Notes on Climate Finance 29 September 2021

1. South Africa requires substantial financial support from the international community if the country is to be able to effectively manage its energy transition, including achieving a just transition for affected workers and communities.
2. How we design and structure such financial support will be key to the overall success of the programme.
3. To have a sufficiently large impact the financial support must be at a sovereign-to-sovereign level, only at this level will the financial mobilisation be large enough to ensure that South Africa can capitalise its energy transition as well achieve its Nationally Determined Contribution.
4. The sovereign-to-sovereign arrangement will also allow South Africa to build on the good work that has been done to put in place Eskom's proposed JET transaction.
5. While Eskom's JET transaction will advance the energy transition mainly at plant level and will help to mobilise resources inter alia for some grid investment, it is not an instrument that can deal with the problem of Eskom's unsustainable debt.
6. An important precondition for progress at scale, is that Eskom's debt overhang must be reduced to sustainable levels so that the unbundled Eskom entities can access capital market and DFI funding for grid, battery and other infrastructure investment.
7. Sovereign-to-sovereign international financial support should be structured so that South Africa is granted access to highly concessional finance, for example through significantly reduced interest payments over 25 years as the country achieves its decarbonisation milestones.
8. The deal would involve agreeing a $/t price for decarbonisation that would be realised if South Africa accelerates its decarbonisation against the IRP2019 baseline.
9. The National Treasury would not be required to raise debt outside of its normal borrowings programme, but would use the agreed $/t savings to reduce the interest rate on those borrowings to highly concessional levels. Properly structured such concessional finance could be achieved without compromising the objective of reducing the country's level of national debt.
10. Such a transaction would create the fiscal space required to partly recapitalise the unbundled Eskom units and set up a Just Transition Fund to support workers and communities affected by the early retirement of coal.
11. For South Africa to achieve its decarbonization objectives, will require a massive programme of renewable energy investment driven mainly by the private sector, with a restructured and financially-restored Eskom playing a strategic role particularly in managing the national grid.
12. Such a period of sustained investment aimed at restoring energy security and advancing the country's energy transition, with related upstream and downstream linkages, has significant potential to unlock the economic growth, investment and job creation that the country so sorely needs.