A worker-centred framework for financing a just transition

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Premise for this work

A just transition:

- Must centre workers and people
- Extends beyond only the energy sector – including transport, food, agriculture and so on. It includes the whole economy.

Existing JET-IP:

- Myopic focus on energy transition
- Favours profit over people
- Relies heavily on private sector and international funding.

The proposed financing framework

- Prioritises an economy wide transition
- Centres the transition as a public good
- Focuses on supporting the deep structural transformation required to move the economy towards a climate-resilient and green growth path.

Background

JETP

- Established at COP 26 (2021)
- SA and the IPG [France, Germany, the UK, the US, and the EU.

JET-IP

- Released for comment November 2022.

Symposium

- September 2024
- Brought together key stakeholders in climate action, economic justice and labour rights to debate and engage with key issues regarding the JET financing.

Working papers and policy briefs

- Outcome of the symposium
  - Scaling up DFI financing
  - Leveraging fiscal policy
  - Leveraging Monetary policy.
  -

Framework

- Brings together this work into one document

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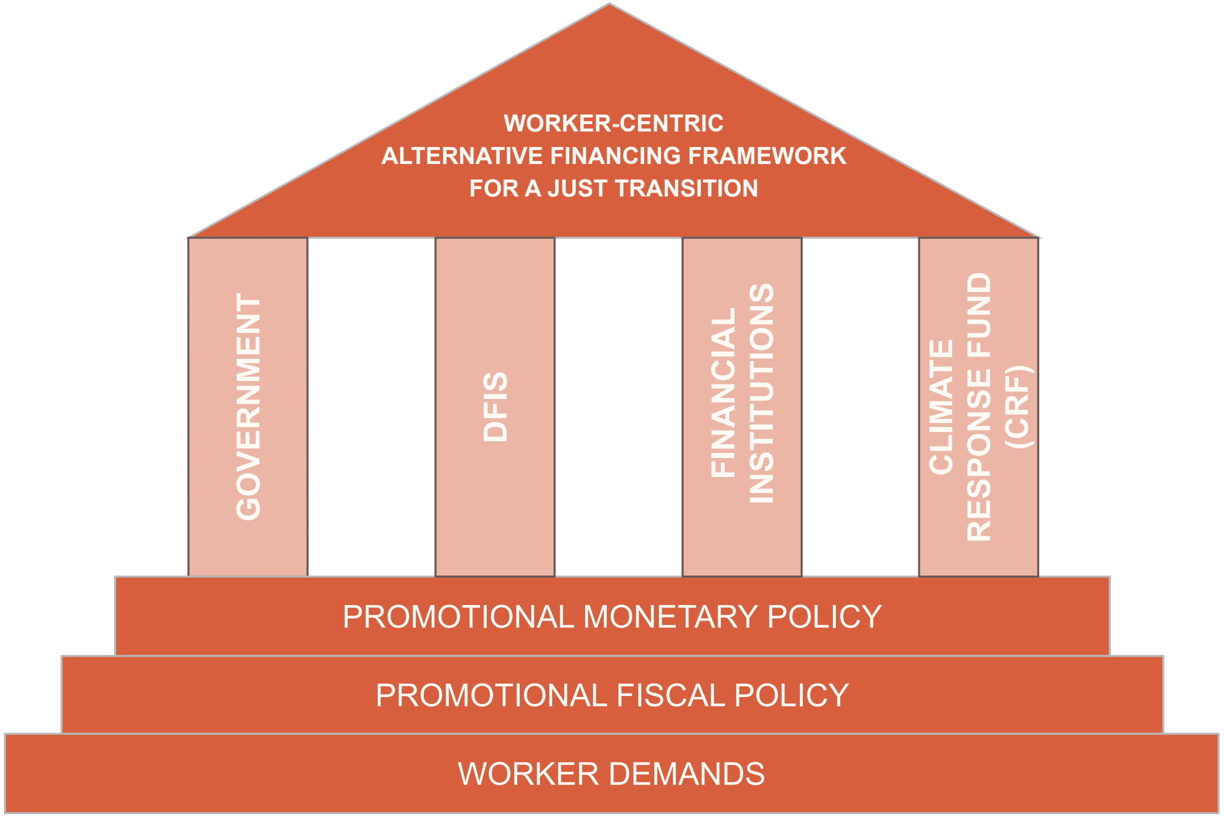
An Alternative Financing Framework



OUTCOME

INSTITUTIONS OF DELIVERY

A NEW MACROECONOMIC FRAMEWORK

MANDATE

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Worker demands

- Based on the COSATU Just Transition Blueprint for Workers (2022)
- Provides the mandate for policy reform
- Outlines demands per sector and structural demands

Structural demands address

- The economic system and institutions of the country
- The socioeconomic rights of workers

Three sub-groups

- (1) Support for workers, and people over profit
  - linked with employment creation, upskilling and reskilling existing workers, the relocation of workers, funding decent work packages including health and retirement benefits, and financing a basic income grant to bridge the gap for those unable to transition to new jobs initially.
- (2) The equitable use of land, water and energy
  - focused on the provision of land and access to basic services such as water and electricity.
- (3) Governance
  - focused more on the enabling mechanisms to ensure funding is available, such as ending corruption, using the carbon tax for financing the just transition and ending budget austerity measures.

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Fiscal policy

Austerity since 2015 has gutted essential and basic services and investment in climate and human capital.

- This underlines focus on private sector financing for JET

What does this mean?

- Private ownership of infrastructure built for the transition - not the people of South Africa
- No guarantee investment in the green economy will be linked with social and economic justice
- Private sector will recoup the costs through high user fees - to recover costs and make profits.

Government may have to take on debt to entice private sector and/or subsidise user costs

- Previous experience with PPPs indicates this model will likely increase debt and the cost of providing services to the public.

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Promotional fiscal policy

- Fiscal policy working paper proposes government funds a significant portion of the just transition
    - Climate response fund
    - Green bonds.

- Climate Response Fund (CRF) ~ R100 bn p.a.
    - Hold funds for changing needs over the next 30 – 50 years
    - Address the lumpiness, unpredictability and inconsistency of most blended and private financing models
    - Made up of climate-type tax revenues
    - Cover gaps in mitigation and adaptation funding
    - Support a socially just and worker-centred transition, while ensuring equity through climate events
    - Reviewed regularly and remain flexible.

Instrument		Estimate
Carbon tax (50%)	Increase effective rate from R7/ton to R500/ton (to 2040)	R22bn
General Fuel levy (30%)	No increase	R33bn
MPRR (100%)	No increase	R13bn
Restructuring savings (50%)	Govt restructuring and consolidation	R13.2bn
Retirement reform	Reduce tax-free allowance. Impacts R750k and over	R20bn

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Monetary policy

Current situation underpinned by existing structure of SA economy - mineral, energy and financial sectors

- sustained investment in the capital-intensive minerals and energy sectors
- under investment in other industries
- limited spillover effects through job creation and development outcomes
- reinforced patterns of inequality in the country

SARB **policy independence pursued over the mandate of cooperation** and thus a more developmental growth path.

Inflation targeting - adopted 2000 and maintained price stability post volatility of 70s, 80s and 90s. BUT

- inflation imported not demand driven
- it has supported speculative investment in financial assets at the expense of job creation, industrial productivity and development
- AND climate change will lead to rising prices and financial instability.

Promotional Monetary Policy

Regulation, governance and ways of working

1. Broaden the mandate of the SARB
   - Expand the existing mandate by adding a greater emphasis on green structural transformation, employment-rich growth, and the reduction of poverty and inequality - giving greater focus to what sustainable growth and development means.
2. Define ‘green’ finance and improve the South African Green Finance Taxonomy (SAGFT)
   - Standardise understanding of terminology and agreed methodology for financing the just transition
   - Currently not used consistently and separate from other finance strategies and policies.
3. Prevent regulatory arbitrage by carbon capital
   - Holistic regulation of all financial institutions and transactions
   - Ensure investments withdrawn from carbon-intensive activities and directed to low-carbon, green projects.
   - Without these - easier for non-banking financial institutions to continue financing fossil fuel-based activities
4. Improve understanding and measurement of climate-related risks
   - Currently lacking from most stress tests and financial modelling applications
   - SARB should apply greater focus on including these in its own models, and require banks, insurers and investment firms to undertake these over the short, medium and long-term
   - In addition, mandatory disclosure of firm-level emissions data and detailed transition plans assist in:
     - managing financial risks and instability
     - identifying existing workforce’s skills and training needs
     - extent of consultation on impact of climate and the process of transition.

Promotional Monetary Policy

Credit allocation to counter the risk-averseness of financial institutions

1. Green-differentiated capital requirements
   - Minimum amount of capital held by an institution - ensures availability of liquidity during a crisis.
   - Lower capital requirements for institutions financing green transition sectors decreases cost of borrowing and increases amount of credit available for green transition projects.
   - Higher capital requirements must simultaneously be applied to ensure policy effectiveness.
2. Interest rate-based recommendations
   - Use interest rates to incentivise investment in specific, transition-compliant sectors:
     - directly or through refinancing agreements
     - reduced interest rates for asset-backed loans - with limited, to no reduction for dirty assets.
     - penalties in cases of default on loans - greater leniency for transition compliant investments.
3. Asset-based recommendations
   - Prescribe the percentage of investment by institutions in transition-compliant sectors both in South Africa and offshore.
     - Retirement industry - offshore asset holding from 45% to 30% increases investment from R2.2 to R2.8trn.
     - 2% prescribed investment in green assets = R5.6bn, 45% = R1.3trn

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Institutions of implementation

4 identified institutions

1. CRF
2. Government
3. Financial institutions
4. DFIs
    - In 2023 DFIs only contributed R10 billion to climate finance in South Africa - less than 1% of total climate financing
    - JET-FM emphasises the role of public finance in de-risking and for government and DFIs like the Industrial Development Corporation (IDC), Development Bank of southern Africa (DBSA) and National Empowerment Fund (NEF) to work in concert together.

IDC

- largest DFI in South Africa
- specifically tasked with industrialisation, localisation, job creation and skills development
- best entry point for a national DFI to support the JET
- PFMA established IDC as self-sustaining
    - Profit driven
    - No capitalisation or revenue injection from government
    - Behaves like a commercial bank
    - Fails in its mandate of providing long-term patient capital in riskier and socially beneficial sectors/projects

IDC

Sources of capital Recapitalisation by leveraging fiscal and monetary instruments

- Redraw IDC's classification as a "self-financing" DFI to allow financial support from the government.
- Direct budget support - existing/new taxes, CRF, or on-budget grants.
- MP instruments like regulation or credit reallocation via interest rate- or asset-based policies
- Government guarantees for loans that are in excess of 10 to 15 years.

Ways of lending Scaling concessional lending, equity injections and grant financing

- Recapitalisation will improve ability to scale up lending and grant financing. Enabling the IDC to:
  - Finance longer-term projects of 20 to 30 years
  - Focus investments on public goods, traditionally deemed too risky for private investment.
  - Offer more discounted loans
- IDC decreases its profit and dividend motive.
- Provide for grace periods of a minimum of five years.

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IDC contd.

Governance Democratise Board representation and transparent decision making

- Make policies and strategies on environmental and social responsibility, climate change and corporate responsibility, publicly available.
- Improve transparency on alignment with SDGs, NDCs, JET-IP, and National Development Plan (NDP) in a pro-worker, pro-climate and socioeconomically just way.
- Align reporting to the SAGFT.
- The IDC Board is demographically representative, but remains aligned with the minerals, energy and financial sectors.
    - Reduce reps from mining, energy and finance - especially those with vested interests.
    - Align Board reps to society and industry, including civil society, government and private sector.
    - Government representatives must include departments tasked with the green transition
    - Private sector should include aspirational low-carbon economy, manufacturing, agriculture, energy, small business and the circular economy.
    - Trade union reps should be across industry, not only in IDC sectors
    - Reinvigorate the Board with newer members on a more regular basis.

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Conclusion

- We live in a world of many competing agendas
  - SDGs/ G20/ UN processes/ National development plans
  - Rise of AI and digitisation
  - Reform of the global financial architecture
  - The USA redesigning multilateralism
  - Changing national politics with rising influence of the right - with JET-IP tied to incumbent
  - NDCs, Net-Zero, Mitigation and Adaptation with the Baku to Belim Roadmap ($1.3 trn by 2035)

- Paramount the country's, and its peoples' domestic goals are not misplaced, silenced or ignored
- Existing levels of finance, and instruments are failing to meet expectations and requirements

- This framework is a living document that can be amended and expanded
- Framework extends beyond JET
  - Guiding industrial policy and investment in infrastructure and energy while addressing the social risks associated with the transition
  - Presenting an opportunity to build a new growth trajectory

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THANK YOU!

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