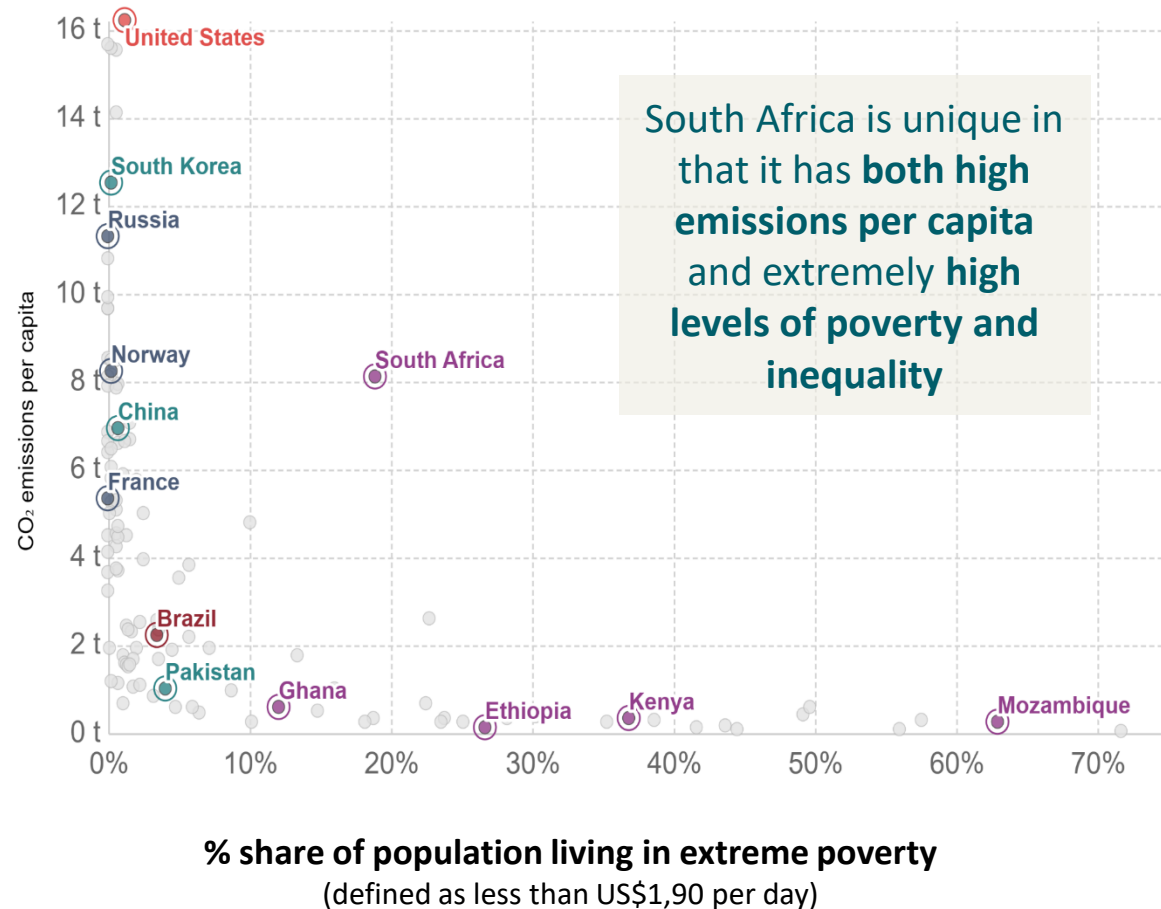


FINANCING A JUST TRANSITION TO A LOWER CARBON ECONOMY

G24



South Africa is among the most carbon-intensive economies in the world, with higher emissions per capita than India and China – the world cannot reach climate targets without us



- South Africa is one of the **highest emitters of greenhouse gases in the world (top 20)** and the biggest emitter in Africa
- South Africa's **per capita emissions** are among the **highest in the world** at 8,18 tons compared to China at 6,86t, and a world average of 4,8t
- While we do not bear **historical responsibility** for climate change caused by industrialised nations, **we need to decarbonise** for the world to reach its climate goals
- This gives us an opportunity to offer substantial “climate returns” to investors – i.e. to commit to voluntary decarbonisation **in return for concessional funding** from developed countries, who bear responsibility for the transition.

A **JUST TRANSITION** for South Africa is therefore non-negotiable

As outlined in the National Development Plan, the **Just Transition** refers to a transition towards a **low carbon economy and a climate resilient society** in a manner that **does not impede socio-economic development**, is **socially just** and results in an **increase in sustainable jobs**. The JT is not a sudden shift in economic activity but occurs in a **phased manner over time**.

South Africa is committed to a just transition to a low-carbon economy and climate resilient society, in line with the commitment to achieve net-zero by 2050:

- **Procedurally**, by ensuring that the most climate-vulnerable groups participate in decision making
- **Substantively**, through climate-compatible social and economic development that addresses the needs of workers and communities

‘Ambition’ in the context of a just transition involves:

- Pursue of **development goals** (poverty eradication, economic transformation, job creation) which promote re-industrialisation and localisation of production in the process of cutting emissions and building resilience
- Expand **employment** and build skills base
- Manage adjustment process and **minimise negative social impact**
- To ensure that the just transition **creates more jobs**, we need to mobilise significant **funding** to invest in new energy sources, develop future sectors and support communities that are affected



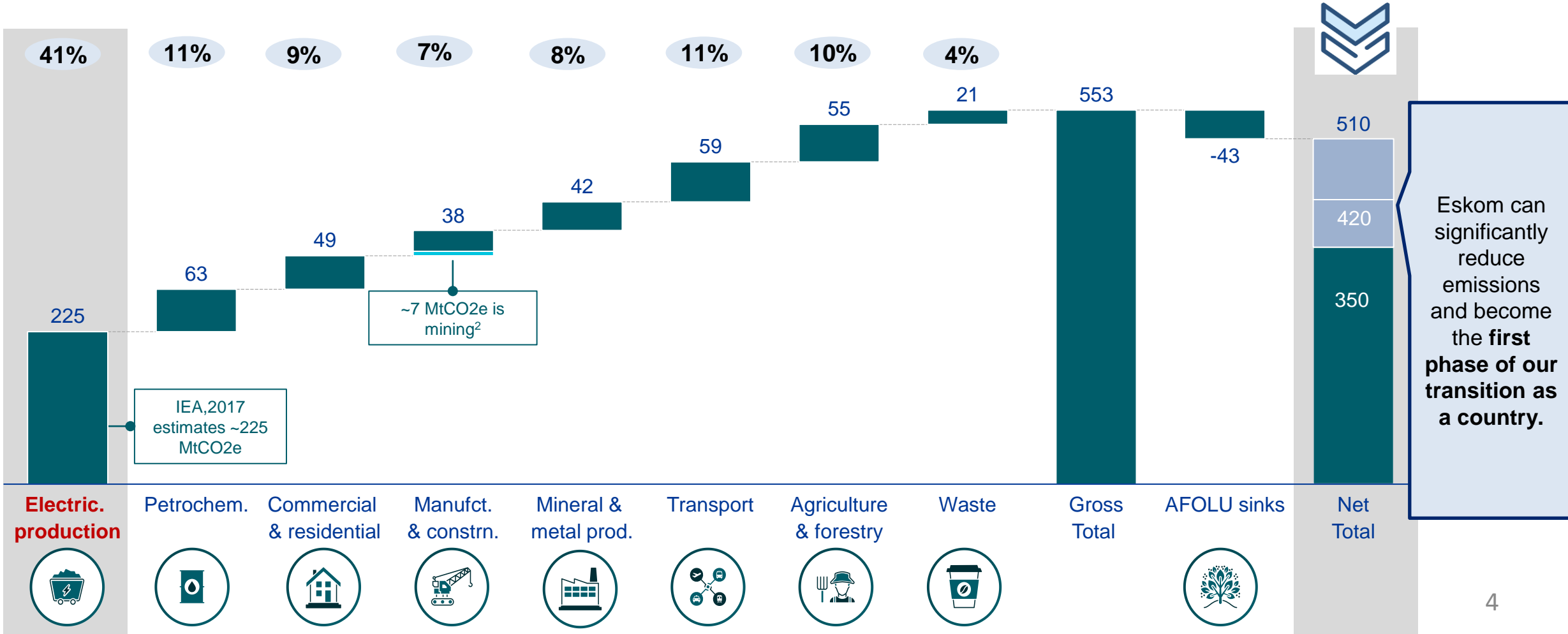
South Africa needs a package of transition financing to enable a just transition

Electricity Sector will drive our transition



Seek alignment on South Africa's Just Transition imperative and value proposition. All sectors – agriculture, tourism, biodiversity economy, mining, energy, transport, manufacturing – are extremely vulnerable and crucial to a Just Transition. **While there is a need for an economy-wide perspective on the just transition, the electricity sector is the quickest and cheapest to decarbonise, and will enable decarbonisation across the economy.** Electricity is a cross-cutting input for all vulnerable sectors of the economy and the goods they produce.

Overview of emissions in South Africa (MtCO2e)



The coal sector contributes significantly to the South African economy, and the impact on the sector needs to be carefully managed

1

Coal consumption in the electricity sector represents about ~47% of total coal sales (with Sasol ~16% for coal to liquids)

2

Coal's contribution of total minerals doubled to 22.5 %, R139 billion mined, with 49% exported and yielding 2.4% of GDP in 2018



3

Coal currently provides 75% of primary energy, supporting a coal value chain from mining to transport

4

Many towns in Mpumalanga Province are highly reliant on coal: 88,000 employed directly

The vulnerability of the coal sector emphasizes the importance of a JUST transition. Social justice is an imperative. We must ensure that coal dependent communities are protected and involved in the value chain of the transition to new technologies.

- The IRP2019 sets a path for the **evolution of the generation mix between 2020 and 2030** (including coal decommissioning), and envisages that 24 GW of coal generation will be decommissioned between 2030 and 2050.
- Eskom is **preparing the closure and repurposing of coal power plants**.
- **Mine closure** and the resulting need for **mine rehabilitation** is a priority.
- Decommissioning of coal generation means that **new capacity is needed to ensure system adequacy** overall.
- Technologies such as **natural gas and storage are crucial enablers** of the transition.

The FIRST Phase of a Just Transition

Alignment of a Just Transition imperative and value proposition is important for all affected sectors of our economy, however the first phase of our Just Transition will focus on the electricity, automotive and green hydrogen sector

Firstly, the electricity sector (and those industries such as coal mining which depend on it), will be the first phase of our transition, as this sector is the quickest and cheapest to decarbonise, and will enable decarbonisation across the economy

Estimated cost is \$25bn over the next 10 years

Secondly, our Just Transition must support Electric Vehicle (EV) manufacture in South Africa as a critical transition pathway for the automotive industry to embark on, given the devastating job losses that could be experienced in the automotive sector, from the export market's expected move away from internal combustion engines (ICE) vehicles

Initial estimated cost is R\$9bn

Thirdly, there is also a significant opportunity to develop green Hydrogen projects, for local consumption and export. The scale up of local green hydrogen consumption in the mobility, industry and building sector within structures such as Hydrogen Valleys would contribute to the reduction in greenhouse gas emissions coupled with job growth, increased revenue in the PGM mining sector and overall GDP growth in South Africa.

Initial estimated cost is \$850m but depending on scenario is \$119bn - \$145bn over the next 15 to 25 years

Financing package should support all three areas in our first phase

South Africa needs a Just Transition financing package

Transition finance has several advantages:



Accelerated transition of South Africa's energy sector from coal to renewables



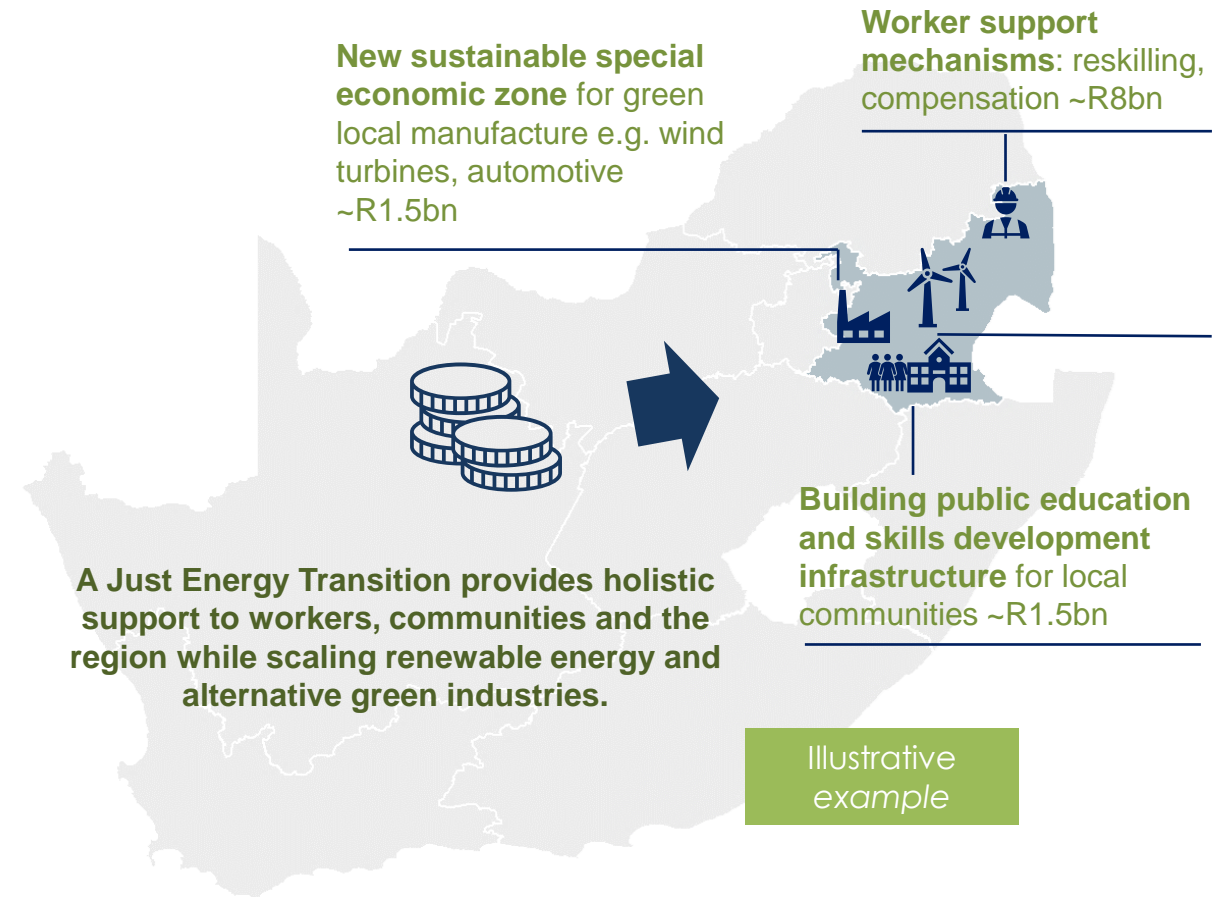
Robust green economic recovery for South Africa following significant COVID-linked GDP contraction



GHG mitigation which is globally & regionally significant – tackling climate & health risks



Just transition for coal communities, including jobs for youth and reskilling



South Africa's statement: "We are prepared to make a substantial carbon reduction, but this must be financed by developed countries on concessional terms."

Prioritising international support into a single just transition financing facility will achieve multiple objectives at the same time

1	Repowering and repurposing old coal plant as it is decommissioned
2	Accelerating the transition to renewable energy, improving the carbon profile of SA industries and retaining competitiveness
3	Accessing highly concessional finance for Eskom, given constrained balance sheet
4	Minimising the impacts on key sectors of the economy (coal) and supporting communities
5	Creating jobs and opportunities for localisation and inclusion
6	Contributing to reindustrialization and stimulation of South African manufacturing sector
7	Contributing to development of black/women industrialists and community-based ownership



The proposed Facility is part of a broader strategy to achieve sustainability at Eskom...

Pursue financial and operational sustainability

Fix the current business

- Drive turnaround plan focusing on the five pillars
 - Improve income statement
 - Improve balance sheet
 - Operations recovery
 - Legal separation
 - People and culture
- Address financial sustainability challenges and associated government guarantees
- Pursue an unbundled and cost-reflective tariff structure
- Address municipality debt



Facilitate a competitive future energy industry

Prepare for competition

- Deliver independent Transmission System Operator
- Implement the roadmap for new Gx capacity in line with IRP 2019
- Enabling and transitioning towards renewable energy
- Implement profitable business models for Gx, Tx, Dx
- Facilitate enabling policy and regulatory framework for turnaround and transition
- Establish smart and flexible tariffing models



Modernise our power system

Leverage technology

- Roll out technological solutions to address business challenges – e.g. development of smart grids and broad utilisation of smart meters
- Deliver on the transmission grid expansion
- Increase in regional grids and distributed generation
- Roll out new technology options to support future business



Strive for net zero emissions by 2050 with an increase in sustainable jobs

Transition responsibly

- Repurposing and repowering coal power stations as they reach the end of their useful life
- Drive key enablers to expedite future utility scale procurement programmes
- Deliver on the social and skills plans and promote local industrialisation and job creation
- Focus on improvements to further improve environmental performance



Komati will serve as the flagship site to demonstrate the JET commitment



With Komati's last coal-fired unit set to be shut down in 2022, the **Komati repowering and repurposing programme offers many opportunities**

- Offers the unique opportunity to pilot the repowering of a station on existing Eskom land.
- Eskom has begun installation of an **Agrivoltaics plant** and a **Microgrid assembly plant**.
- Eskom is completing the engineering studies to confirm the capacities of PV and Battery that **will be installed in the next 12-28 months**



Agrivoltaics



Containerised microgrid

Principles to guide our international partnerships

South Africa

- South Africa can only **accelerate its decarbonisation trajectory** (and commit to no new coal) with substantial financial support from developed countries and international financial institutions, on concessional terms
- The first phase of our just transition will focus on **electricity, automotive and green hydrogen**
- This would fund the **decommissioning, repowering and/or repurposing** of existing coal power stations as well as investment in transmission and distribution infrastructure to enable deployment of renewable energy sources
- Funding would also support climate justice through **reskilling and creation of opportunities for affected workers** and communities

International partners

- In line with COP 21 commitments, provide **concessional funding** to support mitigation efforts through a multi-donor single country trust fund
- Through this funding, develop a **global best-practice coal transition** programme that supports a just transition for affected communities
- Ensure that terms of lending **accommodate and enable** the substantial investment required and reflect the historical obligations of developed countries – e.g. lenders must bear foreign exchange risk
- Do not impose **additional conditions** on funding that would constrain development of local productive capacity

Political Declaration that supports our Just Transition

The Just Transition Political Declaration is ambitious and unique, the next steps is crucial for delivery of the agreement



Next Steps:
A joint negotiations team will be established between South Africa and the partner group of countries to discuss an investment plan and financing modalities



- In terms of the Political Declaration announced at COP26, the US, UK, Germany, France and the EU have offered an initial amount \$8.5 billion through a combination of financial instruments including grants and concessional loans to support South Africa's just transition efforts
- Political Declaration in is line with the obligation on the part of developed countries, as historical beneficiaries of high carbon emissions, to provide support to developing countries to transition to a decarbonised future.
- The Declaration makes it clear that the pace and extent of decarbonisation in South Africa will be determined by the financial support available and recognising the socio-economic challenges faced by South Africa.
- Funding is expected to be used for Eskom's just transition plans (decommissioning, repowering and repurposing of old coal-fired power stations) in line with the Integrated Resource Plan (IRP) 2019, funding will also be allocated towards the development of new sectors such as electric vehicles and Green Hydrogen sector.
- A decarbonised economy must also address the needs of workers in affected industries and communities - funding offered will be used for targeted programmes of reskilling and upskilling, creating employment and providing other forms of support to ensure workers, women and youth are the major beneficiaries of our shift to a greener future.