SOUTH AFRICA'S TRANSITION RISKS

Transition Risks

"risks associated with a transition to a low carbon economy, often arising from policy, legal, technology and market changes which can lead to stranded assets, loss of markets, reduced returns on investment and financial penalties "

- IRP: decommissioning of 5200MW of coal-based generation capacity
- LEDS: Net Zero by 2050; NDC Mitigation Targets; Carbon Tax; Carbon Budgets and Sectoral Emissions Targets? ; Carbon border adjustments in the EU and elsewhere
- Coal price

Exposure:

High carbon intensity, mineral energy complex, highest Gini co-efficient skewed by race and gender inequalities, 34.4% unemployment (64% youth), low growth, gross national debt 70% of GDP, negative balance of trade, and trade exposed

Transition risks: Electricity Supply Risks and Stranded Assets; Employment; Communities; Exports

THE JUST TRANSITION

Multiple points of departure

PCC proposes: technological adjustments , active labour market policies that assist individual workers to find new livelihoods , new economic opportunities in affected local economies, Social protection measures such as income support.

Just Transition for Who?

Level of ambition?

Actual steps for implementation not yet worked out

- Privatisation and community benefits

- Role of different technologies in achieving low carbon future
- Timing of coal phase out and its management
- Net zero vs zero carbon goal
- Closure of existing coalmines and envisaged future for the sites
- Level of ambition
- Need JT plan to manage the direction and the process of the transition
- Challenge of state capacity constraints

SURVEILLANCE : PAST AND PRESENT

- IMF proposes addressing
  - adaptation and resilience building every 3 years for those countries that are most vulnerable.
  - climate change mitigation policies of those countries most critical for the global mitigation effort every 3 years,
  - transition risk management would be covered every 5–6 years for all
- Fund acknowledges that priority is mitigation. Still needs to work on Transition Risks and Fund is candid that where it had one work it had done the wrong things
- Fund's advice has ability to exacerbate climate vulnerability
- EG in 2014 IMF supported Eskom Investment Support Project (Medupi) stating that it helped to strengthen public infrastructure, support the expansion of electricity supply
- Most recent reports note climate commitments but do not address them in any detail.
- The Fund has also not questioned the role that fossil fuel reliance has played in contributing to Eskom's demise
- The Fund has also historically tended to provide advice that is supports a reduction in the public wage bill and which encourages raising taxes. Promotes targeted social assistance.
- Calls for product and labour market reforms to include greater competition and private participation in network industries

WHAT SHOULD THE IMF DO?

- IMF should consider with what issues to engage and how to avoid mission creep.
- Need for dashboard of indicators of when to intervene and how
- Keeping to its lane, working with other international organisations- can play an important flagging function and incorporate recommendations in Art IV
- The principle of ‘do no harm’ should be reaffirmed within the IMF’s surveillance advice and technical assistance- public wage bills; labour market reforms; optimism bias in growth forecasts; cost of transition risks; universal delivery of social protection; enhance tax progressivity while providing relief from indirect taxes to the vulnerable.
- The time horizon of the IMF’s advice will have to lengthen
- Policies and procedures:
    - mandatory national-level consultation on Article IV activities with CSOs, including women’s rights groups, youth groups, trade unions, climate groups and indigenous peoples’ organisations- need for operational guidelines
    - IMF diagnostic tools need to integrate climate and just transition factors
    - operational policies applicable to the use of all IMF resources, including SDRs.
    - independent ombudsman
    - The process of arriving at loan conditionalities needs to be more consultative
    - Lending programmes should also be closely connected with economic surveillance reports.

WHAT SHOULD THE IMF DO?

RST:

- South Africa should be eligible to access amongst other “vulnerable” countries
- Focus should be on just transition financing of societal and developmental goals for those negatively impacted by climate action
- Should be an instrument that is willing to take greater risks in backstopping just transition processes that may be unorthodox and experimental.
- Its framework should not replicate the loan conditionalities of countries in balance-of-payments distress
- **Issues for IMF engagement:**
- The IRP, the just transition and public debt; Stranded assets and the carbon tax; Adaptation and macro-financial risk; Current account deficits and spillover risks; Social Protection

WHAT SHOULD GOVERNMENT AND CIVIL SOCIETY DO?

Government

- Other departments need to build capacity to engage with IFIs
- Treasury to co-ordinate participation of other departments and encourage civil society participation
- **Civil Society**
- advise government on how and in what areas IMF could potentially be engaged on the Just Transition, if any
- build up expertise in IFIs' diverse work and evolving mandates