through the Partnership and intensifying technical work for South Africa's investment plan, with special emphasis on how such plan enables the just transition.

We have also been meeting with colleagues across government, including the Presidential Climate Change Commission, to develop an aligned and coherent South African approach, with engagements with the private sector and civil society organisations to follow. Today's interaction forms part of this ongoing process of consultation. As President Ramaphosa has said repeatedly, we need to bringing all parties along as best possible and not leave people behind.

What needs to happen next?

I would like to stress to you all that the *JETP is not a bilateral process*. As indicated earlier, while it is led by the South African government, it is on behalf of the people of South Africa. And the IPG is not an exclusive club – we need the support of more partners, whether under the umbrella of the IPG or independently.

It is also not a short-term process. Yes, we need to demonstrate tangible progress and identify specific investments and associated funding in the coming months, ahead of COP27 in Sharm el Sheik, but this is just the foundation for a longer term process. Our decarbonisation journey is a 30-year plus undertaking, and we must ensure that the decisions we take today support our efforts tomorrow.

It is *also not exclusively a public sector process*. We have always been clear that the US$8.5 billion is only a start and is insufficient to fund our transition. It is drawn from public sector finances, but these are dwarfed by what is available in the private capital markets – we need to develop mechanisms to mobilise these forms of finance to invest in South Africa's just transition.

It is also not business as usual. A distinguishing feature of the Partnership is putting the impact on affected livelihoods at the centre of considering the investment plan and financing package. While South African financial institutions can draw from lessons from their vast experience in financing other economic transitions to support this transition, which is informed by an environmental imperative, we need to appreciate that this is a different paradigm, which may require a different approach to risk allocation, return expectations and investment horizons. There is a need to invest in understanding what is different and how to innovate to ensure that financial products and services serve the goals of justice in an inclusive and equitable manner in the real economy.

The financial community is heavily engaging since the 2015 Paris Agreement around their contribution to "making finance flows consistent" with the Paris Agreement. In the UNFCCC's[3] 2020 Biennial Assessment, over 115 new initiatives are noted globally – involving new products and services, regulatory and legal standards and voluntary pacts to achieve net zero outcomes. Some of these initiatives speak to blending finance (public, private and philanthropy) – but the actual practices are still catching up – the quantity of finance alone will not enable a just transition.

It is also the quality of how investment programmes are constructed, the impact on the real economy of new financial products and services, and consistency with which investment portfolios are constructed. I also believe it is accepting that financing and supporting just transitions is the responsibility of all finance flows – public and private, international and national. So while the significant commitments made by the IPG, and the multilateral institutions to South Africa aid in our journey, it is essential that private sector capital follow suite and contribute to these objectives.

This requires our financial institutions to demonstrate the flexibility, innovation and creativity necessary, to appropriately balance risk and return with a view to supporting our country's development not just over the next financial year, but for the decades that follow.

The financial sector is a powerful force in advancing South Africa's just transition, and if we work in a complementary manner, we strengthen the entire financial system, making it compatible with the country's climate response and focus on just transition. The challenge is how to sequence investments that reduce the impact of the inevitable trajectory of climate, while we have the chance to prepare, before certain actions may be imposed on South Africa – either through climate events or global economic shifts.

[3] UNFCCC defined as United Nations Framework Convention on Climate Change.

I commend the South African financial community for their awareness of climate risks and the initial steps they have taken to promote the country's climate response. The work that is already under way in the financial sector, and of course not only the financial sector, with regard to embedding ESG and sustainability into business models and strategies, and the efforts that have been going into disclosure and reporting hold promise. Primary examples being the National Treasury's Green Finance Taxonomy, the JSE's sustainability-focused listing and disclosure guidance.

Conclusion

Socrates is credited with saying that "understanding your question is half your answer".

At this stage, I have many more questions than answers to offer this meeting. I know this because of all the questions I am asked, including no doubt following this talk! – I assure you we are working hard to understand these questions, and develop appropriate responses.

The barrage of questions does not dishearten me, because unless we ask ourselves deeply what questions we should be asking to deliver a just and inclusive transition for South Africa, our responses remain at risk of being narrow, pedestrian and thus not impactful. Expedient responses also mean that we may lock-in path dependencies that in themselves became issues for future generations to unravel.

I appreciate and welcome the immense interest in the JETP. But remember this is not a one-way conversation: we need you all to ask questions and develop responses about your own participation in and support for South Africa's just transition. Together we rely on your answers to find a way forward, and the JETP is not the magical pot at the end of a rainbow. At best it is an initial contribution to our national efforts, and we need the creativity and impetus of South African grown solutions to take us further.

Thank you.