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TOWARDS A JUST TRANSITION

Key Questions for Climate and Energy Finance

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PCC Energy Dialogue on Energy Finance
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Key Topics for Today

01

How much money do we need

The PCC provide independent fact driven advice on key issues relating to climate change and a **Just Transition**.

02

Where could the money come from

The Climate Science is demanding radical change to avoid the worst impacts of climate change.

03

How do we get it, what innovation do we need

Blended finance is where you use different types of risk tolerant finance instruments to enable investment.



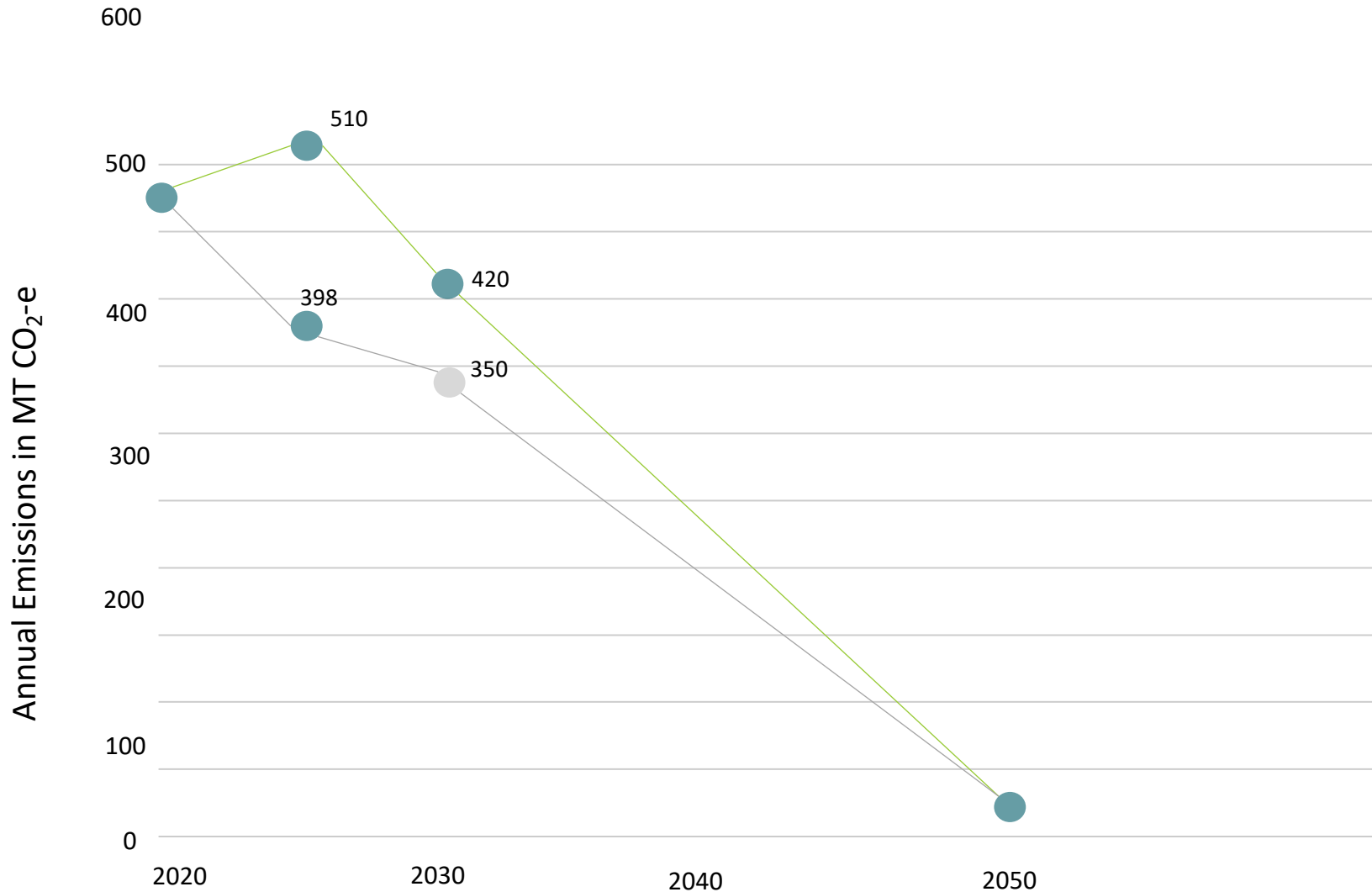


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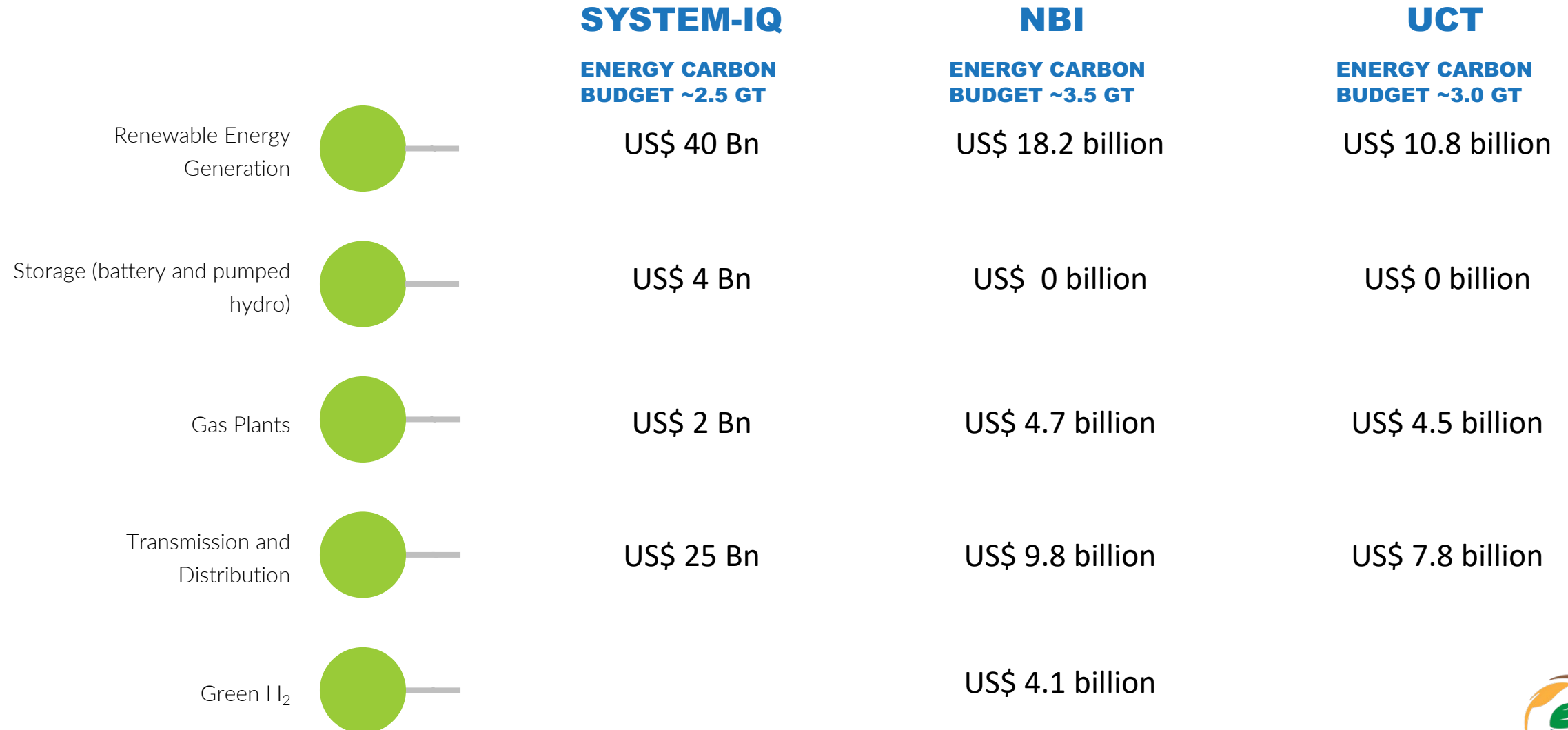
How much money do we need?

That depends on the emissions path we choose, the capacity of the economy to transition, and the pace at which we do this – particularly in the period up to 2030

The submitted 2021 NDC describes our (voluntary) international commitment on emissions reductions



Energy Infrastructure Investment by category across studies by 2030



The simple reality is that without an agreed national plan the amount needed varies widely; although all studies are still in progress and suggest investment need is significant

ENERGY ONLY; 2.5 GT BUDGET

SYSTEM-IQ

2030	2050
R1.3 trillion	R4.0 trillion

ECONOMY WIDE; 10 GT BUDGET

NBI

2030	2050
R1.0 trillion	R5.9 trillion

ECONOMY WIDE; 9 GT BUDGET

UCT

2030	2050
2.7 trillion	R14 trillion

ECONOMY WIDE; UNKNOWN BUDGET

JETP-IP

2030	2050
TBC	TBC

ECONOMY WIDE; UNKNOWN BUDGET

WORLD BANK CCDR

2030	2050
TBC	R7 trillion





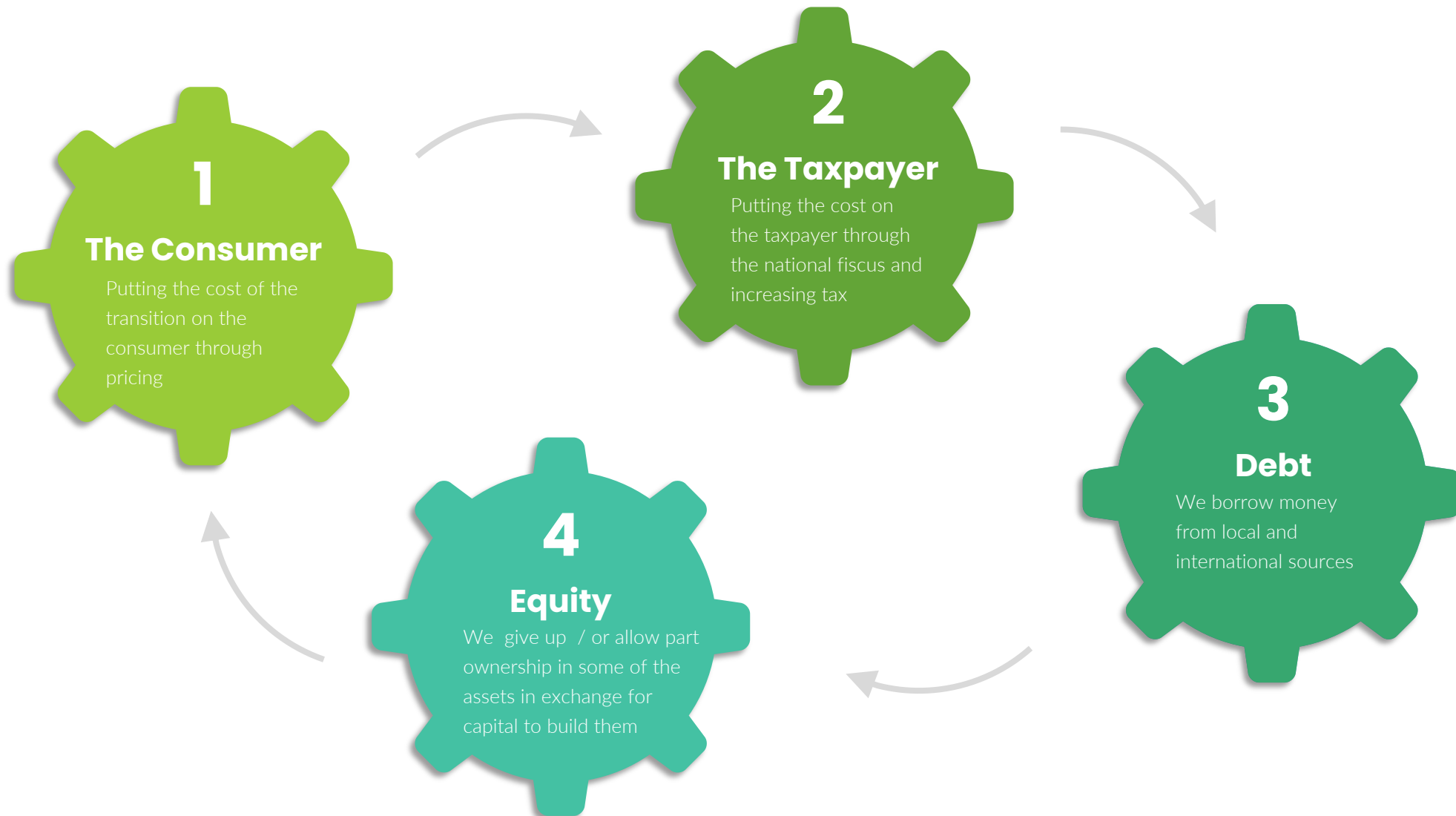
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Where could the money
come from

There are effectively four sources of money for the energy transition

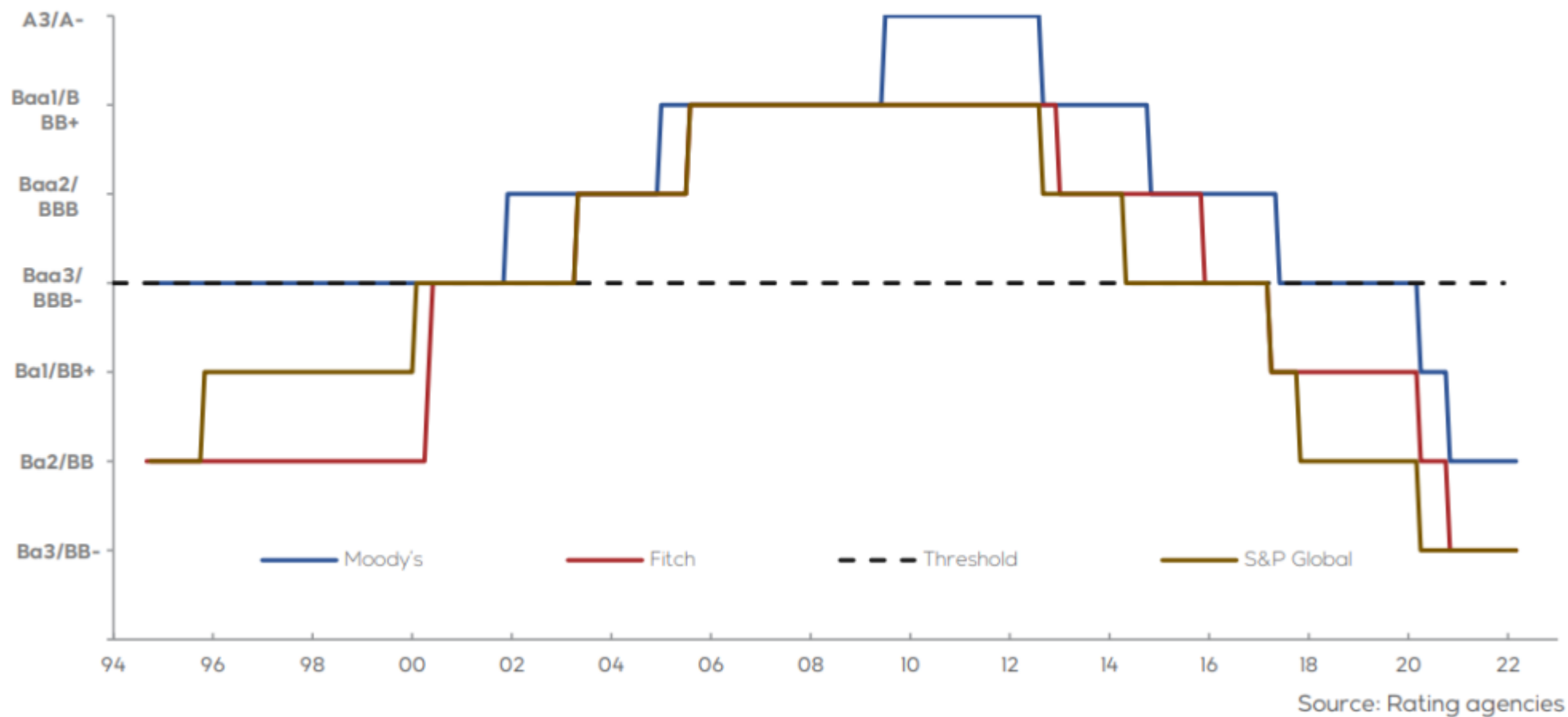
We need to work out the optimal combination for our goals

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In a context where the cost of capital is high

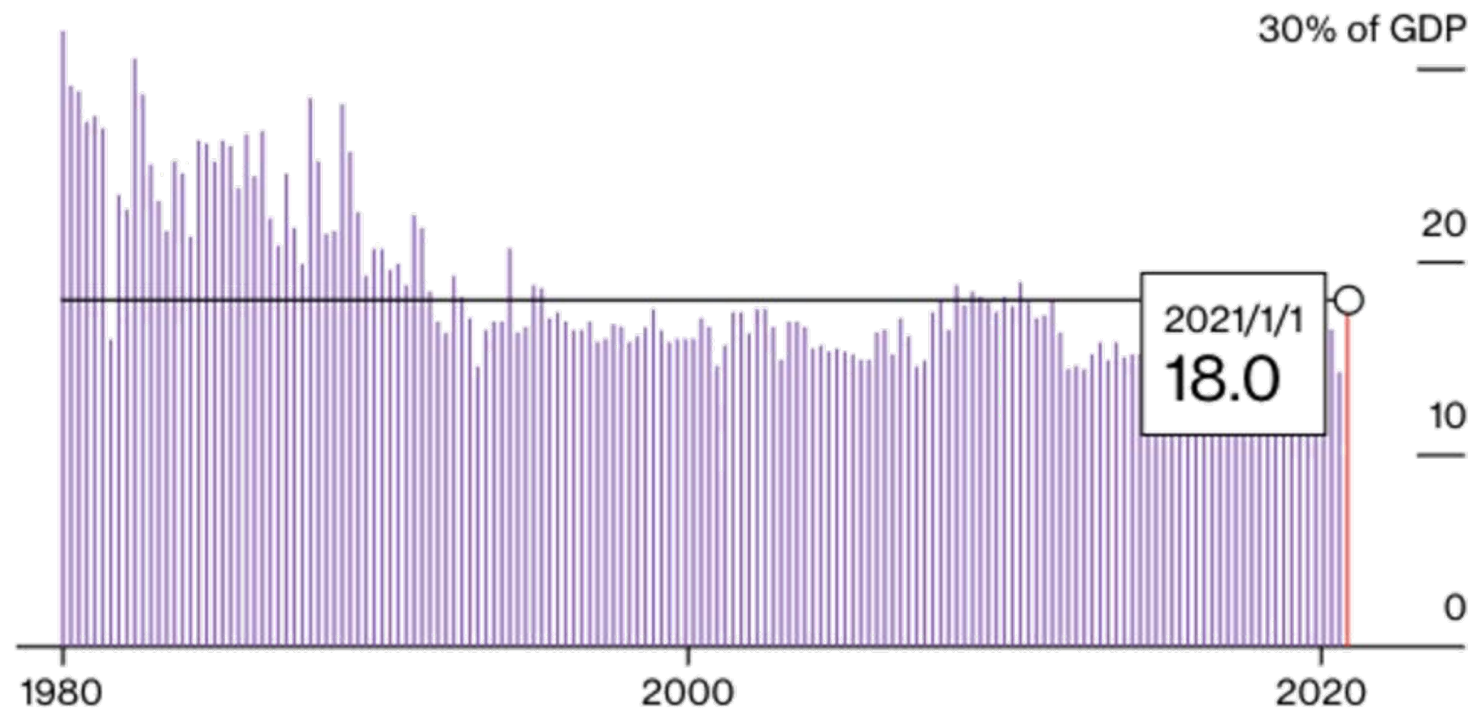
Chart 1: Long-term foreign currency ratings



Enhancing household savings and the role of pensions is key to the ownership challenge?

Exercising Caution

South Africa's national savings rate jumped to an 11-year high



Source: South African Reserve Bank

This rate is far below the world average of 25.1%, the average in sub-Saharan Africa of 18.8% and that of middle-income countries, which saved 30.5% of GDP in 2019.



In reality we will need to combine all sources of funding

1

The Consumer

Putting part of the cost of the transition on the consumer through pricing

2

The Taxpayer

De-risking, guarantees and providing social support from the tax base through the national fiscus

3

Debt

Public and private borrowing from local and international sources, including concessional debt

4

Equity

We give up part ownership in some of the public assets in exchange for capital to build them; and create a conducive environment for private capital for commercial projects

- A cost reflective tariff is needed
- Minimise the price pass through to vulnerable communities through progressive pricing
- Ensure investment creates national revenue, economic growth and enhanced tax revenues
- There is limited government head room
- Cost of capital is high and there is a significant opportunity to leverage concessional climate finance
- Increasing distributional outcomes and private savings is essential for equality





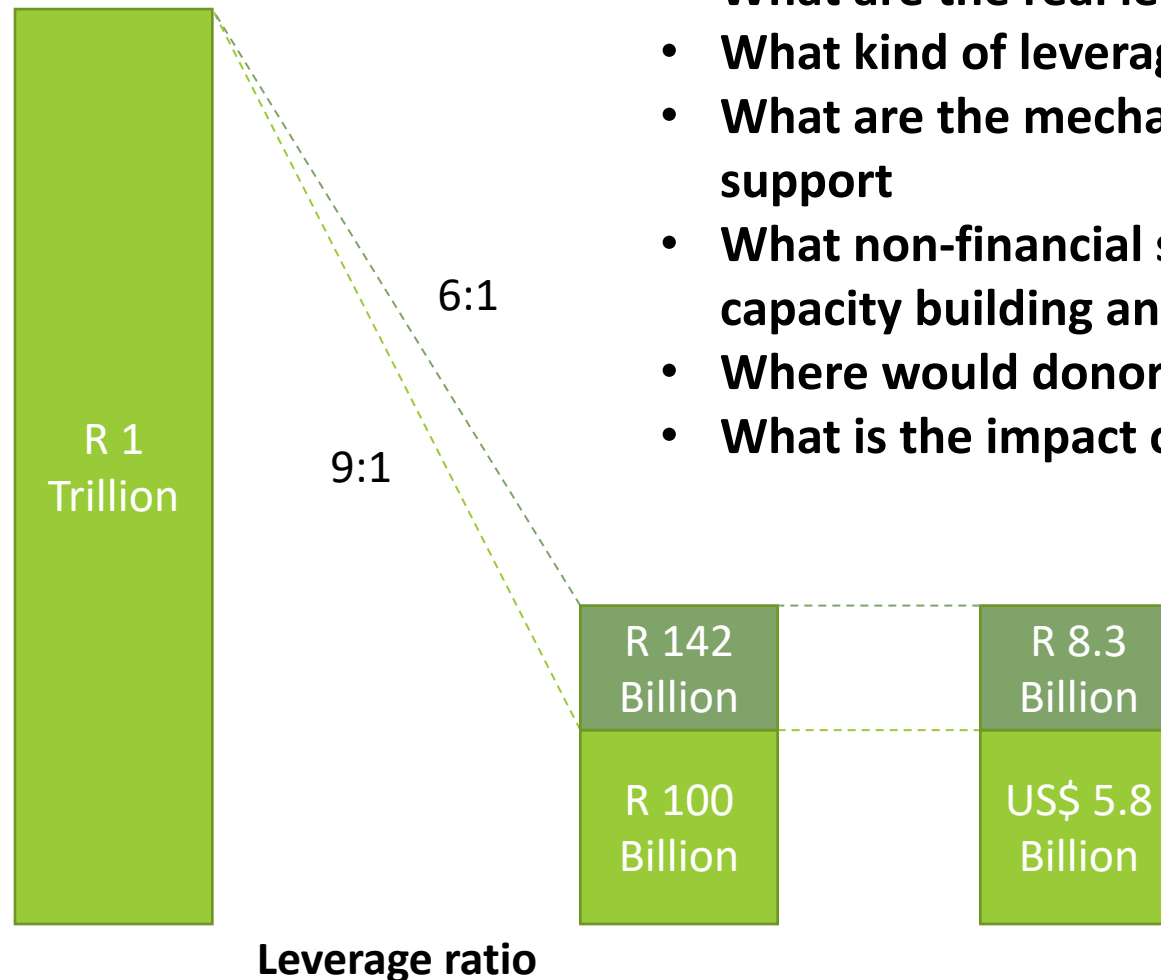
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How do we get it? What
innovations do we need?

International support, de-risking and leverage

We will need to leverage international support to crowd in a range of finance options

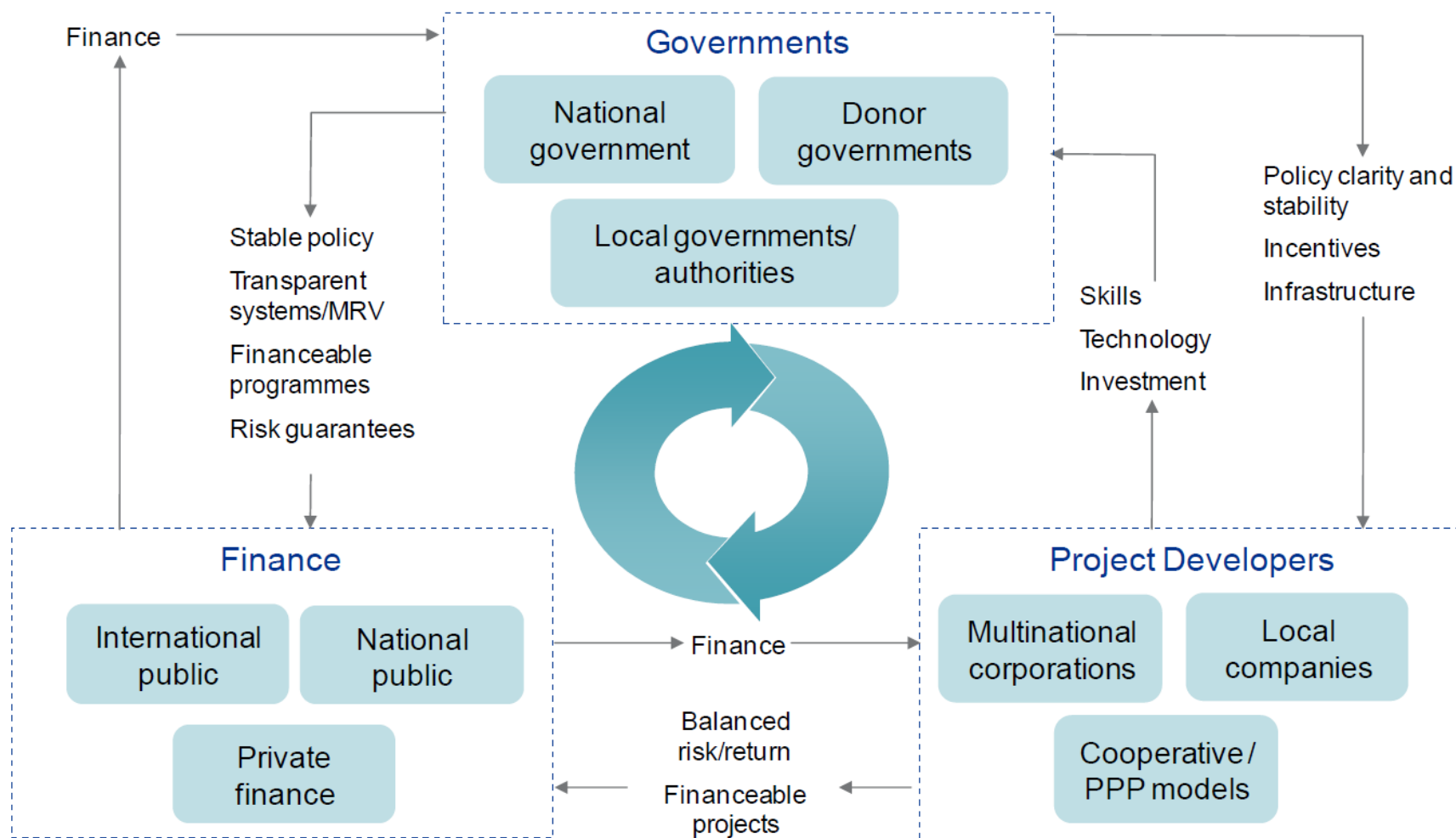
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- What are the real levels of support
- What kind of leverage is feasible in South Africa
- What are the mechanisms available to us to leverage support
- What non-financial support can mitigate risk (trade, capacity building and IP)
- Where would donor support create the most leverage
- What is the impact of local cost of capital on leverage



Successful implementation will require systemic de-risking and an enabling environment



International support is likely predicated on aiming for the lower bound

AFRICA

The New York Times

South Africa secured \$8.5 billion to transition away from coal. It'll be a test case.

Developing nations have long said they need aid from wealthy countries to shift to renewable energy. South Africa may show how that would work in practice.



Initial South African Government Priorities are Power,
Electric Vehicles and Hydrogen





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Thank you

For further information www.climatecommission.org.za