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RESEARCH POLICY ADVOCACY

Alternative JETP Financing Mechanisms for Workers

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Acknowledgement

The Scaling Up of DFIs in climate finance provision to support localisation and worker transitions - Joan Stott - Senior Programme Officer in Resource Mobilisation and Climate Finance, IEJ contact: joan.stott@iej.org.za

Leveraging Monetary Policy to Support Transition Worker Transition Needs - Dr John Morris

Assertive Fiscal Policy in an Equitable and Worker Centric Climate Response - Len Verwey

COSATU AND SAFTU comments

KEY TAKE AWAY POINTS

What is the current NDC docs position on climate finance?

- Pins its hopes on mobilising climate finance through international cooperation through the UNFCCC and accessing concessional financing and domestic resources.

What is not Working about the current Climate Finance Regime?

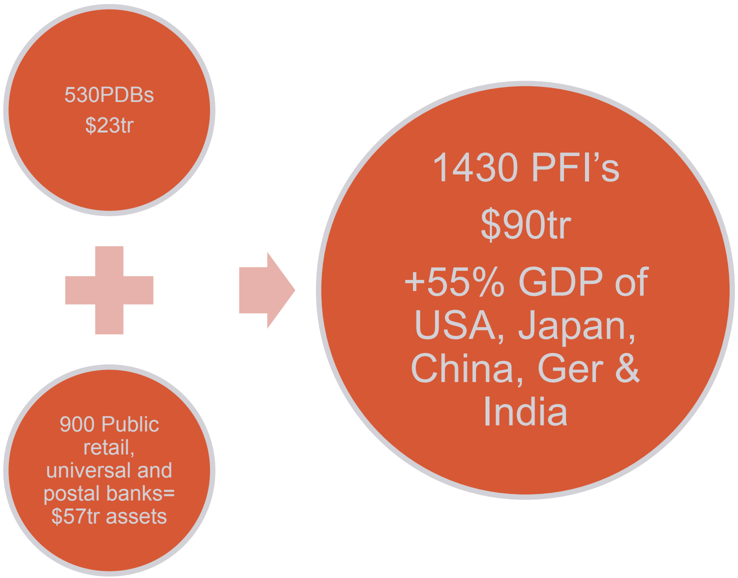
- Current Global Financial Architecture is not mobilising climate finance to the scale we want nor in the direction we want.
- Geopolitical situation will see less mobilisation - Trump effect
- Global Financial Architecture is not within our sphere of influence
- SA’s macroeconomic framework is within our sphere of influence **to a degree** but it is not mobilising climate finance to the scale we want nor in the direction we want
- Consequently our DFIs are not playing their role sufficiently

What is possible?

- Progressive Macroeconomic Framework supporting domestic resource mobilisation and allocation
  - Leveraging Fiscal Policy + Leveraging Monetary Policy = Scaling Up Development Finance Institutions

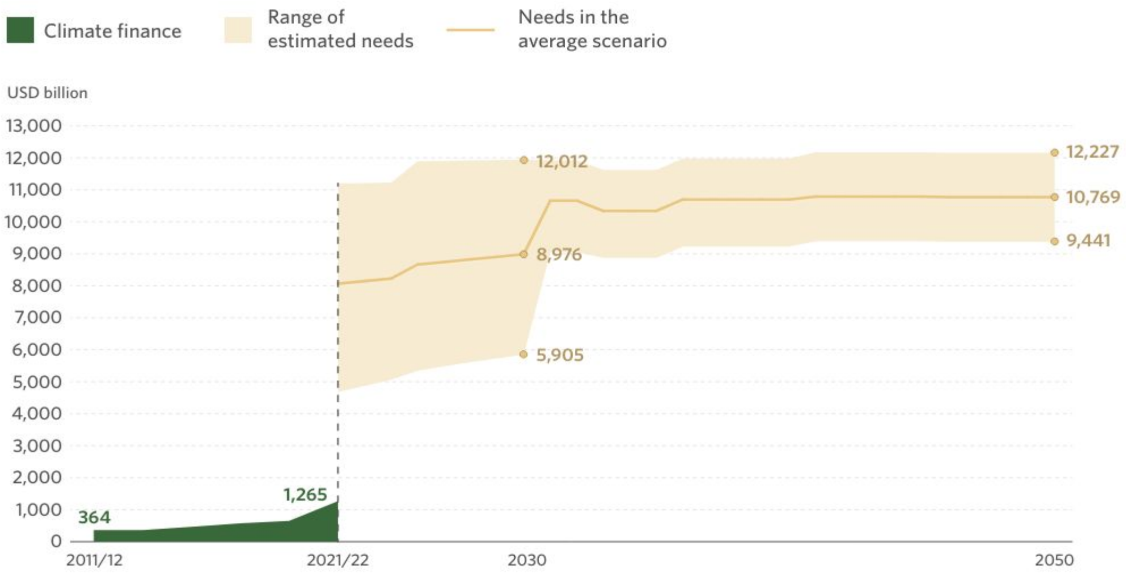
The potential role of Public Bank collaboration in mobilising climate finance

Under-appreciated and under-utilized global public financial capacity + lack of PuPs



- In collaboration public banks can provide more financing.
- Public banks can together better support socially just and demonstrably sustainable development projects than in isolation (Steinfort and Kishimoto 2019
- Public-public collaboration can effectively internalise the interdependence of climate action with sustainable and equitable development as a matter of policy priority.
- Adaptation, mitigation, and biodiversity goals can be better achieved through intentional, coordinated, and impact oriented public investments.
- So the ambition is not simply more financing, but more collaborative financing that demonstrates verifiably positive impacts for people and the planet – everywhere – and does so as a matter of policy.

We are not reaching our climate finance targets to meet climate finance needs



Note: Climate finance needs estimates for 2023-2050 include direct investments in climate-specific physical assets and excludes transition-related unabated fossil fuel finance. Estimates are based on secondary data collected from over 15 sectoral scenarios (see [Methodology document] for detail). Climate finance needs for 2023-2050 are expressed in 2022 USD to ensure comparability of estimates from several different scenarios.

Multilateral Development Bank Lending is Declining in Scale and Quality

One barrier has been a reliance on MDB financing 'bankable' projects. That is, climate projects that will generate sufficient returns to pay back the loans with substantial rates of return to private investors.

- JETP is an example

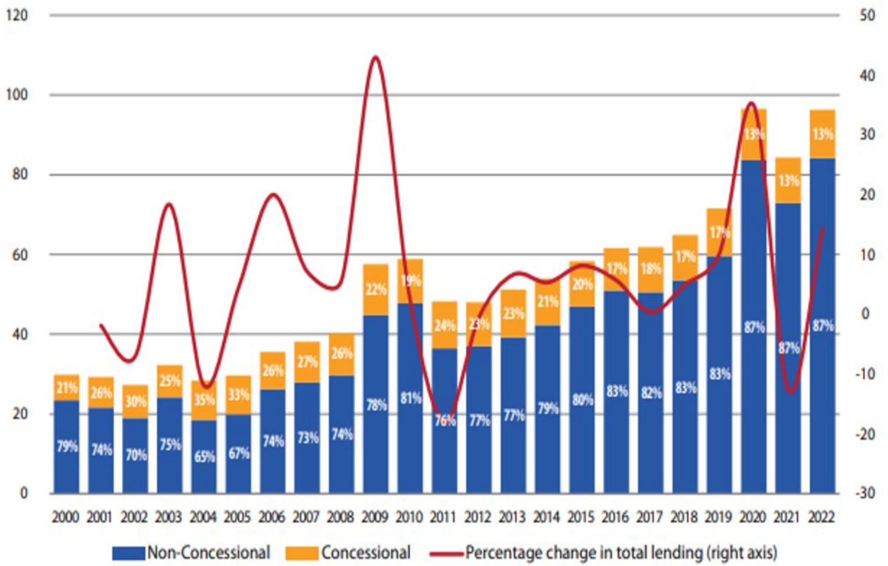
Concessional finance as a share of total MDB lending to developing countries has declined from around 25% to 35% in the early 2000s, to between 13% and 17% of total MDB lending in recent years (Figure 1).

Share of grants to the least developed and most highly-indebted countries has declined over the last two decades

Not within our sphere of influence.

Source: WB International Debt Statistics database, 2024

Multilaterl Development Bank Lending



CURRENT SA MACROECONOMIC FRAMEWORK AND ITS DISCONTENTS

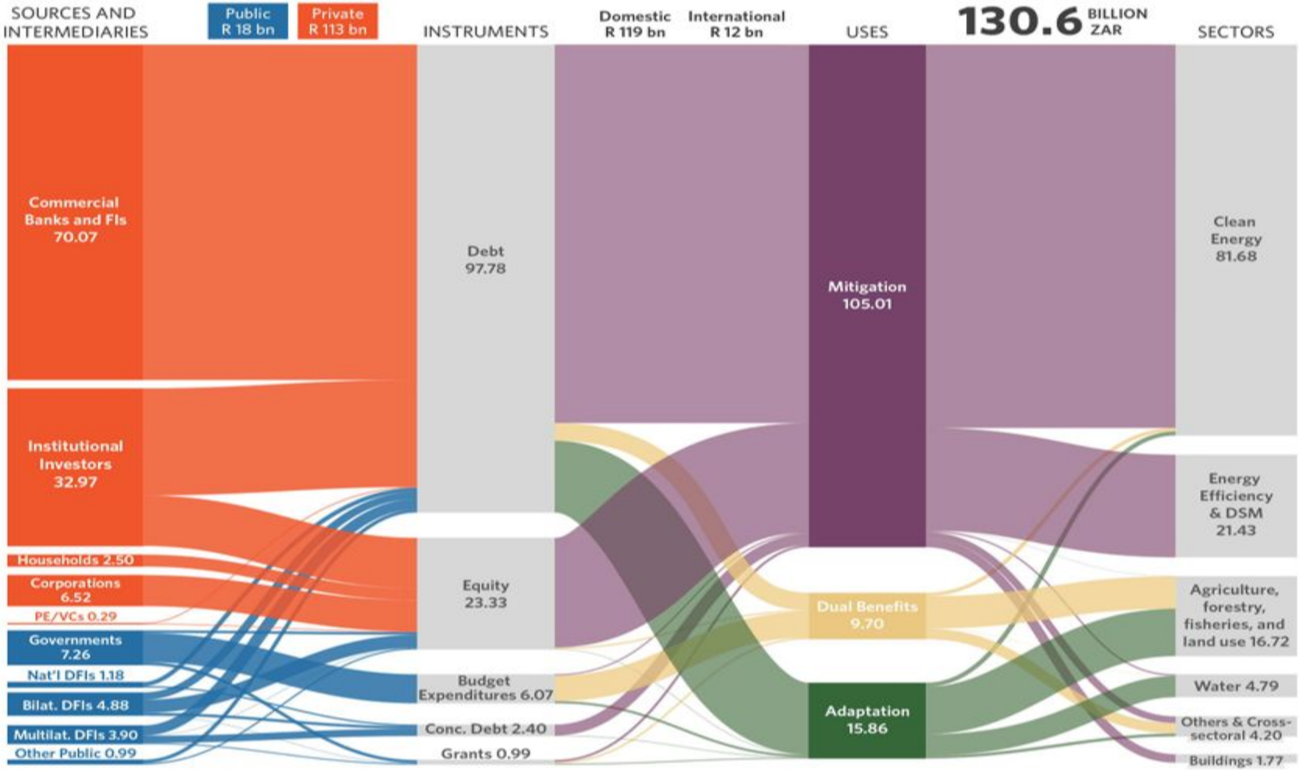
- **Fiscal conservatism means that SA's climate finance regime takes as its starting point a lack of 'fiscal space' for the South African government to raise funds through traditional means of taxation and debt**. It accepts the dominant fiscal framework of fiscal consolidation or austerity. Fiscal consolidation means that fiscal resources cannot be allocated to meet development objectives, nor the decarbonisation agenda

- **Monetary policy conservatism limits the objectives of monetary policy to achieving price and financial stability, undermining the potential for monetary policy to serve as a means of resource mobilisation**.

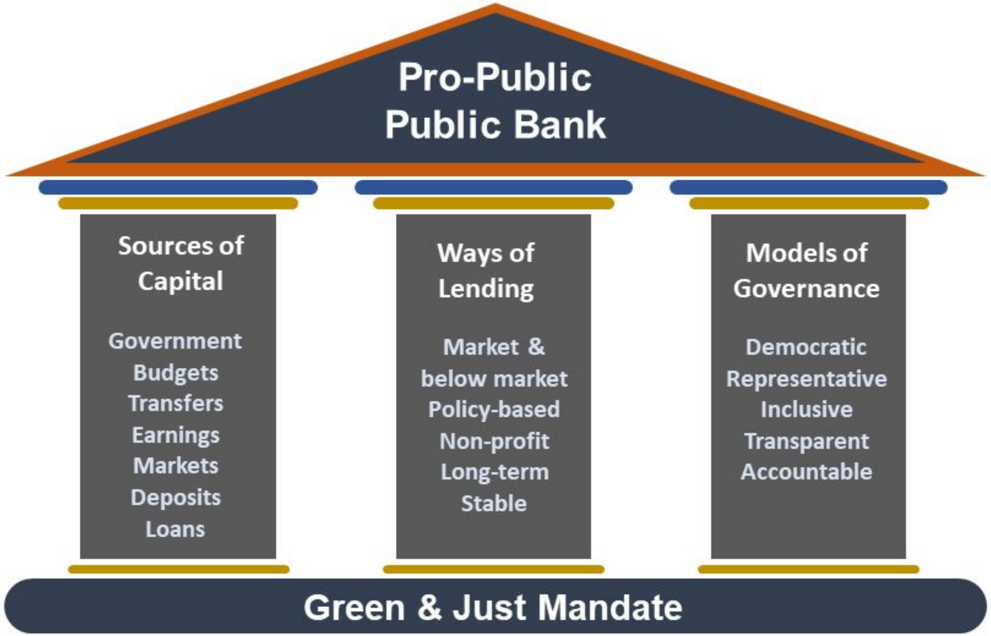
- **Industrial policy conservatism implies limited state support for the development of capacities and capabilities in catalytic industrial sectors in general, and green industrial sectors in particular**. In South Africa, this manifests in the misalignment between macroeconomic or financial policies, or financing measures, such as the JET-IP and the ambitions and financing needs of (green) industrial policy and social policy in particular.

DFIs in South Africa: Climate Finance Landscape - opportunities and challenges

Source: de Aragão Fernandes *et al.* 2023, p3.



4 PILLAR OF PRO-PUBLIC BANK



Source: Adapted from Morais (2021) and Morais et al (2023)

What COSATU Wants?

COSATU TOP 5 DEMANDS from JT BLUEPRINT

Employment creating and sustainable green industrial policy

Universal Basic Income Grant and comprehensive social protection

Reskilling and Upskilling

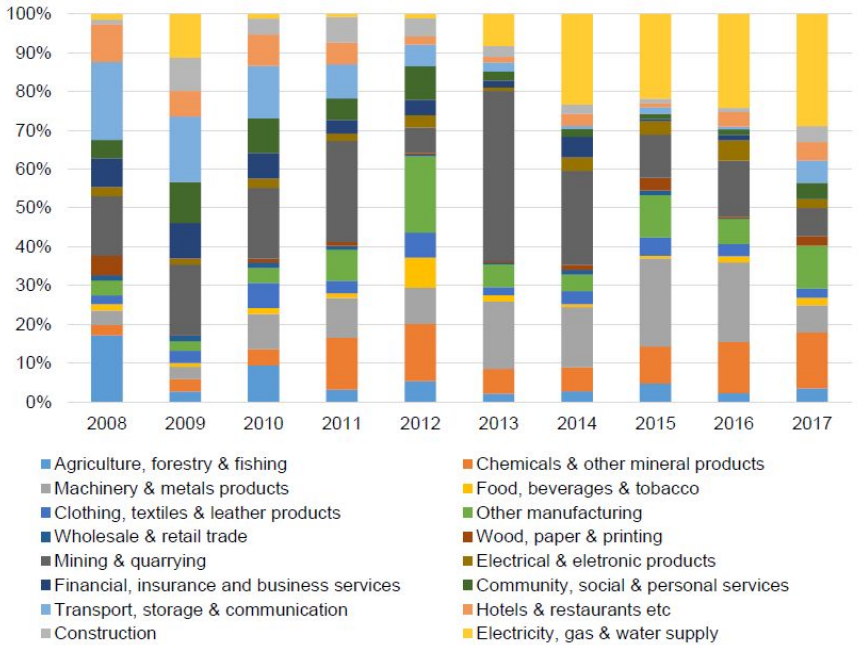
Land redistribution

End austerity for climate just macroeconomic framework

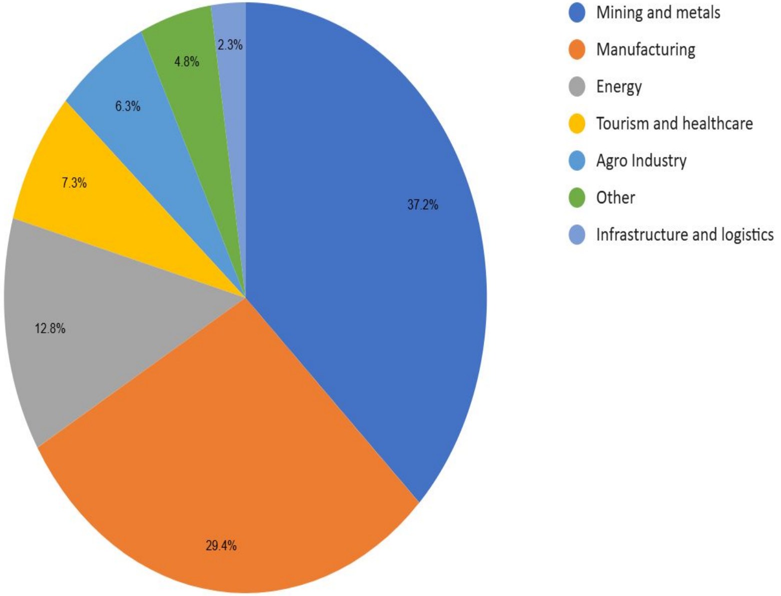
PILLAR 1 MANDATE: What the IDC SAYS

Source: IDC (2024)

PILLAR 1 MANDATE: What does the IDC do? IDCs



Source: Goga et al (2019)



Source: IDC (2024)

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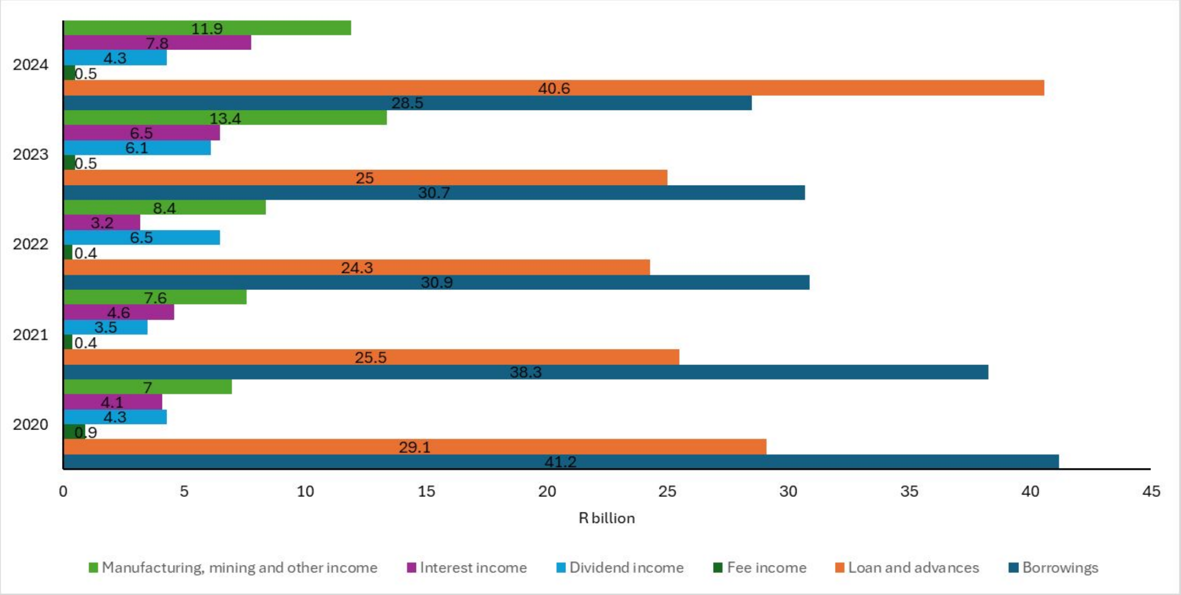
Pillar 2: Sources of Capital

Schedule 2 Entity - Self financed has not been recapitalised since the 1950s -

Industrial Development Corporation Revenue

Loan advances (short term credit) have increased - exposed to capital market shocks



Loan advances: Short term (3-12 months) lines of credit to finance daily operational expenses

Borrowings: capital markets means competing with commercial banks. Debt is not cheap

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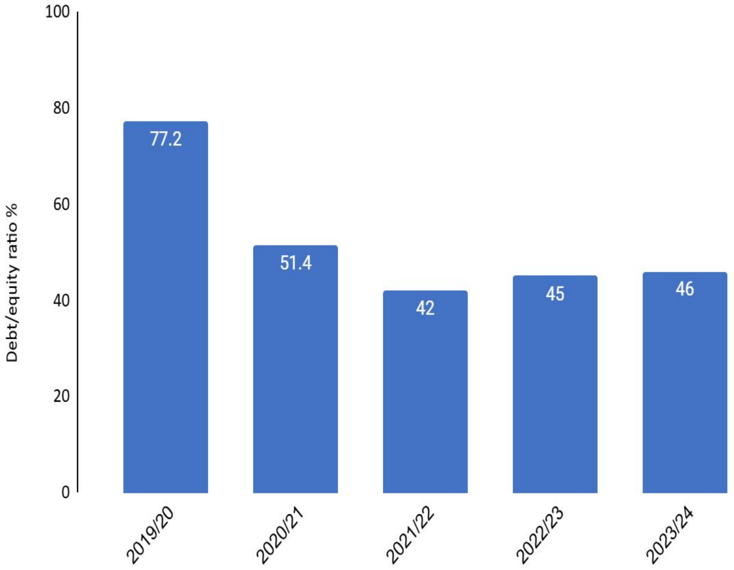
Pillar 3: Ways of Lending

- IDC not more competitive than commercial banks operating in South Africa
- Borrowing more from capital markets to cover its operations and is therefore exposed to high or non-concessional interest rates.
- Any borrowings it uses to fund investments must be paid back at rates that cover the cost of borrowing for the IDC.
- Interest moratorium granted for the first 12 months but this is not common, on case by case basis
- The prevailing fees and rates, as well as trends in loan advances and borrowings also mean there is likely a reluctance by the IDC for long-term financing of up to 20 to 30 years.

Debt to equity ratio 2019/20 - 2023/24



Pillar 3: Ways of Lending

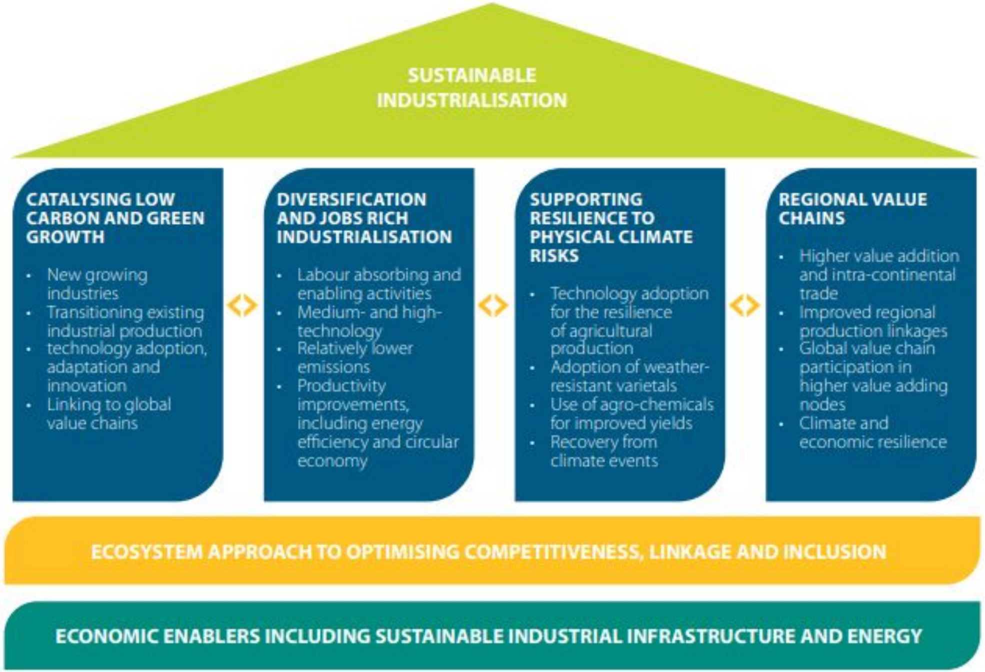
Metric	Definition	Measurement	Threshold/limit
Average portfolio probability of default	Probability that a borrower/ group of borrowers will default	Measured as an average probability of default based on the IDC internal risk grading model	<21%
Impairment ratio	Level of cumulative impairments over the total portfolio at cost	Ratio of total balance sheet impairments over the total portfolio cost	< 27%
Non-performing loans ratio	Loan book with capital more than 90 days past due over the loan portfolio at cost	Capital outstanding on loans more than 90 days in arrears, % of the total loan book at cost	<15% (Integrated Financial Reporting System stage 3 non-performing loans <25%)
Debt to equity ratio	Extent of interest-bearing debt relative to its equity	Ratio of total interest-bearing liabilities to the total equity	60%
Credit loss ratio	Level of actual credit losses during the year (% of total portfolio)	Ratio of annual credit losses as per the income statement over the cost of the portfolio	<5%

Pillar 4: Governance

- The **10 member** board has a private sector bias.
- **Six Board members are from the private sector and one represents SMMEs.**
  - IDC's largest clients and large firms from the MEFC.
  - Mining, energy and power, asset management and private equity, private investment, and small business development.
- **Three board members that represent the government:**
  - one represents the Department of Trade, Industry and Competition (dtic); one is the former CEO of the NEF; and the other is the CEO of the IDC.
- **One trade union representative.**

Pillar 1: Recall the IDCs mandate

What must be done to enable the IDC to meet its mandate?



Pilar 2: Sources of Capital

- Changing the macroeconomic framework
  - Expand the role of fiscal policy
  - Expand the role of monetary policy
  - Align with climate, industrial and social policies

- Recapitalise SA DFIs

R100 bn per year can be raised through Fiscal Policy Measures

Instrument	**Description**	**Value**
Carbon Tax (½)	Polluter pay is set at R100 per 450 MT CO_2	R 22 bn
General Fuel Levy (30%)	The General Fuel Levy (GFL) is a tax on petrol / diesel, levied on motorists, and raises the overall price of carbon in SA although this is not its primary policy aim.	R 30 bn
The Mineral and Petroleum Resource Royalty (100%)	Designed to compensate for loss of resources as well as for the consequence of the extraction of those resources.	R 15 bn
Restructuring Savings (50%)	Potential savings that can be realized in four areas, with some of the saving re-allocated to climate priorities. Departmental mergers, and the conversion of some departments into programmes,	R 13.2 bn
Retirement Reform	Deduction framework in support of retirement provision is, however, highly regressive, and reform	R 20 bn
Total value		**R 100 bn**

Direct Bank Lending through M.P

- We can mobise anywhere between R52.41bn to R3.14 bn under various scenarios by directing banks to apportion credit towards the just transition

% of gross bank lending allocated	Amount allocated over 10 years	Amount that would be allocated over 8 years (R)	Amount that would be allocated over 5 years (R)	Amount that would be allocated over 3 years (R)
10%	R52.41bn	R41.2bn	26.21bn	15.7bn
8%	R41.93bn	R33.5bn	20.96bn	12.58bn
5%	R26.2bn	R20.96bn	13.1bn	7.86bn
2%	R10.48bn	R8.39bn	5.24bn	3.14bn

Mobilising Finance through Pensions

- Liquidity in pension funds R4 trillion which is 50 % of GDP
- Reintroduce prescribed assets that were in operation (1956-1989) - responsible for Eskom, Iscor, Sasol
- Pension reform has led to 45 percent of portfolio allowed to be invested offshore
- We can mobilise anywhere between R1.44 trillion to R4.4 billion based on various scenarios

2

		Potential Investment in onshore 'infrastructure'				
Limit to offshore assets (%)	Amount to be held onshore	Under proposed 45% limit	With 10% prescribed assets	With 8% prescribed assets	With 5% prescribed assets	With 2% prescribed assets
20	R3.2 trn	R1.44 trn	R32 bn	R25.6 bn	R16 bn	R6.4 bn
30	R2.8 trn	R1.26 trn	R28 bn	R22.4 bn	R14 bn	R5.6 bn
45	R2.2 trn	R990 trn	R22 bn	R17.6 bn	R11 bn	R4.4 bn

Pillar 3: Ways of Lending

The recapitalisation of the IDC will support the restructuring of its balance sheet and investment portfolio.

These restructuring measures include:

1. Providing more loans over longer time periods, at concessional rates, and with grace periods of more than five years.
2. Provide for grant funding
3. Reducing its profit motive to a level that covers operating costs over a three-year period.
4. Adjusting its risk ratios and thresholds, including the debt-to-equity ratio (60% up to 75%), liquidity ratio (less than 100%), among others.

Pillar 4: Governance

3. The IDC review its governance structures to:

a) Install a Board of Directors including representatives civil society, workers, government and the private sector - especially those involved in the green transition

a) Be more open and transparent in making information on strategies, policies and plans publicly available. This includes aligning its reporting to the Green Finance Taxonomy

To be continued……

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