

QUICK BRIEF 2023



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Release of the Just Transition Project's Finance and Integration Reports

South Africa needs to act now and transition to a net-zero, climate-resilient, and competitive economy to unlock new green opportunities and avoid the massive cost of inaction in the face of climate change and global economic transition, according to a new report by NBI-BUS A-BCG.

Two more reports from the NBI-BUS A-BCG Just Transition and Climate Pathways study have been launched, focusing on *Financing South Africa's Just Transition* and developing an integrated, cross-sectoral, view of *South Africa's Net-Zero Transition*. These reports form part of the series of Climate Pathways and Just Transition publications by the National Business Initiative (NBI), in partnership with Business Unity South Africa (BUS A) and Boston Consulting Group (BCG). The reports frame and quantify what it would take, in terms of investment and coordinated action, to shift South Africa's key economic sectors to net-zero by 2050 as part of a Just Transition. These 'pathways' are aligned to a fair share carbon budget and also consider what it would take to address South Africa's triple challenge of poverty, inequality, and unemployment as part of the Just Transition. The findings of the report were released last year at the South African pavilion at COP27, in Sharm-el-Sheikh as a culmination of two years of work.

The Climate Pathways and Just Transition study is anchored on a robust analytical fact base, the assumptions and outcomes of which have been debated and socialised with a broad set of 450+ stakeholders from business, government, civil society and labour in 200+ hours of workshops to drive alignment and establish the credibility of the proposed net zero pathways. The work was also supported by a group of 'CEO Champions' representing 30+ of South Africa's largest companies across a range of relevant sectors.

Key Findings on South Africa's Net-Zero Transition

The cost and commitment of transitioning to a net-zero economy is immense. South Africa's transition will require more than R6 trillion in investments by 2050, without accounting for the recent supply chain and high inflation mid-term cost impacts. Earlier this year, South Africa's Just Energy Transition Investment Plan (JET-IP), which references the Climate Pathways and Just Transition study as an input, was by the International Partner Group in response to the landmark offer of finance for South Africa's Just Energy Transition to the value of \$8.5 billion offered by France, Germany, the United Kingdom, the United States, and the European Union at COP26. This scale of funding is a significant step forward to transition South Africa's economy and society in line with the Paris Agreement but another ~\$90Bn is required to achieve the lower end of South Africa's NDC.

The integrated report consolidates individual sector analysis into a holistic Just Transition pathway for the South African economy and highlights the following key findings:

1. South Africa can pursue an ambitious pathway to meet its 2030 NDC and net-zero by 2050.

Ten key actions must be taken simultaneously to enable this transition, including:

- a. the rapid and large-scale deployment of renewable energy 10x faster than the current rate, at ~6-7 GW p.a., to decarbonise the power sector, with this doubling to capture the green H2 opportunity,
- b. the phase out coal power by the mid-2040s,
- c. the rapid electrification of transport with 700,000 electric vehicles on the road by 2030,
- d. the banning of conventional vehicle sales by 2035, and
- e. a 15% and 20% increase in passenger and commercial rail use respectively.

However, these actions do not see South Africa reaching the lower bounds of its internationally committed emission reduction targets. If South Africa wants to meet these lower bounds, even more disruptive action is needed across all sectors.

2. As a result of decarbonisation, renewable-based power will need to become the primary energy carrier in South Africa's net-zero economy.
3. Approximately ZAR 6 trillion is required in infrastructure investments to transition to net-zero by 2050. To achieve this, the public sector must unlock sufficient private sector investment, particularly in bankable investments such as renewables, to finance the transition.
4. The net-zero transition will see a fundamental change in the economy - new economic opportunities will arise and many new jobs can be created. However, the jobs of the future will require a different workforce from today.
5. Although transitioning to net-zero can strengthen the economy, secure long-term competitiveness and create new green industries, it must be well managed to ensure Just Transition outcomes that address South Africa's development needs.

Ultimately, the report finds that reaching net-zero is a challenge but equally an opportunity. New economic opportunities must be pursued with an unparalleled focus, leveraging South Africa's competitive advantages around the availability of high-quality renewables and ample land, access to key critical commodities (like platinum), existing knowledge and skills, trade partnerships and a growing, young population. By acting fast to decarbonise its economy and capture new opportunities, South Africa can reset its socio-economic trajectory.

Financing South Africa's Just Transition

South Africa's transition to net-zero by 2050 could cost ~ZAR 6 trillion. The power sector offers the greatest opportunity for affordable decarbonisation. In fact, most of these investments offer a cost benefit versus the status quo and is therefore a top priority for immediate investment. ~R1Trn is required by 2030 to fund the Net Zero transition (excluding social costs and prior to taking into consideration recent price escalations in the Renewable Energy sector). Of this ~R1Trn, ~70% is required for the Power Sector alone and are commercially viable investments. These investments also include grid investments that must be made to strengthen and modernise the national electricity grid infrastructure. Currently, South Africa's grid infrastructure has extremely limited capacity in regions where renewable energy potential is the highest, such as the Northern Cape and Eastern Cape. To achieve the scale and pace of the Renewable Energy rollout required, grid infrastructure is a critical unlock.

This report also focused on what sources of finance are available to fund the transition, and how climate finance can be unlocked as a critical enabler of South Africa's transition, especially for high-priority investment areas. In the 2020s, a majority of South Africa's short-term funding needs are in commercially viable technologies, such as renewable energy, that can be funded from mostly commercial sources while more nascent sectors like Green Hydrogen as well as social programmes related to reskilling for example will require more blended finance and grant funding.

The report notes that blended finance currently plays a minor role in South Africa's climate finance portfolio where only ~8% of climate finance in South Africa in 2017/18 was blended. While the US\$8.5 bn (ZAR135 bn) JET Partnership announced at COP26 is a step forward for financing South Africa's transition, only ~2-3% have been earmarked as grants. Increasing the proportion of grant funding and concessional finance in the US\$8.5 bn deal will have a higher catalytic impact on the amount of commercial funding that can be crowded in estimated at roughly 3-9X, depending on the degree of concessionality. In other words, the US\$8.5 bn could unlock a much higher amount of funding dependent on the proportion of grants and concessional finance that make up its composition.

In addition to the sources and structure of funds required, the report also covers key issues that hamper the flow of funds such as policy misalignment, perception of high investment risk, limited shovel-ready projects and insufficient blended finance, among other issues.

In summary the study concludes that the transition represents a unique opportunity for South Africa to pivot its economy to a resilient and growth-oriented trajectory whilst addressing the current socioeconomic challenges being faced. This will not be easy though and the scale and complexity of the challenges ahead are significant. The sum of individual actions, even bold ones, will not be enough. South Africa needs a collaborative and coordinated approach that engages all spheres of society to successfully decarbonise and ensure a Just Transition by 2050.

The Climate Pathways and Just Transition study is an ongoing project, several detailed analytical and model-based sector-level reports have been released. Access all the reports [here](#).

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The National Business Initiative (NBI) is an independent and voluntary coalition of South African and multinational businesses launched in 1995 by the then President, Nelson Mandela.

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