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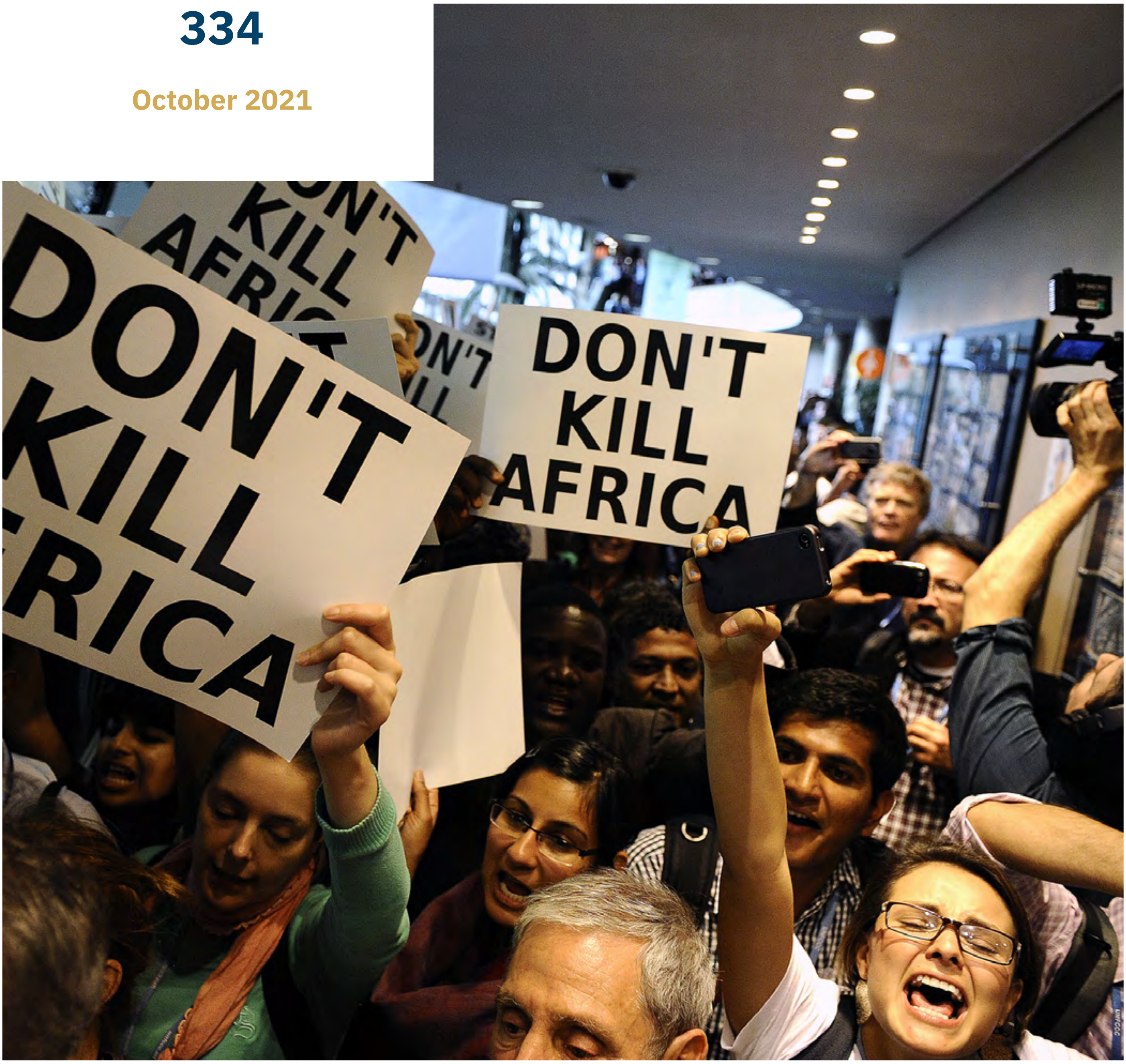

A New South African Climate Diplomacy: G7, G20 and Beyond

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African perspectives
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Abstract

South Africa has played an important role in global climate negotiations, but this can be further scaled up to respond more directly to the imperative of a more geostrategic and mainstream economic framing of climate diplomacy, and debates around how to 'build back better' in the wake of the COVID-19 pandemic. The G7 Leaders' Summit and the G20 Leaders' Summit are important platforms for the country to engage on these issues. South Africa should adopt a more assertive climate diplomacy, in a manner that transforms its energy economy and advances its developmental and economic interests. Such diplomacy will have to respond to the global impetus to raise climate ambition; shape transformative systems change; and support new modes of collaboration to steer an agenda that speaks to the unique challenges faced by emerging economies as they decarbonise.

This paper discusses some of the specific issues South African climate diplomacy should focus on, including the reform of the global climate finance architecture; climate-related debt, trade and intellectual property considerations; as well as how, where and with whom to champion these issues in the future.

Introduction

As this paper was going to print, South Africa's President Cyril Ramaphosa wrote in his weekly newsletter that the country needed to act with 'urgency and ambition' to transition to a low-carbon economy. However, such ambition would not be realised 'without the support from the more developed economies living up to the promises they have made in the past to provide financial support to developing economies'.[1] The president's letter encapsulated the challenge facing South Africa in moving quickly to decarbonisation while doing so without leaving communities, workers and whole economic sectors behind.

The South African Institute of International Affairs (SAIIA) and the African Climate Foundation (ACF) convened a series of dialogues in 2021 that sought to support the integration of climate diplomacy into South Africa's broader foreign policy agenda, focusing on how South Africa can strategically utilise international platforms and processes in pursuit of its climate diplomacy goals. The discussions centred on the G7 Summit, held in Carbis Bay, in the UK in June 2021, and the opportunities presented by other high-level meetings, including the G20 Summit to be held in October 2021 in Rome. The first dialogue was convened ahead of the June 2021 G7 Summit, where assembled stakeholders identified a number of actions that South Africa should pursue in crafting such a diplomatic strategy. Shortly thereafter, we published an opinion which elaborated on these ideas. Following the conclusion of the Summit, we hosted a larger policy dialogue at which a panel of experts presented and discussed the outcomes of the G7 Summit and the path to the October G20 Summit, focusing on how to reimagine the global climate finance architecture, the geopolitics of coal phase-outs, targeted transition facilities and the shaping of a new climate diplomacy.

This paper engages with the issues discussed at the workshops in further detail, with a view to forming a framework for future engagements. We begin by highlighting how the drive towards decarbonisation is integral to the geopolitical and technological rivalries that have intensified in recent years. We then outline some of the key climate outcomes of the G7 Summit in June 2021, and some of the issues which have been flagged in the lead up to the G20 Summit in October. We address the need for South Africa to expand its climate diplomacy, in an integrated fashion with other interests, to forums where key decisions on the future of decarbonisation are being made, including on intellectual property, trade in carbon-intensive goods and access to the International Monetary Fund's (IMF) special drawing rights (SDRs). We focus on one of the key issues South Africa should be advancing as part of its climate diplomacy, namely the reform of the global climate finance architecture to render it fit for purpose for a just transition in the context of a global push for coal phase-outs. Lastly, we look to the future, and explore how South Africa can strategically reposition itself, including in response to the European Green Deal,

1 The Presidency, 'From the Desk of the President', 11 October 2021, http://www.thepresidency.gov.za/from-the-desk-of-the-president/desk-president%2C-monday%2C-11-october-2021.

negotiations around coal phase-outs, the mechanisms to support a just transition and lastly through its participation at COP27, which will be held in Egypt in 2022.

The changing geopolitical landscape and climate change

Climate change and the global architecture and instruments developed to tackle it, are already impacting on countries' future economic trajectories, largely framed by the interests of advanced economies. Countries that do not develop the requisite foreign and trade relations capacity to claim a stake in the investment surge in decarbonised technology innovation and infrastructure risk being left behind. Technology is already an integral component of discussions to address climate change. In this regard, Africa is both at the receiving end as well as an important supplier of strategic minerals necessary for many of these technological innovations. In fact, 42 of 63 elements used by low-carbon technologies and the fourth industrial revolution are found in Africa.[2] Their importance to digital technologies as well as climate-related technologies highlights Africa's strategic importance and the potential for an ensuing 'scramble' around these resources.[3]

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Achieving decarbonisation is the new 'space race', with the rich western countries and China each seeking technological strategic autonomy in this field, recognising that it will have consequences for their overall political and economic power and positioning.

There is already a global push to re-shore critical industrial green technologies, secure the supply of critical minerals, reduce energy interdependence and position states with the capability to benefit from the surge in renewable energy and other green tech innovation. While decarbonisation delivers a global climate good, it is also being used to secure competitive technology first-mover advantage and other geo-economic interests. Europe's Green Deal and China's goal of achieving carbon neutrality by 2060 will deploy a variety

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2 UNU-INRA, 'Africa's Development in the Age of Stranded Assets' (Discussion Paper, UNU-INRA, Madrid, 2019), 37, https://inra.unu.edu/publications/articles/discussion-paper-africas-development-in-the-age-of-stranded-assets_2019.html.

3 Elizabeth Sidiropoulos, 'Globalisation in Africa: both boon and bane', draft manuscript for forthcoming volume Rewiring globalisation, ed. Sinan Ulgen (Washington DC: Carnegie Endowment, 2022).

of instruments to realise these ambitions, which will also simultaneously create economic, geopolitical, and normative advantages for those countries.

Europe's target to achieve net zero emissions by 2050 draws on three policy levers: (1) tougher regulations and emissions standards for industry, (2) carbon pricing and taxes on polluters, and (3) rules to promote investment in lower emissions technology. China's pursuit of carbon neutrality by 2060, given that the country is now responsible for 20% of global emissions, will enable it to accelerate its technology innovation, becoming a major supplier for other countries in the global race to decarbonise. It is already a leader in green technologies.

The Biden administration in the US has also adopted a more geostrategically nuanced approach to climate change, compared to the Trump administration. In February 2021, soon after taking office, the President issued an executive order to strengthen the resilience of America's supply chains for economic prosperity and national security.[4] The order calls for a risk assessment on the supply chains of a number of critical sectors, such as semi-conductor manufacturing, high-capacity batteries (including e-vehicle batteries) and critical minerals.

The resources being put into net-zero targets by these countries, as well as the associated policy frameworks, can have significant negative impacts on emerging and developing economies already ravaged by shrinking fiscal space, rising debt and overburdened social infrastructure as a result of the COVID-19 pandemic. At the same time, they can also create opportunities for developing countries to transition to greener economies, but this will require strategic reflection, implementation roadmaps, partnerships and finance.

The UN Framework Convention on Climate Change (UNFCCC) and the annual Conference of the Parties (COP) meetings are the formal forums where climate change negotiations take place; however, informal clubs such as the G7 and the G20 play an important role in building consensus among their members, which include the richest countries in the world as well as emerging economies that are systemically important.

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4 White House, 'Executive Order on America's Supply Chains', Presidential Actions, February 24, 2021, https://www.whitehouse.gov/briefing-room/presidential-actions/2021/02/24/executive-order-on-americas-supply-chains/.

The G7 and G20

The UK, which chaired the G7 in 2021, and which is also co-chair of COP26 in Glasgow in November 2021, made climate change and the COVID-19 pandemic priorities for its presidency. Prime Minister Johnson's priorities on climate change were to coordinate action on carbon border taxes, green finance and the phase-out of coal. The UK invited South Africa, Australia, India and South Korea as guests to the G7 Cornwall Summit on June 12–13, 2021. Ahead of the Summit, the South African government had outlined its priorities, which included the pandemic, equitable and inclusive global economic growth, and climate change. At the G7's final session on Climate and Nature, President Ramaphosa underscored that, while the country supported a transition to net zero and the phase-out of fossil fuels, developing countries still required developed countries to lead with 'massively scaled-up, predictable and appropriate means of implementation support'.[5] It was up to the G7 'to demonstrate a clear commitment to significantly enhanced adaptation, technology transfer and means of implementation'.[6] President Ramaphosa reiterated the importance of the right of developing economies to policy space and sufficient time to achieve a just transition. The erosion of policy space has been an enduring concern of developing economies and relates to the extent to which international economic rules undermine the autonomy of states to decide on policies that advance their economic development. Initially, the discussion focused on policy space in the trade area[7], but the areas have now expanded and include issues such as transitions to a green economy.[8]

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The G7 Climate and Environment Ministers' Meeting Communiqué[9] vowed to deliver climate targets consistent with a 1.5°C future and to end new direct government support for unabated international thermal coal power generation by the end of 2021, and to an overwhelmingly decarbonised power system in the 2030s.[10] The Carbis Bay G7 Summit Communiqué, endorsed these commitments,[11] calling further for global action to build

5 South African Government, 'President Cyril Ramaphosa: G7 Leaders' Summit Session on Climate and Nature', June 13, 2021.
6 South African Government, 'President Cyril Ramaphosa.'
7 Jörg Mayer, 'Policy Space: What, For What, And Where?', (Discussion Paper 191, UN Conference on Trade and Development, Geneva, October 2008), 2.
8 Having the policy space does not equate to its effective use by countries. For more discussion on this see Jörg Mayer, Policy Space: What, for What and Where?
9 United Kingdom G7, 'G7 Climate and Environment Ministers' Meeting Communiqué', London, May 20–21, 2021.
10 United Kingdom G7, 'G7 Climate and Environment.'
11 United Kingdom G7, G7 Summit Communiqué, Carbis Bay, June 13, 2021.

back better from the COVID-19 pandemic,[12] and committed G7 nations to net zero emissions as soon as possible and by 2050 at the latest. Doing so marked a return to a consensus around net-zero timing, after a period marked by the US's withdrawal from the Paris Agreement.[13] The G7 committed to aligning official international financing with the global goal of net zero emissions by 2050, including by:

- ending new direct government support for unabated coal power generation by the end of 2021, including through Official Development Assistance, export finance, investment, and financial and trade promotion support. Support for this phase out includes the coordination function of the Energy Transition Council, as well as the work of the Climate Investment Funds (CIF) and a multi-donor plan to commit up to $2 billion in the coming year to the Accelerating the Coal Transition and Integrating Renewable Energy programmes.[14]
- reaffirming the goal to jointly mobilise $100 billion per year from public and private sources, through to 2025;[15]
- increasing and improving overall international public climate finance contributions for this period both in terms of quantity and predictability;
- improving the effectiveness and accessibility of climate finance, including more finance for adaptation and resilience, disaster risk and insurance, as well as support for nature and nature-based solutions; and
- eliminating inefficient fossil fuel subsidies within the G7 by 2025.[16]

The Italian G20 presidency held combined climate and energy ministerials, an important innovation that recognised the interconnectedness of these two elements in dealing with climate change. On 22–23 July 2021, the G20 Environment and Climate and Energy Ministers' Meetings were held in Naples. The communiqués issued by the Ministers do not contain any materially new climate commitments or points of agreement.[17] Specifically, no agreement could be reached on accelerating decarbonisation in the next decade by setting a date to phase out unabated coal, stopping international public financing of unabated coal power generation and phasing out inefficient fossil fuel subsidies within a certain

12 Including through an initiative for clean and green growth. In relation to Africa specifically, by magnifying support from the International Monetary Fund for countries most in need to support a total global ambition of $100 billion.

13 United Kingdom G7, 'G7 Summit Communiqué.'

14 These concessional resources are expected to mobilise up to $10 billion in co-financing, including from the private sector, to support renewable energy deployment in developing and emerging economies.

15 The OECD-DAC calculated that climate finance provided and mobilised by developed countries for developing countries totalled $79.6 billion in 2019, up 2% from $78.3 billion in 2018. Multilateral institutions accounted for the increase, while bilateral public and private climate finance commitments dropped. See OECD, 'Statement from OECD Secretary-General Mathias Cormann on climate finance in 2019', September 17, 2021, https://www.oecd.org/environment/statement-from-oecd-secretary-general-mathias-cormann-on-climate-finance-in-2019.htm.

16 United Kingdom G7, 'G7 Summit Communiqué.'

17 The joint energy-climate communiqué lacks specificity, but underscores the importance of the $100 billion in financial support and calls on DFIs, especially MDBs, to give effect to their commitments to mobilise increased climate finance. India published a dissenting statement that called on G20 countries to commit to bringing down per capita emissions to the global average by 2030. See G20 Energy and Climate Ministerial Meeting, Presidency Statement towards the G20 Leaders Summit, Naples, July 23, 2021.

date.[18] The ministers also failed to agree on keeping global emissions consistent with a 1.5˚C future, preferring to reference ambition expressed in the Paris Agreement in 2015, which only agrees to hold temperature increases to well below 2˚C and to pursue efforts to limit it to 1.5˚C.

A New Climate Diplomacy

The term climate diplomacy demonstrates an acknowledgement that climate change is increasingly relevant as a vector of foreign affairs and has to be integrated and mainstreamed into a country's international priorities. Climate diplomacy's success depends on developing an intersectional strategy built on a country's interests; deploying a varied diplomatic toolbox; and pursuing its priorities across multiple regional and global platforms.

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The nature of the climate challenge calls for leadership that is able to steer global transformation processes at the level of ambition and scale that reflect the magnitude of the risk. Climate action is integrally linked with economic transformation, technological innovation and socio-economic development. Climate diplomacy needs to engage with the global impetus to raise climate ambition; shape transformative systems change; and support new modes of collaboration to steer an agenda that speaks to the unique challenges faced by emerging economies as they decarbonise.

Addressing South Africa's domestic challenges of poverty, unemployment and inequality thus requires the country to take a strategic approach to how it engages internationally on climate change. Climate diplomacy is a means to transform South Africa's domestic energy economy, advance its economic interests and energy security, and champion the continent's developmental priorities. Our climate diplomacy should therefore be considered as a whole-of-government strategy where all government departments and agencies have an integrated and coherent approach to the issue of energy transformation.

18 G20 Italy, G20 Energy and Climate Ministerial Meeting, Presidency Statement towards the G20 Leaders Summit, Naples, July 23, 2021. Specifically China, Russia, India, Turkey and Saudi Arabia opposed a commitment to phase out coal entirely by 2040, refusing to commit to any timeframe. See Climate Home News 'G20 climate and energy ministers split over coal exit', July 26, 2021. In March, UN Chief Antonio Guterres urged high-income countries to exit coal by 2030 and developing nations to follow suit by 2040: UN Climate Change 'UN Chief Calls for Immediate Global Action to Phase Out Coal', March 2, 2021.

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In September 2021 the cabinet announced its revised target range for its Nationally Determined Contribution (NDC), which was more ambitious than its previous NDC: the new target range to 2025 is 398 to 510 metric tonnes of CO_2 equivalent ($MtCO_2eq$) and for 2030 from 350 to 420 $MtCO_2eq$, compared to the target range of 398 to 614 $MtCO_2eq$ by 2030 specified in its original NDC.[19] The 2019 Integrated Resource Plan would need to be amended to take into account the new targets. Although the targets are ambitious, such an approach is necessary in order for South Africa to avoid potential punitive consequences from trading partners such as Europe that are implementing carbon border tax adjustments, to avoid falling behind in green technology and to be able to access concessional finance, not least for Eskom. For example, there will be an investment surge in decarbonised technology innovation and infrastructure. South Africa's foreign and trade relations capacity has to be geared up and effectively coordinated to claim a stake in this.

Historically, South Africa has been a leader in climate negotiations and a champion of multilateral responses to global challenges. It has an opportunity to re-harness this role and establish a more assertive climate diplomacy at the centre of its international relations strategy, built on a national policy that is resilient and strategically literate.

South Africa's climate diplomacy should position the country to simultaneously address environmental and developmental challenges, insisting on concrete commitments of technical and financial support from developed countries to address these challenges, and building political momentum through a diverse range of multilateral processes and platforms towards these ends.

It is important to emphasise that climate diplomacy must be pursued across multiple forums, not just via the UNFCCC. This is because, as climate responses become mainstreamed in broader technical, economic and social policy responses, other platforms are being used for climate change deliberations that are also shaping climate diplomacy's outcomes, from trade, and technology to investment and development finance among others. These platforms include the World Trade Organisation (WTO), the World Intellectual Property Organisation, the IMF and the World Bank, the UNFCCC and other UN bodies, and clubs such as the G7, the G20 and the BRICS.[20]

19 South African Government, 'Statement on virtual Cabinet Meeting of 14 September 2021', September 20, 2021. https://www.gov.za/speeches/statement-virtual-cabinet-meeting-14-september-2021-20-sep-2021-0000.

20 Brazil, Russia, India, China and South Africa

Equally, South Africa should identify countries and regions with shared interests to coordinate positions and cooperate in advancing these interests in the international arena. Strategic alliances are necessary to respond to shifts in international climate cooperation, which now has to contend with increased national protectionism, the growing role of industrial policy as a tool for national strategic advantage, intense and accelerating competition with China and other leading economies, and domestic pressures from labour unions and trade associations threatened by the energy transition.

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The content of South Africa's climate diplomacy will need to integrate climate considerations into policies across sectors such as agriculture, industrial development, value chains, mining, human settlement, research and innovation, and gender. The extent to which the global financial architecture is reformed to enable fairer financing of developing countries' transitions is also an important dimension of climate diplomacy. As the impacts of climate change become more acute, South Africa will also need to integrate regional climate security risks into its peace and security engagements on the continent and with other external actors. Lastly, as noted above, South Africa will have to navigate the geopolitics of decarbonisation in a way that does not compromise or undermine its interests in achieving a just transition.

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Traditional Climate Finance is Not Fit for Decarbonisation

The current climate finance architecture has been the focus of much of the discussions regarding how emerging and developing economies will make the requisite shifts in their energy generation. The global climate finance architecture needs reform to adequately cater for just transition risks to ensure that no one is left behind and that measures to support equity, security and alternative forms of employment receive the requisite financial support. This builds on the Paris Agreement commitments to support a just transition for workers and communities and the Just Transition Declaration made at COP24.[21]

Some of the key problems of the current climate finance regime are the highly fragmented climate finance landscape; the lack of agreement on a taxonomy of what qualifies as climate finance; the narrative which focuses on climate finance less as investment and more as a charitable contribution; its high cost and the absence of shared risk between the lenders (whether public or private) and the recipient; and the absence of sufficient concessionality, especially for middle-income countries. Both these last points relate to the quality rather than just the quantity of finance. Furthermore, the current discourse about climate finance takes a very narrow approach, not including elements such as taxation, standards, trading systems and intellectual property rights (IPR).

Climate finance should not focus disproportionately on mitigation

Moreover, South Africa (and the rest of the continent) has stressed that climate finance should not focus disproportionately on mitigation, given that most African countries have small carbon footprints and will have to focus much more on adaptation to climate change.[22] For example, the European Investment Bank's adaptation portfolio for low-income and middle-income countries in 2018 was $432 million, compared with $5.268 billion for mitigation, or 12 times less investment in adaptation than in mitigation projects.[23] The African Ministerial Conference on the Environment (AMCEN) have emphasised that climate change and development agendas are inseparable, calling for an enhanced emphasis on adaptation and a move from relatively small-scale projects to flagship climate programmes that can transform economies and reduce poverty.[24]

While there has been considerable finance available for mitigation projects in Africa, little of this finance has been directed towards the costs of retiring coal facilities. In South Africa, it is estimated that these costs may be as high as ZAR6 billion.[25] Without finance to retire coal

21 UNFCCC COP24, 'Solidarity and Just Transition Silesia Declaration', Katowice, 2018.

22 An analysis by the African Climate Policy Center, UNECA, showed that for adaptation, conditional contributions amounted to 58%. Conditional actions in the NDCs are those that are subject to available finance, capacity and technology transfer. See African Ministerial Conference on the Environment (AMCEN), 17th Session, 'Policy Implications and Financing Opportunities for the Implementation of Nationally Determined Contributions in Africa: Role of African Policy Makers. Note by the secretariat'. Durban, South Africa, 11-15 November 2019. https://wedocs.unep.org/bitstream/handle/20.500.11822/30619/AMCEN_17_7.pdf?sequence=1&isAllowed=y.

23 San Bilal and Pamella Eunice Ahairwe, 'Eight Ways the European Investment Bank Can Help Tackle Climate Change in Africa', (Brussels, ECDPM, May 11, 2020).

24 AMCEN, 'Policy Implications and Financing Opportunities'.

25 They include the costs of support for workers facing retrenchments in the form of income, retraining, and relocation; guaranteeing pensions; and initiating transition programmes for fossil fuel-dependent communities. Michelle Cruywagen, Mark Swilling and Megan Davies, '6 Billion First Estimate of Just Transition in South Africa', Daily Maverick, December 10, 2019.

facilities it will be politically difficult, if not prohibitive, to transition towards lower carbon sources of energy in a way that is fair and just.

There is also a risk that in focusing too narrowly on the quantum of finance provided in the lead up to COP26, attention will shift from the wider structural issues that present barriers to developing countries/emerging economies in accessing finance. The G7 and the UNFCCC have all recognised that these barriers require redress, but implementing the necessary reforms will require strategic climate diplomacy across multiple forums. At the 30th BASIC (Brazil, South Africa, India and China) Ministerial Conference in April 2021 the group[26] reiterated the need for 'new and additional, sustained, predictable, adequate and timely finance, technology development and transfer and capacity- building support' with a significant public funded component.[27] The call was for less conditionality and more reasonable co-financing requirements. While these positions by the BASIC group are welcome, greater specificity is needed on how to achieve these outcomes.

Less conditionality and more reasonable co-financing requirements

One example of necessary reform is within the CIF's Accelerating Coal Transition Investment Programme (ACT). The Programme seeks to respond to the need for transition finance through the development of a fund that supports coal phase-outs by providing co-finance for infrastructure and land, people and communities. It also supports governance measures to major coal-producing and -consuming developing economies.[28] The CIF, however, can only be accessed if two Multilateral Development Banks (MDBs) are also co-funding the programme, for example the World Bank and the African Development Bank. Securing support from three institutions is by no means certain, and even if it is forthcoming it may result in the imposition of further costly conditionalities for access.

Moreover, the CIF's concessional funding requires considerable levels of private co-finance. Ordinarily the CIF will only provide a relatively small proportion of project finance, with private finance expected to constitute the bulk of financial support. National governments are also usually required to provide sovereign guarantees for concessional finance, which again increases the cost and risk to governments substantially. This is an issue that is not peculiar to the CIF but applies to most of the global climate funds, including the Green Climate Fund (GCF). Sovereign guarantees can be particularly challenging for developing/

26 Including Brazil, India, and China.

27 South African Government, 'Joint Statement issued at the Conclusion of the 30th BASIC Ministerial Meeting on Climate Change Hosted by India on 8th April 2021', April 8, 2021.

28 This includes labour reskilling and training programmes, reclamation and repurposing of land, repowering with renewable energy and plant decommissioning, as the case may be.

emerging economies, particularly during times of high levels of debt,[29] and they materially affect the cost of finance. The CIF also does not take the cost of finance into account in their assessment metrics. As the Vulnerable 20 (V20) has observed, high capital costs affect the commercial viability and bankability of most projects, discouraging the private sector from climate action.[30] Capital costs in climate-vulnerable countries are estimated to be 10% greater because of the disproportionate climate risks they face.[31]

Equally, MDBs often offer little latitude to governments on how funds can be expended and concessional finance is highly conditional. Onerous conditions are being imposed on borrowers and there is often little opportunity for national governments to pursue domestic priorities, for example to build a base for manufacturing employment opportunities as part of the project outcomes. Part of South Africa's climate diplomacy in the G7 and the G20 could focus on advocacy for the MDBs to amend their highly conservative risk assessment approach.

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Lastly, prohibitive lending practices tend to exacerbate the difficulty of accessing finance. Lending tends to be driven by donor imperatives, including donor-centric,[32] non-intuitive[33] and in many instances unnecessarily complex requirements to access climate finance.[34] A review of the disbursement of funds undertaken by the GCF in 2018, for example, concluded that the successful disbursement is hampered by, among other things, more than 50 GCF policies, frameworks and procedures which contain significant overlaps between them, a lack of clarity in definitions, unclear delegations for implementation, questionable climate values and critical operational gaps requiring rationalisation and

29 Developing countries, including South Africa have been ravaged by shrinking fiscal space, rising debt, and overburdened social infrastructure in its wake. In the years before the pandemic, the costs of servicing debt for developing countries and emerging economies had more than doubled between 2000 and 2019. Global debt was also considerably higher than at the time of the 2008 financial crisis. The pandemic only served to exacerbate the debt crises for emerging markets and developing economies, as they suffered from a sharp drop in commodity prices, an immense contraction in exports, a loss of remittances, and unprecedented capital outflows.

30 Vulnerable Twenty Group, 1st Climate Vulnerable Finance Summit Communiqué, July 8, 2021.

31 Vulnerable Twenty Group, 1st Climate Vulnerable Finance Summit Communiqué.

32 Daphne Psaledakis, 'Development Banks' Climate Funding at All-Time High in 2018', *Thomson Reuters Foundation News*, June 13, 2019,

33 Belynda Petrie et al., *Multi-level Climate Governance in South Africa: Catalysing Finance for Local Climate Action* (Berlin and Cape Town: One World, Sustainable Energy Africa and Adelphi, 2018), 60.

34 This is despite the injunction that funding institutions should aim at ensuring 'efficient access to financial resources through simplified approval procedures … for developing country Parties, in particular for the least developed countries'. UNFCCC, Paris Agreement, Article 9, paragraph 9, 2015.

alignment with the capacities and context of recipient countries.[35] The World Bank has also noted that the majority of finance is provided through Development Finance Institutions (DFIs), and allocation naturally follows existing development mandates, which do not always fully prioritise climate needs.[36] South Africa should champion the reform of the climate finance global architecture, to ensure lending practices become more recipient-centric. It should also ensure that the attributes of climate finance are defensible and legitimate, to ensure a more equitable sharing of risk.

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Why a Broader Based Climate Diplomacy is Necessary

A well-defined and articulated South Africa climate diplomacy, which aims to build partnerships with actors that share common interests, could help bolster efforts to reform multilateral rules and institutions. This could help address the challenge of plurilateral or regional agreements that evolve into rules and financing measures without the input of developing economies. In order for South Africa to avoid competitive losses and optimise opportunities, not only in renewable energy but also in strategic minerals and green tech innovation, it will require a strategy for how to position itself in the evolving global regime debates on trade and IPR, particularly insofar as these concern rights over green tech and the trade in carbon-intensive goods. In this section we briefly discuss potential points of departure for such engagements.

New Forms of Finance

Novel instruments to access new or different forms of climate finance should be explored as part of a national climate finance strategy to boost the availability of finance. For example, the Global Centre on Adaptation has rightly argued for more collaboration on debt relief for some of the most climate-vulnerable countries while ensuring funds are

35 See Independent Evaluation Unit, *Forward-Looking Performance Review of The Green Climate Fund (FPR): Executive Summary* (Songdo: Green Climate Fund, 2019), 23. See also Benjamin K Sovacool, Bjorn-Ola Linner and Richard JT Klein, 'Climate Change Adaptation and the Least Developed Countries Fund (LDCF): Qualitative Insights from Policy Implementation in the Asia-Pacific', *Climate Change* 140 (2017): 219.

36 World Bank Group, 'Transformative Climate Finance A New Approach for Climate Finance to Achieve Low-Carbon Resilient Development in Developing Countries' (Washington, DC: World Bank, 2020).

channelled to a sustainable recovery. This can be achieved through the use of sovereign debt swaps with a resilience component (also known as debt for climate swaps).[37] The same approach could be applied in a mitigation context where debt is reduced in return for more ambitious climate mitigation targets, preferably coupled with a broader economic package that enhances economic recovery, improves trade balances and promotes climate aligned investments.

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Similarly, access to additional SDRs from the IMF will bring much needed liquidity to South Africa and help create much needed fiscal space for government to invest in the just transition, among other things. On 2 August 2021 the IMF approved a general allocation of SDRs equivalent to $650 billion (about SDR 456 billion) to boost global liquidity.[38] Approximately $275 billion (about SDR 193 billion) of the new allocation will go to emerging markets and developing countries, including low-income countries.[39] The IMF is still engaging on how to voluntarily channel unused SDRs to developing countries. One option is through the existing Poverty Reduction and Growth Trust.[40] This Trust, however, is inaccessible to middle-income countries such as South Africa. In the alternative, the IMF is also considering the establishment of a new Resilience and Sustainability Trust, to facilitate more resilient and sustainable growth in the medium term, including resilience to climate change. The Trust would be accessible to middle-income countries. The details of the Trust, however, are still under discussion within the IMF, including whether there should be a very explicit climate-related focus in the Trust. It would be important for South Africa to engage in deliberations at the IMF to ensure equitable access to any new trust; that the trust adequately addresses just transition needs; that any finance disbursed is regarded as additional to existing climate finance commitments; and that disbursements have low levels of conditionality to ensure that they do not add to existing levels of debt.

TRIPS

It is anticipated that the clean technology sector will benefit from exponentially high levels of growth in the decades to come. The most recent report of the Intergovernmental Panel

37 Morgan Richmond, June Choi, Paul Rosane, et al, 'Adaptation Finance in the Context of Covid-19' (Global Centre on Adaptation,2021), https://gca.org/reports/adaptation-finance-in-the-context-of-covid-19/.

38 IMF, 'IMF Governors Approve a Historic US$650 Billion SDR Allocation of Special Drawing Rights,' press release no. 21/235, August 2, 2021.

39 South Africa's IMF quota is 0.64%. This means that the country will receive an additional SDR allocation of about $4bn.

40 Concessional support through the PRGT is interest-free but only low-income countries are eligible.

on Climate Change (IPCC) has observed that, in order to limit global average temperatures to 1.5°C, renewable energy must increase to 52–62% of global primary energy supply by 2050.[41] Similarly, the World Bank estimates that climate change commitments will create opportunities to the value of approximately $23 trillion in climate-smart investments in emerging markets by 2030.[42] Most developed countries have responded by increasing their budgetary allocations to research and development (R&D) in low-carbon technologies to remain competitive.[43] In 2018, the US, China, Japan, France, and Germany led the globe in R&D expenditure on energy.[44]

There has been a longstanding debate in international climate negotiations and discussions on Sustainable Development Goal 17 ('strengthen the means of implementation and revitalise the global partnership for sustainable development'), regarding intellectual property, technology transfer, and climate change.[45] During the Paris Agreement negotiations, the BASIC group advocated for wider forms of technology transfer, and the G77 pushed for the adoption of intellectual property flexibilities. Ultimately these issues were not expressly addressed within the Paris Agreement, and the issue remains within the purview of the WTO and the Agreement on Trade-related Aspects of Intellectual Property Rights (TRIPS) agreement. Most recently South Africa has sought to champion a TRIPS temporary waiver for COVID-19 vaccines at the WTO. In May 2021 the Biden administration announced that the US would support the waiver proposed by South Africa and India.[46] However, the European countries have not moved on their opposition to the waiver and the negotiations are likely to be protracted. The question is whether this initiative – albeit proposing a temporary waiver – forces a rethink of how IPR is handled during emergencies, such as health pandemics or the climate crisis. This may well be an opportune moment to explore further waivers for clean tech innovations.

A rethink of how IPR is handled during emergencies, such as health pandemics or the climate crisis

41 Joeri Rogelj, et al, 'Mitigation Pathways Compatible with 1.5°C in the Context of Sustainable Development', in Global Warming of 1.5°C. An IPCC Special Report on the impacts of global warming of 1.5°C above pre-industrial levels and related global greenhouse gas emission pathways, in the context of strengthening the global response to the threat of climate change, sustainable development, and efforts to eradicate poverty, eds, Masson-Delmotte, V et al (In Press, 2018).

42 The World Bank, 'Supporting Climate Business Opportunities in Emerging Markets', May 7, 2020.

43 Sharif Naubahar, 'Global Technology Leadership: The Case of China', (Working Paper 11, The Hong Kong University of Science and Technology, 2015).

44 International Energy Agency, World Energy Investment Report 2020 (International Energy Agency, 2019).

45 Matthew Rimmer, 'Beyond the Paris Agreement: Intellectual Property, Innovation Policy, and Climate Justice' (8(1) Laws, 2019). Rimmer notes that the topic of intellectual property and climate change was debated in the Paris climate negotiations—but the final Paris Agreement 2015 only addresses the topic of technology transfer. While there has been some limited agreement in relation to technology transfer, there has also been an impasse in respect of intellectual property.

46 Office of the United States Trade Representative, 'Statement from Ambassador Katherine Tai on the Covid-19 Trips Waiver', Press release, May 5, 2021, https://ustr.gov/about-us/policy-offices/press-office/press-releases/2021/may/statement-ambassador-katherine-tai-covid-19-trips-waiver.

Carbon Border Adjustment Mechanism

On 14 July 2021, the European Union (EU) unveiled its plan for a proposed Carbon Border Adjustment Mechanism (CBAM). This proposed mechanism will impose a border tax on emission-intensive goods imported into the EU, such as iron, cement and steel, to 'level the playing field', so that EU producers who are subject to carbon pricing aren't undermined by cheaper imports that are not subject to carbon prices.[47] The present proposal, which is still to be reviewed by the European Parliament and the Council of the European Union, provides no waivers for any country, not even Least Developed Countries (LDCs). It may also run foul of the WTO rules.[48]

In the US, the Democrats have also recently proposed the imposition of similar 'polluter import fees'. This has sparked discussions around carbon clubs, which may undermine the multilateral spirit of the Paris Agreement. Lastly, the IMF has proposed a carbon price floor on all G20 countries as an alternative to a CBAM,[49] in the belief that it would be more effective.[50] This would require only certain major emitters to commit to a carbon price floor using domestic instruments. In their proposal, the IMF has suggested South Africa have a $25 per tonne carbon price floor as a binding instrument, which is more than twice the existing domestic carbon tax rate.[51]

Although the G20 Finance Ministers have supported the need for closer international coordination on carbon pricing,[52] developing countries (including South Africa, and India) have expressed 'grave concern regarding the proposal for introducing trade barriers, such as unilateral carbon border adjustment'. [53] These are perceived to be discriminatory and against principles of international environmental law. At the G7, President Ramaphosa called for caution in a one-size-fits-all approach to disinvestment from fossil fuels and the imposition of non-tariff barriers or discriminatory taxes that would unfairly harm developing economies.[54] Similarly, some EU member states have also opposed aspects of the EU Commission's CBAM, and its design is by no means certain at this stage.

South Africa is one of the most carbon-intensive economies in the world and has a relatively low carbon tax rate. It consequently stands to be particularly affected by such mechanisms if and when they are implemented. South Africa should promote a nationally determined agenda regarding the CBAM across multiple forums, and engage actively with the EU on

47 The CBAM proposal would require companies exporting to the EU to purchase CBAM credits priced at the current cost of carbon in the EU, currently about €50 per ton (and expected to rise over time), with adjustments for companies already paying such fees in their home countries. Those certificates, which are not tradeable, would be surrendered at the border.

48 Mehreen Khan, 'How the EU plans to reshape its economy to limit climate change', Financial Times, July 14, 2021.

49 Ian Parry, Simon Black, and James Roaf, 'Proposal for an International Carbon Price Floor among Large Emitters' (IMF Staff Climate Notes 2021/001, Washington, DC: International Monetary Fund, 2021).

50 Climate Home News, 'G20 backs carbon pricing, 'raising stakes' among emerging economies', July 12, 2021.

51 At present the South African carbon tax rate is only $9.4 at its maximum, i.e., without taking the many allowances into account.

52 G20, 'Third Finance Ministers and Central Bank Governors meeting of the G20', Communiqué, July 9-10, 2021.

53 Joint Statement at the 30th BASIC Ministerial Meeting. The relevant principles of law are the principle of equity and common but differentiated responsibilities and respective capabilities.

54 South African Government, 'President Cyril Ramaphosa'.

the design of the CBAM. For example, in its current form, the proposal is to use revenues generated by the CBAM to finance EU climate costs. These should rather be used to support climate transitions in developing countries, including South Africa.

South Africa should promote a nationally determined agenda regarding the CBAM across multiple forums, and engage actively with the EU on the design of the CBAM

Without an increase in climate finance and a relaxation of the rules on intellectual property, it will be challenging for emerging economies, whose infrastructure is already deeply embedded in fossil fuels, to achieve an ambitious and just transition and so any roll out of the CBAM should be conditional on demonstrated support in these areas. South Africa should also be questioning the lack of exemptions, in concert with similarly placed developing states. Lastly, it should be pushing for a more favourable formula for assessing the fee on its carbon imports and engaging at an early stage on the rules for accounting embedded carbon. To better understand the risks represented by the CBAM, macro-economic studies across the spectrum of South African exports, and a rigorous bilateral engagement with the EU and other trading partners, most notably at the G20 but also at the WTO and IMF, are critical.

Without an increase in climate finance and a relaxation of the rules on intellectual property to achieve an ambitious and just transition

Looking to the Future

Whole-of-government approach

Responding to the impacts of climate change and addressing its causes requires a coordinated and harmonised approach within South Africa, across government departments and with other domestic actors. This is borne out by the manner in which climate issues permeated most of the G7 communiqués in 2021. This highlights how essential it is for South Africa to develop an integrated whole-of-government approach to climate diplomacy that is supported by high levels of intra-governmental co-ordination and informed by a joint approach to a just transition. What is required is a far more active role in climate diplomacy and for all government departments and agencies to be on the same page regarding the energy and economic pathways South Africa will adopt to 2030, including the meaning of the just energy transition and what it will take to achieve it. There is potentially a role for the Presidential Climate Change Commission in this coordination, given that multiple diverse stakeholders are members of the Commission. Its current mandate is to focus on domestic climate change issues; however, more consideration of a future role it can play in climate diplomacy – by providing support to various government departments, for example - may be worth exploring.

Multiple Platforms

At the 30th BASIC Ministerial Meeting on Climate Change in April 2021, ministers put forward a position that other international forums, such as the G7, G20, the Convention for Biological Diversity and the United Nations Convention to Combat Desertification should not be used to 'pre-emptively negotiate issues within the purview of the UNFCCC'.[55] While this approach is based on the principle that climate change matters should be negotiated in the appropriate forum, the reality is that other actors are using other forums to advocate for climate-related issues that will affect the formal UNFCCC processes. Climate diplomacy necessitates extensive cooperation, engagement and leadership across multiple sectors, borders, and regions. Partnerships between foreign policy stakeholders, such as humanitarian, trade, economic, development, and security communities are critical to facilitating synergies and revitalising multilateral and plurilateral approaches to climate action. In this context, while South Africa should emphasise the centrality of the Paris Agreement, it must also expand the range of climate diplomacy to other forums where key decisions on the future of decarbonisation are being made, including the G7 and G20.

The emphasis on climate change as a cross-cutting dimension in not only the G7 and G20, but also in the IMF's rethinking of its mandate among others, demonstrates the need to be proactive in taking South Africa's climate change issues to these forums. In 2022 the G7 will be chaired by Germany, while Indonesia will preside over the G20. Germany has been a strong proponent of *energiewende* in its domestic and international engagements, and this is likely to be an important element of its G7 presidency. In the G20, Indonesia is a developing country with a large fossil fuel dependence. South Africa should look to engage early with Indonesia on the energy transition priorities of the 2022 G20 presidency. Furthermore, Egypt is poised to host COP27 in 2022 after recently receiving support from the African Group of Negotiators to do so. South Africa could play a strategic role at this COP, particularly as it advances negotiations around climate finance emerging from COP26.

It is unlikely that Parties will be able to address the full gamut of climate finance and just transition issues during this year's COP. Going forward South Africa should engage with the EU regarding the implications of the European Green Deal, the long-postponed EU and

55 Joint Statement at the 30th BASIC Ministerial Meeting.

African Union (AU-EU) summit and the opportunities it presents for bilateral engagement on key issues such as trade, climate finance, and coal phase-outs. South Africa is also chairing the African Ministerial Conference on the Environment this year, providing it with the platform to advocate for Africa's concerns in this realm and on the road to COP27. As noted above, rigorous bilateral engagement with the EU and other trading partners, most notably at the G20 but also at the WTO and IMF, are also crucial. South Africa should also seek strategic alliances with similarly placed carbon-intensive emerging and developing economies within these forums on the issues of trade and IPR, debt relief, reallocation of SDRs and technology transfer. While most African countries do not have South Africa's large carbon footprint, the country's engagement in intra-African climate diplomacy, given the relative depth of its technical expertise, would contribute to enhancing African agency on climate matters at the global level.

A Package Deal

In return for higher ambition in South Africa's emission reduction targets, concomitant levels of support are needed to finance not only the technology and infrastructure required to achieve these targets, but also the just transition impacts that will arise. This can be achieved by way of a package deal where South Africa agrees to conditional higher emission reduction targets, beyond that which can be financed domestically, in return for a range of measures to support its achievements (the more ambitious NDCs published in September 2021 reflect such an approach). These measures could include lowering the cost of capital, lower levels of conditionality on finance, higher levels of investment, more autonomy on how to spend finance, and dedicated financial support for a just transition. A potential consideration might also be the reduction in level of debt (i.e., a debt for climate swap). In updating their NDCs, many African countries have included both lower unconditional emission reduction targets and higher targets that are conditional upon international support. South Africa could embed such a package deal within its revised NDC in 2021, by including such a conditional target and by being explicit on the exact financial terms of such conditionality. The Just Transition Transaction, currently being pursued by Eskom, is an example of the kind of approach that should be taken to ensure that South Africa receives adequate support in exchange for more ambitious climate action.[56]

In return for higher ambition in South Africa's emission reduction targets, concomitant levels of support are needed to finance not only the technology and infrastructure but also the just transition impacts that will arise

56 See Terence Creamer, 'ANC offers strong endorsement of Eskom's just energy transaction following lekgotla', *Engineering News*, September 7, 2021, https://www.engineeringnews.co.za/article/anc-offers-strong-endorsement-of-eskoms-just-energy-transaction-following-lekgotla-2021-09-07.

A Transition Fund

South Africa should champion an alliance of coal-dependent economies around a transition dialogue and associated mechanisms as part of a global collective strategy for coal retirement among developing and emerging economies. 'Stranded assets'[57] will have significant cost for many developing economies, which could be addressed in part by a special accelerated coal retirement fund. Making such a fund available would either entail the fundamental reform of the CIF's ACT programme to address the barriers to access discussed above, or it could be a new fund housed within the GCF. In either case, funds should be provided fully on a grant basis, with preferential rights of access provided based on a country's percentage reliance on coal-fired energy. If it is not on a grant basis, detailed consideration should be given to the reforms proposed above to lower the cost of finance. Clear metrics should be developed for the types of social, economic and related costs that the fund would finance.[58]

> South Africa should champion an alliance of coal-dependent economies around a transition dialogue and associated mechanisms

Climate Finance Reform

South Africa's climate diplomacy needs to engage with the attributes of climate finance, to ensure it is defensible, legitimate and equitable. In addition to the relaxation of conditionalities, there needs to be a more equitable sharing of risk between lenders and recipients, and more flexibility afforded to governments to pursue national priority objectives. A number of proposed reforms have been put forward on how to achieve overall reductions in the cost of finance. For example, the V20 has proposed an Accelerated Financing Mechanism for V20 members facing capital challenges, which would deploy finance, based on a risk assessment on capital cost, to support the financial viability of projects.[59] Similarly, a study by Matthäus and Mehling suggests a global guarantee mechanism that pools risk and lowers the cost of capital for renewable energy investments

57 A stranded asset is something that once had value or produced income but no longer does, usually due to an external change, including changes in technology, markets and societal habits. It is argued that climate change will strand assets such as coal mines and coal fired power plants.

58 At present, Eskom is in discussions with international donors around a multi tranche multi-year concessional climate finance facility for its operations. Which needs to be concluded by mid-November. The finance looks not only to renewables but also to finance a 'just transition' through support to communities and workers. The proposed new coal transition fund housed within the GCF (or fundamentally reformed ACT), is proffered as an alternative to this approach, seeking to replace ad-hoc and concessional finance with more cost effective, predictable and accessible finance with clear, and negotiated rules purposefully designed to support just transitions. See: *Business Day*, 'Eskom Races to Tap Cheaper Funding', August 2, 2021.

59 The mechanism itself would be financed from different international and regional sources.

in developing countries.[60] They argue that such a mechanism could reduce costs by between 20% and 22%, and lower the cost of rapid renewable energy deployment by up to $1.5 trillion by 2030.[61] Both of these examples demonstrate the potential to considerably reduce the costs of finance, not only by reforming existing methods and rules, but by potentially creating new lower cost facilities.

> There needs to be a more equitable sharing of risk between lenders and recipients

South Africa should also advocate for the reform of international lending practices to be more recipient-centric and for lending institutions to prioritise climate objectives as part of their mandates. Further, preferential access to climate finance should not be based only on whether a state is classified as a low-income country. These classifications neither reflect the full spectrum of in-country constraints, nor the unique challenges faced by emerging economies as they decarbonise. Equally, a case could be made for more grant finance, particularly for the social and labour aspects of decommissioning coal-based infrastructure, with concessional finance more appropriately applied to the deployment of renewable energy.

Conclusion

A bold and enlivened climate foreign diplomacy in South Africa is necessary to unlock new sources of finance and investment as the country seeks to build an inclusive and just economy for all. The G7 and G20 Leaders Summits should recognise that a global decarbonisation drive that does not consider the systemic biases in the current global climate finance architecture will deepen the social and developmental divides between rich and poor, not level them. South Africa should embrace climate diplomacy not only within these forums but across multiple platforms. Achieving a just energy transition also necessitates reforms to the broader global trade policies and rules governing technology and IPR, necessitating active engagement by South Africa, particularly within the WTO and with the EU. Further, there is an imperative to not only increase the volume of climate finance available, but also to develop novel forms, revisit its conditionality, and reduce barriers to access. Specifically, the G7 and G20 must revisit conventional criteria and rules,

60 'De-risking Renewable Energy Investments in Developing Countries: A Multilateral Guarantee Mechanism', *Joule* 4, issue 12 (2020).
61 Matthäus and Mehling, 'De-risking Renewable Energy Investments'. They estimate that in some regions, the cost of renewable electricity generated could be lowered by up to $31 per MWh. The global guarantee mechanism could builds on existing risk guarantees and helps accelerate energy system decarbonisation in less-affluent regions.

including the characteristics of concessional finance, and contend with new ways of providing finance such as debt for climate swaps. As this paper has sought to demonstrate, there are a myriad of potential solutions to support access to cost-effective and nationally appropriate climate finance; however, these require an invigorated climate diplomacy across multiple government departments informed by a consensus on national energy and economic pathways, including the meaning of the just energy transition and what it will require. Such a consensus is crucial to resolve domestically as we turn to international forums to unlock the quantum and quality of climate finance required for a just transition.

SUMMARY OF RECOMMENDATIONS

- The success of South Africa's climate diplomacy depends developing an intersectional strategy built on the country's interests; deploying a varied diplomatic toolbox; and pursuing its priorities across multiple regional and global platforms.
- South Africa should insist on concrete commitments of technical and financial support from developed countries to address a shift to a low-carbon economy, and build political momentum through a diverse range of multilateral processes and platforms towards these ends.
- While South Africa should emphasise the centrality of the Paris Agreement, it must also expand the range of climate diplomacy to other forums where key decisions on the future of decarbonisation are being made, including the G7 and G20.
- South Africa should also seek strategic alliances with similarly placed carbon-intensive emerging and developing economies on the issues of green tech, trade and IPR, debt relief, reallocation of SDRs and technology transfer.
- South Africa's climate diplomacy should advocate for the MDBs to amend their highly conservative risk assessment approach.
- South Africa should champion the reform of the climate finance global architecture, to ensure lending practices become more recipient-centric. It should also ensure that the attributes of climate finance are defensible and legitimate, to ensure a more equitable sharing of risk between lenders and recipients, and more flexibility afforded to governments to pursue national priority objectives.
- Novel instruments to access new or different forms of climate finance should be explored as part of a national climate finance strategy to boost the availability of finance.
- South Africa must develop an integrated whole-of-government approach to climate diplomacy that is supported by high levels of intra-governmental co-ordination and informed by a joint approach to a just transition
- South Africa should champion an alliance of coal-dependent economies around a transition dialogue and associated mechanisms (such as a special accelerated coal retirement fund) as part of a global collective strategy for coal retirement among developing and emerging economies.

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Cover image: People protest in the halls of the venue of UN Climate Talks on December 9, 2011 to demand that nations not sign a "death sentence" during the UN Framework Convention on Climate Change (UNFCCC) in Durban. Standing side-by-side with delegates from some of the world's most vulnerable countries, civil society representatives sang traditional South African freedom songs and chanted slogans like, "Listen to the People, Not the Polluters." In the last 48 hours, over 700,000 people have signed petitions calling on major emitters to stand with the nations of Africa and resist any attempts to delay climate action until 2020 (Stephane De Sakutin/AFP via Getty Images)

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