TRADE & INDUSTRIAL POLICY STRATEGIES (TIPS) NPC
PO BOX 11214 | HATFIELD | 0028 | PRETORIA | SOUTH AFRICA
234 LANGE ST | NIEUW MUCKLENEUK | 0181
TEL +27 (0)12 433 9340 | FAX +27 (0)12 433 9344
WWW.TIPS.ORG.ZA
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Financing a just transition requires a rethink of financing mechanisms

Achieving a just transition to a green economy in South Africa might force an overhaul of existing financing mechanisms and instruments if communities impacted negatively by the transition are to truly benefit.

This emerged as a central theme during a Trade & Industrial Policy Strategies (TIPS) Development Dialogue webinar held yesterday which focused on exploring a number of possible options to finance the just transition process in South Africa. The speakers highlighted that financing is currently done in a very top-down approach, which is not appropriate in the context of a just transition. This requires a rethink of financing and financing instruments. In effect, there was a general call that the people who are impacted by climate change and the shift away from coal or carbon intensive industry are placed at the centre of any conversation around financing the just transition.

This dialogue was the fifth in a series of conversations focused on how to effect a just transition to a green economy in South Africa's context of inequality, poverty and unemployment; and how to effectively address the negative impacts of climate change on vulnerable stakeholders, such as communities and workers. Finance is an important cog in the ecosystem of support measures to achieve an effective just transition.

Itumeleng Leie, Founding Director of Ushiri Group, called wholeheartedly for a more inclusive conversation around financial interventions linked to the just transition. He argued that "people should be at the centre of financing schemes and any transition conversation." He added that the finance measures proposed should also offer products that can be understood by ordinary people and targeted at the youth.

Mike Ward, a Senior Evaluation and Sustainability Expert with the Climate Investment Funds (CIF), pointed out that transitioning is happening faster than expected and the challenge for everyone is whether it is going to be a chaotic or just process. The challenge, he stressed, "is exploring how a just transition can be achieved alongside the type of transformational change necessary to address climate change." In exploring this, Ward highlighted that a just transition framework needed to consider both procedural and distributive justice. He also explored different ways of pushing financing to be more ambitious. Participants in the dialogue cautioned that, if key stakeholders are not conscious about what is needed to achieve a just transition, then financial institutions could take advantage and develop new just transition financial products which will not benefit the intended beneficiaries. On this point, TIPS Senior Economist Gaylor Montmasson-Clair pointed out that "financing is not an end in itself, it is a means to an end; it is there to enable a just transition, not determine the agenda of the transition."

Emily Tyler, an Economist at Meridian Economics, explored the role of transition finance to ensure a move away from coal. Transition finance is different from green finance, she explained. It is "financing to enable the managed phase down of carbon-intensive legacy assets". In the South African context, she highlighted that a transition finance structure could take the following form: a) Eskom and government commit to an accelerated coal phase down trajectory and replaced with renewables; b) climate financiers extend and/or grant new (concessional) loan finance facilities to support this shift; c) remedies for non-performance are implemented; and d) (some of the) concessional value accrues to a Just Transition Fund for affected communities and labour. Tyler pointed out that transition finance could address the serious credit risk Eskom currently faces. It could create a vision for the power sector and beyond, hard-linking climate change mitigation and support to coal workers and communities.

And finally, Jesse Burton, Senior Associate at climate change think-tank E3G and Researcher at the University of Cape Town, in looking at the extensive subsidies provided over the years to the fossil fuel sector argued that a "transition to a low-carbon, climate-resilient economy that is sustainable and inclusive means altering the structure of the economy and the flows of support that maintain the carbon-intensive, energy-intensive and low-labour absorbing economy that we have today." It is ironic, she pointed out, that while it is clear that the subsidies of the past to the coal sector are not serving the country now, those who have and are benefiting from them claim that the country cannot afford subsidies for a just transition.

Whilst this was the last webinar of the series on a just transition for 2020, TIPS will continue exploring policy options to move South Africa along the path of a just transition to a green economy in 2021 and beyond.

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For more information, contact Gaylor Montmasson-Clair on 071 31 99 504 or gaylor@tips.org.za.