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# THE ROLE OF 'TRANSITION FINANCE' FOR MITIGATION

FOCUSING ON A JUST TRANSITION  
FOR SOUTH AFRICA

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# A JUST POWER SECTOR TRANSITION IS ESSENTIAL FOR SA TO ACHIEVE ITS MITIGATION GOALS

## South Africa's low carbon vision:

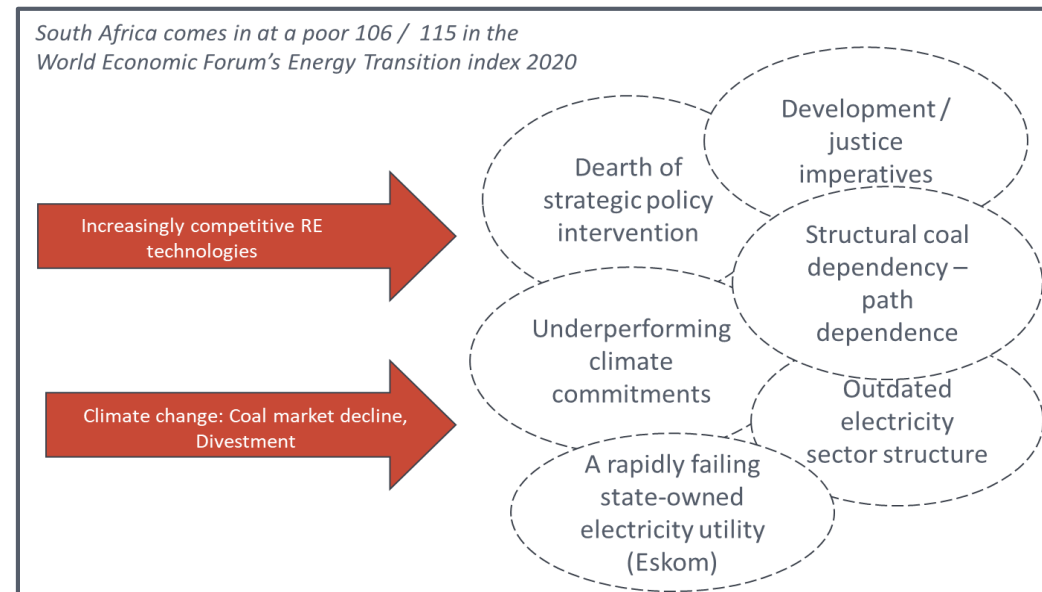
- Moving towards an ultimate goal of net zero carbon emissions by 2050 (LEDS)
- Through a just transition, enabling sustainable development (NCCRWP, NDC, NDP, LEDs)

## The power sector contributes over 40% of SA emissions

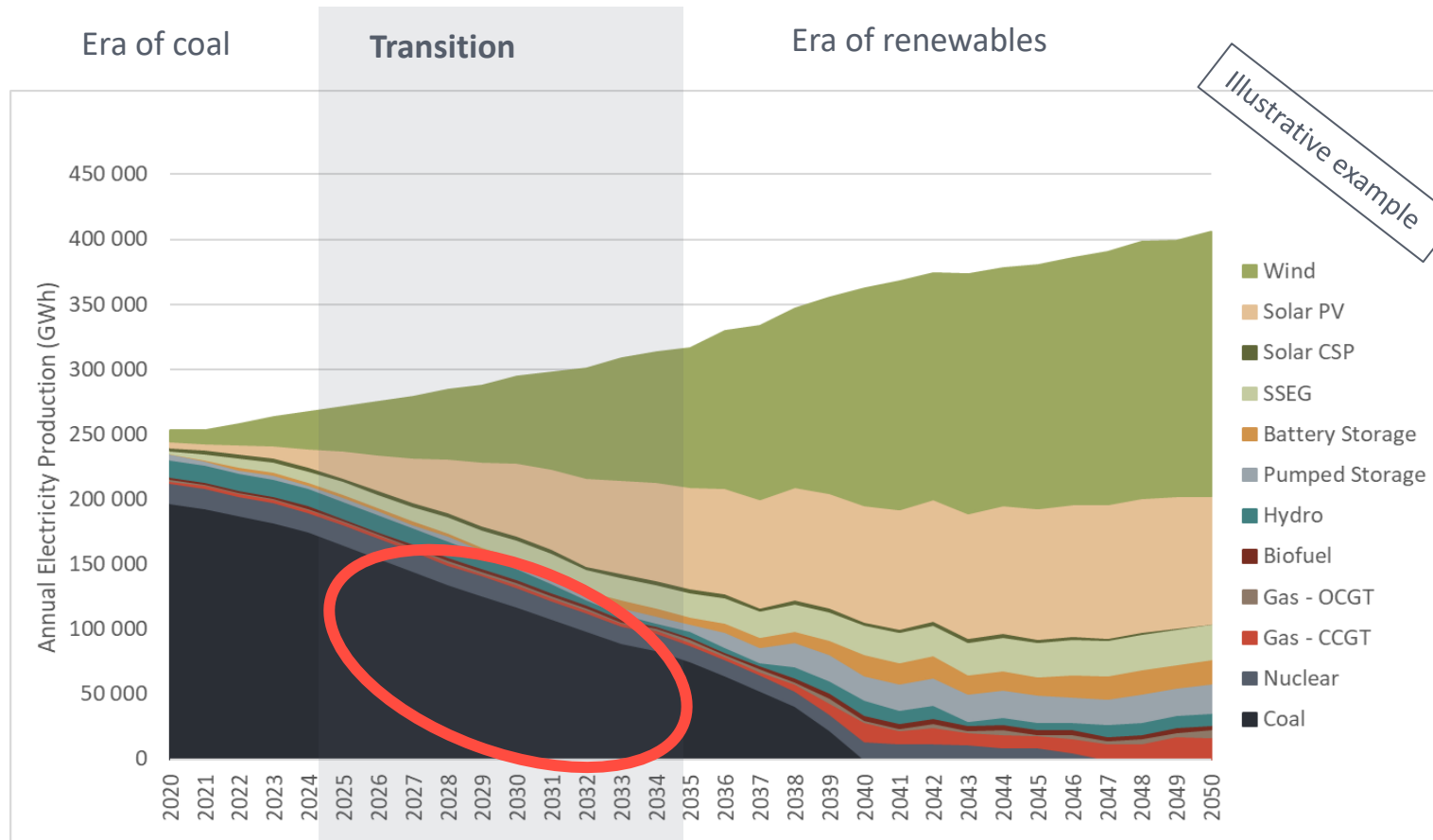
Implying that, within 30 years, the sector must:

1. Transition away from coal (how fast?)
2. Provide adequate, secure electricity for the economy to recover, grow and restructure
3. A just transition:
  - For coal workers and communities;
  - Systemic reduction in inequality?

## 2020 power sector starting point: multiple intersecting crises



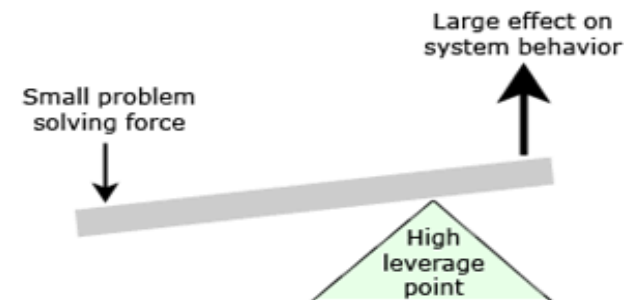
# ESKOM'S COAL FLEET HAS A CENTRAL ROLE TO PLAY IN ENSURING ELECTRICITY SUPPLY, EVEN IN A RAPID TRANSITION



Source: Meridian Economics & CSIR, Ambitions project, 2020

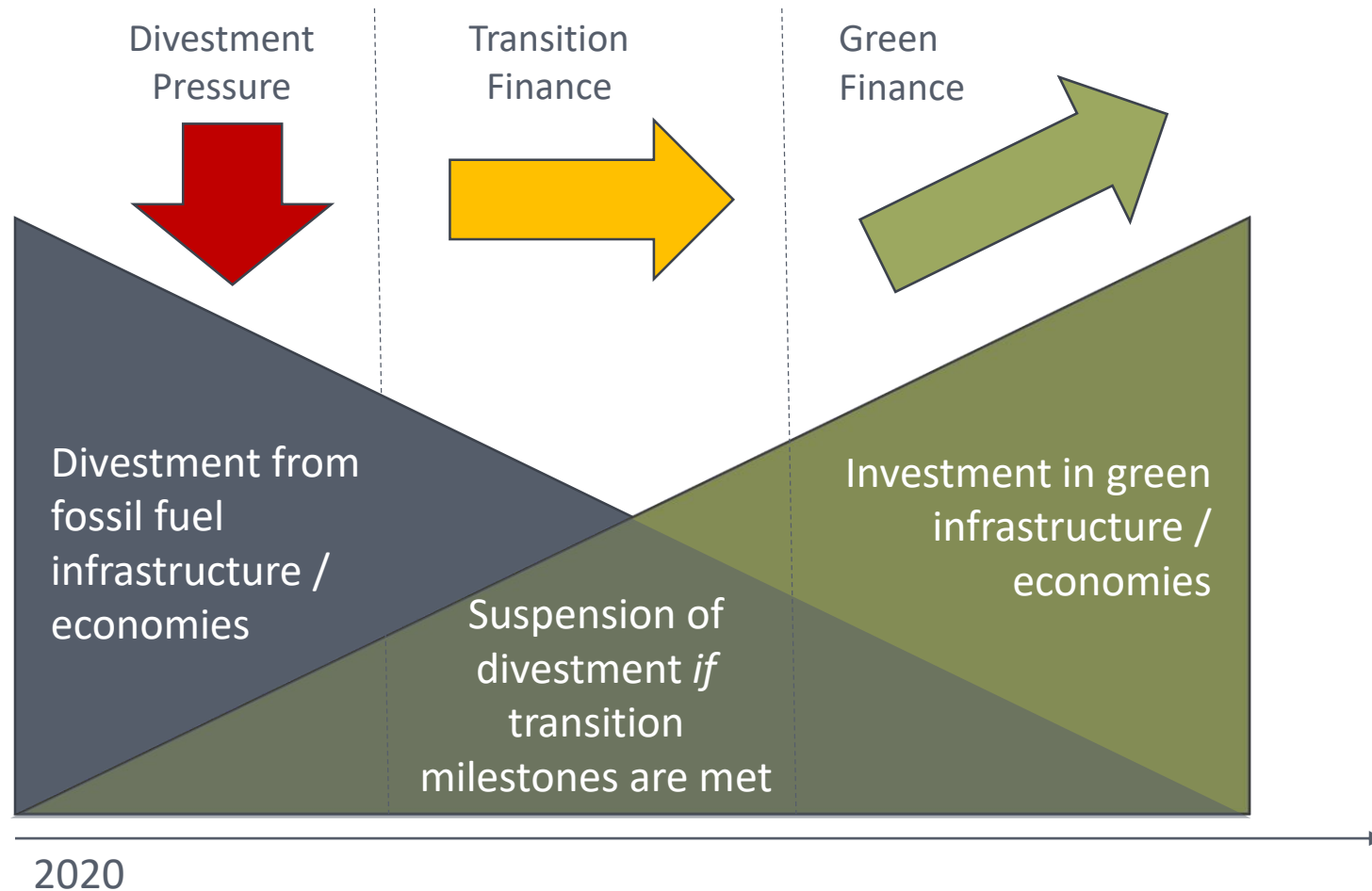
But this fleet is currently associated with operational challenges, local pollutant issues, insufficient revenues, unserviceable debt, and financiers exiting coal.

**Transition finance provides a high leverage point to chart a viable transition path for the coal fleet**



# WHAT IS TRANSITION FINANCE?

FINANCING TO ENABLE THE MANAGED PHASE DOWN OF CARBON INTENSIVE LEGACY ASSETS

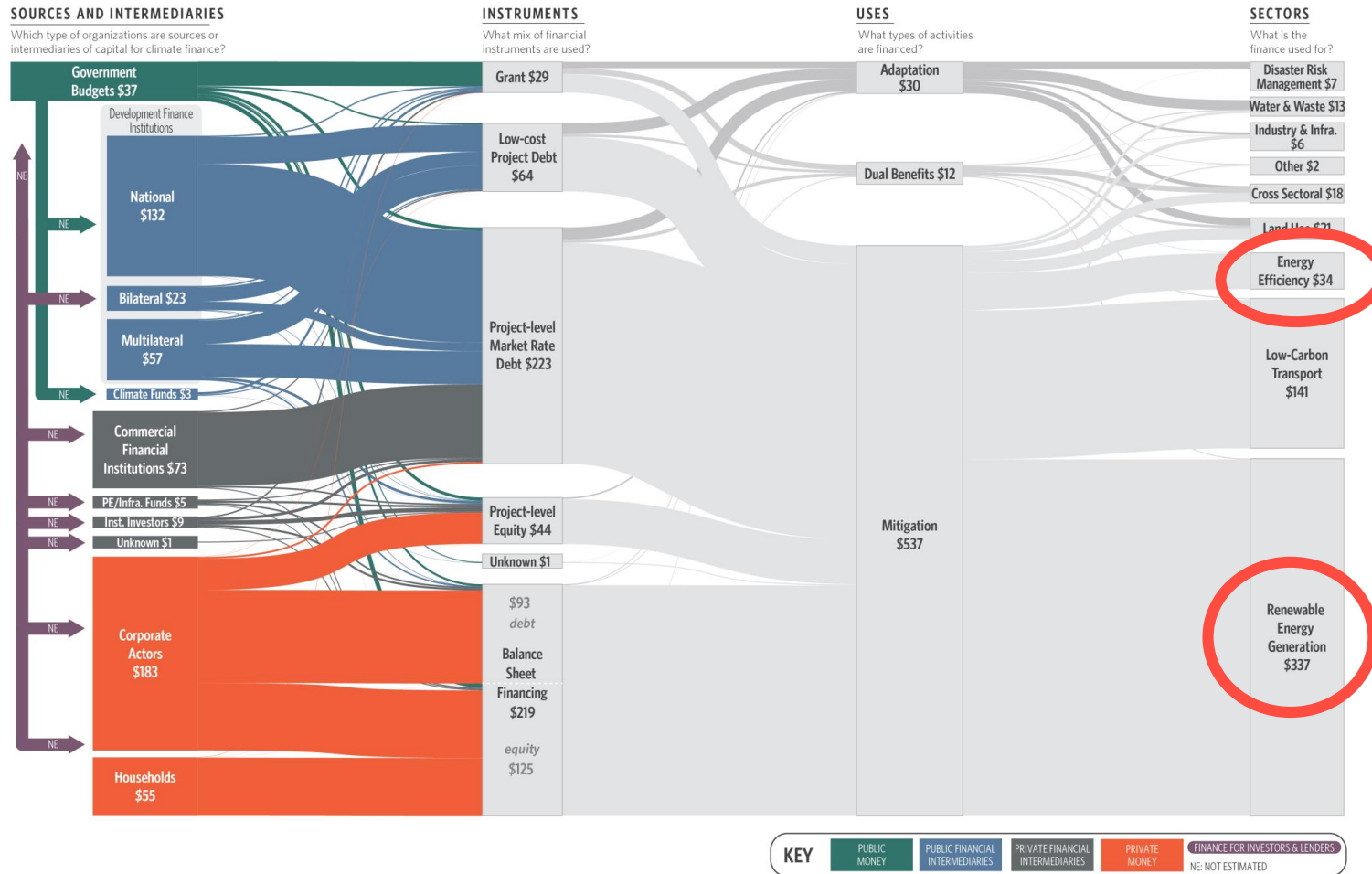


**Transition Finance is increasingly being discussed internationally given Paris goals:**

E.g. Climate Bonds Initiative, 2020; Imperial College, 2020; Oxford Martin Principles for Climate-Conscious Investment, 2018.



# TRADITIONALLY CLIMATE FINANCE HAS SUPPORTED RE / EE



We argue the need for another category of climate finance: Transition Finance, to shift legacy fossil fuel systems rapidly

There is appetite from the international climate finance community to support a **prototype Transition Finance transaction in South Africa**

This window of opportunity for SA will likely close after COP 26 end 2021



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# WHAT COULD TRANSITION FINANCE LOOK LIKE FOR SA?

## KEY COMPONENTS OF A TRANSITION FINANCE STRUCTURE:

*Eskom (unbundled) and SA Govt* commit to an accelerated coal phase down trajectory

*Climate financiers* extend / grant new (concessional) loan finance facilities to Eskom (unbundled)

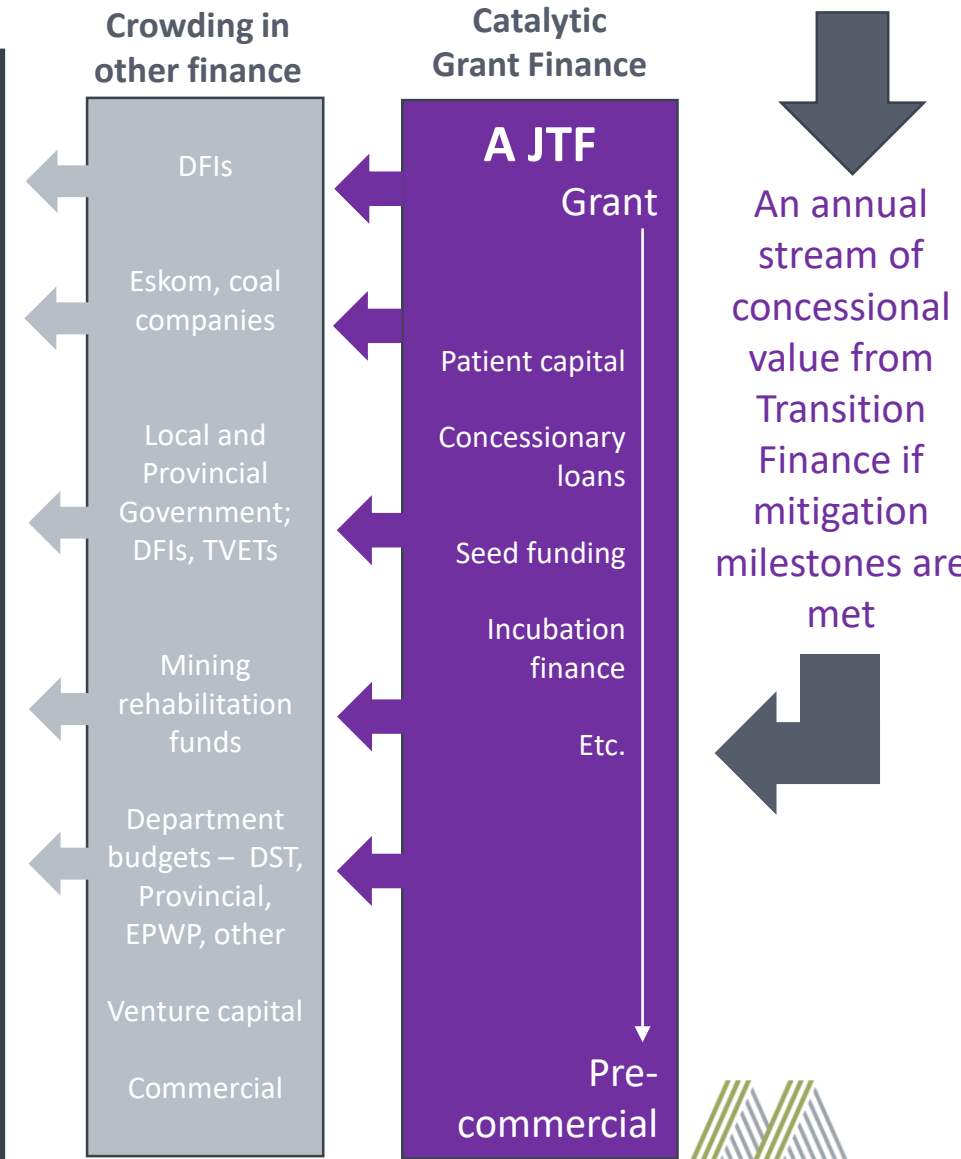
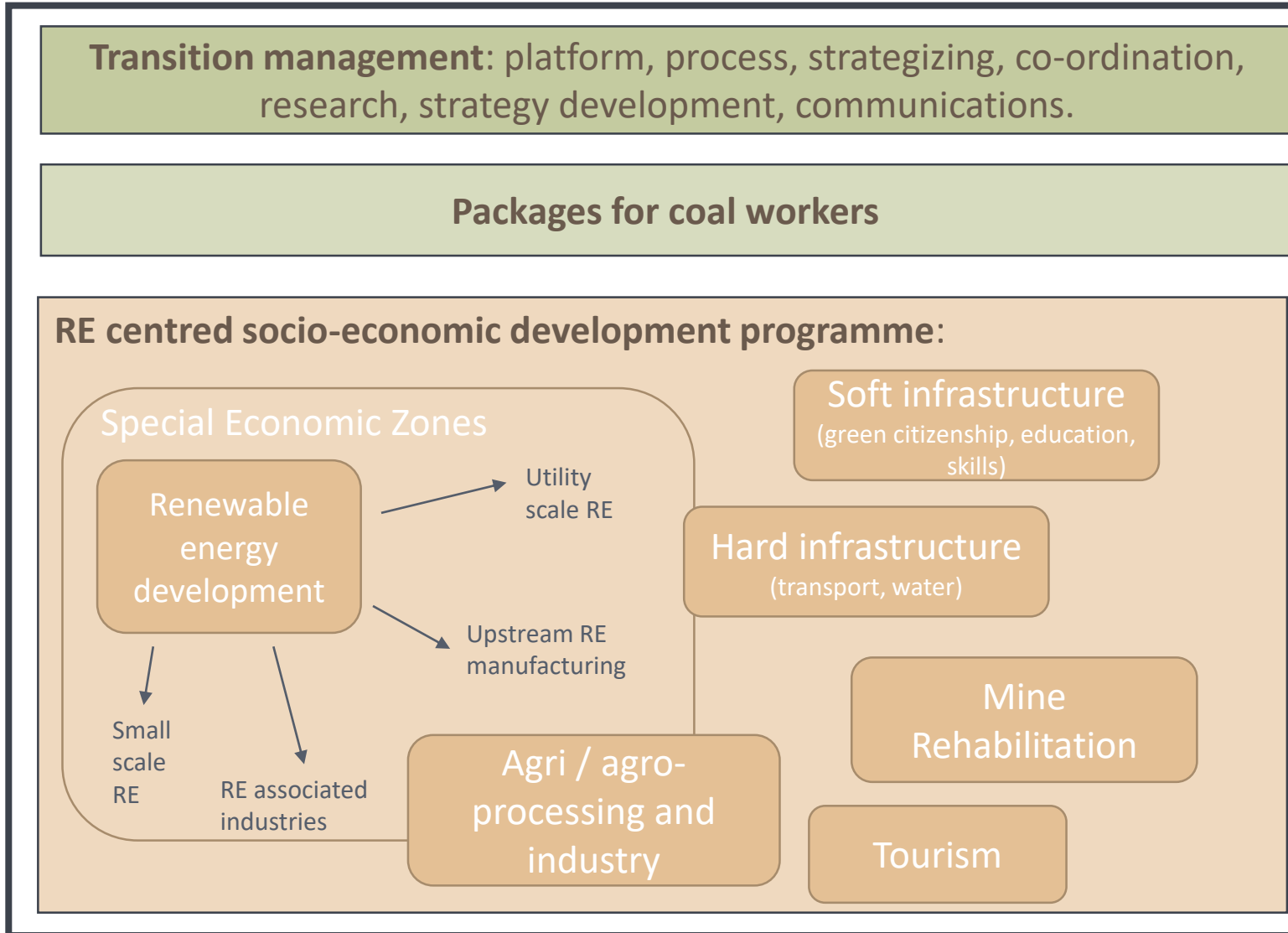
There are *remedies for non-performance* (e.g. rate adjustment, withdrawal of financing)

(Some of) the concessional value accrues to a *Just Transition Fund* for affected labour and communities



# A JUST TRANSITION FUND: CATALYTIC FINANCING FOR THE MPUMALANGA JUST TRANSITION

(Straw dog) Mpumalanga Just Transition Programme



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# THE ROLE OF TRANSITION FINANCE FOR MITIGATION AND JUST TRANSITION

## Transition finance contributes 3 key pieces in response to the SA power sector crisis:

1. It addresses the serious credit risk Eskom currently presents to the fiscus
2. It creates an organising vision for the power sector and beyond
3. It hard-links power sector mitigation and support to coal workers and communities through financial flows

- South Africa's historical fossil fuel path dependencies are a reality. **Transition finance is aimed at unlocking the creation of new, clean and just power sector pathways**
- A significant reduction in Eskom's credit risk might help **overcome some of the current political and institutional barriers** preventing SA from accessing the benefits of these new paths
- The finance targeted is the stock of invested capital, not just the incremental flows (Rocky Mountain Institute, Reinventing Climate Finance, 2019). **This is a radical innovation in climate finance and has caught international financier interest.**
- **There are no silver bullets!** But we propose transition finance to be a high-leverage point, enabling other mutually reinforcing solutions to emerge





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