Special Report

February 2022

Exploring the Potential Role of the IMF in Supporting South Africa's Just Transition

OLIVIA RUMBLE & ELIZABETH SIDIROPOULOS

African perspectives
Global insights

SAIIA
SOUTH AFRICAN INSTITUTE
OF INTERNATIONAL AFFAIRS

Executive summary

Climate change is no longer a peripheral issue in global economic and financial matters or, indeed, at the country level. The rapid changes in the climate are now being called an emergency. Some six years ago the International Monetary Fund (IMF) recognised that climate and related risks were beginning to impact the global economic system and national economies, and would thus have to be considered in its work. The IMF's primary aim is to promote global financial stability. It provides support to its member states through surveillance (Article IV consultations) and technical assistance, and is the global lender of last resort for countries facing balance-of-payments difficulties. Physical, transition and spillover risks emanating from the need for economies to transition away from fossil fuels all have both short- and longer-term impacts on governments' macroeconomic fundamentals, hence the IMF's acknowledgement of the need to integrate climate change into its work. In 2021 the IMF published the *Comprehensive Surveillance Review on Integrating Climate Change into Article IV consultations*.

The IMF's move into this area is not without controversy or opposition. This relates to the IMF's neoliberal policy conditionalities over many decades, which have been unable to deal with the issues of inequality, social exclusion and poverty that characterise many developing countries.

The South African Institute of International Affairs was commissioned by Oxfam South Africa to undertake research into the potential role of the IMF in supporting South Africa's just transition.

South Africa is among the top 20 global fossil fuel emitters, has the highest Gini coefficient of inequality, and has high poverty and unemployment rates. Its energy challenges related to Eskom's coal footprint and debt of some ZAR 400 billion ($26 billion) are expected to make the transition to cleaner energy economically and socially very difficult. The just transition concept has been part of the South African debate for over a decade, but recently the government's Presidential Climate Commission has been engaging with it more robustly, bringing multiple stakeholders into the dialogue. South Africa's transition risks are significant. Ensuring a just transition for workers in the multiple affected sectors of the economy, as well as surrounding communities and vulnerable groups, will be costly in the medium term, require international support, and necessitate effective institutional implementation and management.

Not all aspects of the just transition fall within the competency of the IMF, and many civil society actors interviewed argued strongly against any IMF involvement. However, given that the IMF is exploring its potential contribution to climate change risks and has indicated that it will focus on the top 20 emitters, this report highlights issues that will need to be considered.

Among its key recommendations to the IMF is that it should develop clear guidelines about when and on what issues it is appropriate to engage, and it should reaffirm the principle of 'do no harm'. In addition, it should be careful about avoiding mission creep, and should recognise where other international organisations have the mandate and the expertise on issues such as labour, for example. It will also be necessary to develop clear operational guidelines for its staff in its Article IV consultations and technical assistance on mainstreaming climate change and just transition considerations into their assessments, and ensuring the systematic involvement of civil society stakeholders and other government departments (not only the finance ministry). Critically, the link between climate change, macroeconomic stability and just transitions requires a serious reappraisal of the IMF's policy toolkit of fiscal austerity and orthodox economics.

South Africa's primary engagement with the IMF is through the Article IV surveillance and technical assistance requests. In that sense it is important not to overestimate the influence of the IMF. The National Treasury itself has begun considering the macroeconomic and financial risks of climate change, but the political economy trade-offs of budgeting decisions have to be integrated and mainstreamed more directly. The macro-critical nature of the just transition necessitates wider engagement with government departments on the trade-offs, and better policy coordination to mitigate the social consequences of the energy transition. In this regard the government could identify issues where the IMF could provide technical assistance.

For its part, civil society, while justly sceptical of the IMF's policy orthodoxy, should engage on its role with government, rather than eschewing engagement, so as to influence where its input might be helpful and where it might not. Importantly for the IMF, its involvement in providing climate transition risk advice will require greater transparency and openness. Often governments prefer to keep such advice confidential, but it behoves the IMF and governments to be more transparent in terms of both the process of decision-making and the substance. The just transition is a whole-of-society, long-term project that requires experimentation, policy innovation, inclusivity and openness for it to succeed and for the necessary political and economic trade-offs to be accepted.

Abbreviations & acronyms

CSO	civil society organisation
CSR	Comprehensive Surveillance Review
FSAPs	Financial Sector Assessment Programmes
GHG	greenhouse gas
IFI	international financial institution
ILO	International Labour Organization
IMF	International Monetary Fund
IRP	Integrated Resource Plan
NDC	Nationally Determined Contribution
NPC	National Planning Commission
PCC	Presidential Climate Commission
PRGT	Poverty Reduction and Growth Trust
RST	Resilience and Sustainability Trust
SDRs	special drawing rights

Authors

Olivia Rumble

is a Director of Climate Legal, specialising in environmental law, energy law policy and governance, climate change, climate finance and development, and carbon tax.

Elizabeth Sidiropoulos

is the Chief Executive of the South African Institute of International Affairs (SAIIA). She focuses on South Africa's foreign policy, multilateralism and 'club' governance such as the G7 and the G20. In December 2020 she was appointed to serve a two-year term on the Second High-Level Advisory Board of the UN Economic and Social Affairs department.

Acknowledgement

The authors would like to thank Oxfam staff in South Africa and the US for their inputs on the report, the peer reviewers, who provided valuable insights on earlier drafts, and colleagues at Climate Legal and the South African Institute of International Affairs (SAIIA).

OXFAM South Africa

This is a paper produced for Oxfam ZA by SAIIA.

About SAIIA

SAIIA is an independent, non-government think tank whose key strategic objectives are to make effective input into public policy, and to encourage wider and more informed debate on international affairs, with particular emphasis on African issues and concerns.

SAIIA's special reports are fairly lengthy analytical papers, usually reflecting on and analysing the findings of field research.

Cover image

Getty Images

Please note that all currencies are in US$ unless otherwise indicated.

Contents

CHAPTER 1

Introduction

The International Monetary Fund (IMF), as the premier multilateral institution charged with ensuring the stability of the international monetary system, has a broad mandate and significant ability to influence economic policy. Through its lending, surveillance and capacity-building activities the IMF plays a critical role in influencing the policies that governments adopt to achieve macroeconomic stability. The finance ministries and central banks of almost every country are the main institutions with which the IMF engages. Over the past decade the IMF's role has extended to macro-critical[1] issues such as climate change.

This expansion of the IMF's area of focus, while understandable in the context of climate change's transversal implications, carries with it significant challenges. In many contexts it will not be welcomed by governments and other national stakeholders, largely because of the IMF's chequered record in terms of the efficacy of its policy prescriptions to countries.

The South African Institute of International Affairs was commissioned by Oxfam South Africa to undertake research into the potential role of the IMF in supporting South Africa's just transition. The findings of the research are presented in this report. Our starting point was the IMF's stated intention to engage more substantively on climate change issues as they relate to its core mandate. Being among the top 20 global emitters, South Africa is a priority country for the IMF. South Africa is highly dependent on coal for its energy, but it is also an important export. This dependency translates into greater macroeconomic vulnerabilities. The country's growing public debt is the result of public electricity utility Eskom's debt of some ZAR[2] 400 billion ($26 billion). Equally, since it does not have a traditional loan programme with the IMF, the IMF does not wield the same amount of influence that it has in other countries that do have such a programme.

This report should not be interpreted as advocating for the IMF to play a role in South Africa's just transition. Indeed, it should be noted that some actors consulted during the research process expressed ambivalence or clear opposition to an expanded role for the IMF in South Africa related to the country's just transition. Nevertheless, given that the IMF is exploring its potential contribution to climate change responses, this report seeks to highlight issues that will need to be considered. (The report focuses on government and civil society. The private sector falls outside its scope.)

1 According to the IMF, "an issue is macro-critical if it affects, or has the potential to affect, domestic or external stability". International Monetary Fund, "Guidance Note for Surveillance under Article IV Consultation" (Guidance Note, IMF, Washington DC, May 2015), 36.

2 Currency code for the South African rand.

In this analysis we focus on the question of whether and how the IMF could support South Africa's just transition through its surveillance, capacity-building or even lending functions. Some of our guiding questions were: What priorities should shape the IMF's climate mandate, particularly when it comes to the just transition? How can the IMF reform both its substantive and its procedural practices to respond to these priorities? How does South Africa conceptualise its just transition, and what is the relevance of this to the IMF? How can developing countries such as South Africa, which are heavily fossil-fuel dependent and highly sensitive to both transition and physical risks, ensure that the IMF's engagement on climate change issues fosters a transition that is both just and equitable for South Africans?

In our report, we briefly set out the IMF's traditional mandate and how it is approaching its expanded mandate on climate change. We then discuss the IMF's historical role in South Africa. This is followed by an examination of the challenges South Africa faces as it embarks on a just transition, and an outline of how the country has sought to grapple with and define this concept. The report then explores how the IMF might wish to reposition itself to account for and support just transition considerations within South Africa in the context of its various activities. It concludes with a series of recommendations and considerations for further discussion.

This report does not seek to cover every possible dimension that might fall within the IMF's mandate. It emphasises that the IMF will have to review its own neo-liberal precepts about macroeconomics. As one civil society activist put it, neoliberal austerity advice will not be supportive of a truly just 'just transition'.

In developing this report, we engaged with a number of stakeholders in South Africa and abroad to garner their views on the meaning of the just transition in the country and on how the IMF could reform its existing activities to better support it. These included South African civil society actors operating in the climate change, social justice and just transition fields, think tanks and academics, and the IMF. As part of this process, we held two stakeholder workshops, the first (hosted as a virtual workshop on 4 October 2021) to present the research question and guiding considerations, and the second (hosted as a virtual workshop on 8 December 2021) to present and discuss an initial draft of the report. We thank these stakeholders and peer reviewers for their considered input. While we have endeavoured to incorporate inputs from the consultations into the report, it should be noted that there was no consensus on many issues and consulted stakeholders were not asked to endorse the final report.

The report refers to physical, transition and spillover risks. Table 1 provides brief explanations on each of these.

TABLE 1 RISK CATEGORIES		
Physical risks	**National transition risks**	**Spillover transition risks**
Natural disasters (floods, hurricanes, fires) that destroy capital stock, affecting production and firm profitability. These in turn have cascading effects on the economy (investment, employment, balance of payments, gross domestic product); private finance (including banks' financial stability); and public finance (tax revenues, debt).	Higher production costs of carbon-intensive firms reduce their profitability and create carbon stranded assets. This affects the economy, and private and public finance.	Externalities such as lower fossil fuel imports, for example, that lead to lower fossil fuel extraction and production, impacting private finance and the economy. Lower fossil exports could lead to worsening balance of payments, impacting public finance.

Source: Adapted from Kevin P Gallagher et al., "Climate Change and IMF Surveillance: The Need for Ambition" (Policy Brief 014, Global Economic Governance Initiative, Boston, March 2021)

CHAPTER 2

The IMF's mandate

The IMF's main aim is to promote global financial stability. Its purpose, as set out in Article I of the Articles of Agreement, includes facilitating the expansion and balanced growth of international trade, thus contributing to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy. It is also aimed at promoting exchange stability to avoid competitive exchange depreciation; assisting in the establishment of a multilateral system of payments; and making the general resources of the IMF temporarily available to members to help them address imbalances in their balance of payments.[3]

Traditionally, the IMF provides support through its surveillance, technical-assistance/ capacity-building functions and lending. Through surveillance, the IMF monitors the international monetary system and global economic developments, and undertakes a health check of the financial and economic policies of member countries. In doing so it identifies possible stability risks to its member countries and advises their governments on potential policy adjustments. Preventing widespread economic crises is part of its role. The two primary instruments through which the IMF conducts its bilateral surveillance are Article IV consultations and associated Article IV reports and Financial Sector Assessment Programmes (FSAPs). Article IV surveillance reports are influential insofar as they are an important input into the policymaking process and can affect the perception of fiscal health and economic trajectory of the country under review. They also influence the terms upon which the IMF may lend finance in the future. They are used by investors and by public and private financial institutions.

The IMF also provides technical assistance and training, typically on economic issues relevant to central banks, finance ministries, tax authorities and other economic institutions. Technical assistance is provided only upon the request of member countries and is non-binding. Low- and middle-income countries are the primary recipients (some 96% of the capacity development budget in 2020).[4]

The IMF provides financial support in the form of loans to countries that are affected by crises to create breathing room, while adjustment policies are implemented to restore economic stability. Policy conditionality accompanies these loans, and is the most controversial aspect of the IMF.

---

3 IMF, "Articles of Agreement", March 2020.

4 Alexander Kentikelenis and Thomas Stubbs, *Out of the Shadows: Integrating Climate Change into IMF Technical Assistance*, Report (Amsterdam: Recourse, November 2021).

Lastly, the IMF's special drawing rights (SDRs) are an international reserve asset that supplements member countries' official reserves. They are an IMF unit of account (not a currency) and can be used to provide liquidity to countries, as happened with the 2008 global financial crisis. SDRs are non-conditional, non-debt-creating resources that are allocated according to the IMF's quota system.

In August 2021 the IMF issued $650 billion in SDRs – more than double the total number of SDRs it has ever issued and equivalent to approximately 5% of total global reserves. The purpose of this issue was to provide additional liquidity rapidly and support global economic resilience to mitigate the impact of the COVID-19 pandemic. Because of the quota system, most of the new SDRs issued have been allocated to high-income countries, which do not face the same liquidity challenges as those in the developing world. African countries will receive only $33.6 billion.[5] Cognisant of this inequity, the IMF called on rich countries to consider channelling a portion of their SDRs to countries in need. In June 2021 the G7 pledged to mobilise the re-channelling of $100 billion worth of SDRs to countries most in need of resources to address the COVID-19 pandemic, and enable greener, more robust recoveries.[6] Some members have pledged to lend $24 billion, including $15 billion from their existing SDRs, to the IMF's Poverty Reduction and Growth Trust (PRGT), which provides zero-interest loans to low-income countries.[7] South Africa and other middle-income countries are not eligible.

The IMF has proposed a Resilience and Sustainability Trust (RST), which is intended as a mechanism to re-channel SDRs to countries that would not qualify for the PRGT but have need. The IMF's statements to date indicate that the intention is for the proposed RST to[8]

> support policy reforms to help build economic resilience and sustainability, especially in low-income countries and small states, as well as vulnerable middle-income countries. It would aim to support access to more affordable financing by lending at cheaper rates and with longer maturities than the IMF's traditional lending terms. Consistent with the IMF's mandate, this financing would be focused on balance of payments stability.

However, if the terms of access to the RST are considered onerous by qualifying countries, participation could be limited. Policy conditions would need to be flexible rather than premised on orthodox austerity, so that social spending, which is needed the most right now, is not adversely affected.[9]

5 Danny Bradlow, "How Africa Can Seize the Moment and Start Resetting Its Relationship with the IMF", *The Conversation*, August 19, 2021.

6 G7, "Our Shared Agenda for Global Action to Build Back Better: Carbis Bay G7 Summit Communiqué", 2021.

7 Rasna Warah, "SDRs: A Shot in the Arm for African Economies?", ONE, October 6, 2021.

8 Ceyla Pazarbasioglu and Uma Ramakrishnan, "Sharing the Recovery: SDR Channelling and a New Trust", IMF Blog, October 8, 2021.

9 Warah, "SDRs: A Shot".

The IMF has stated that the RST is not dedicated to climate change and that 'the purposes of the funding would be reached by consensus across the membership … [noting that] there are several other worthy global public policy goals that may need to be considered such as pandemic preparedness'.[10] Kristalina Georgieva, the Managing Director of the IMF, has acknowledged that one of its objectives will be to 'help countries transition to low-carbon climate resilient, smart inclusive economies'.[11]

The design of the RST is anticipated to be finalised in 2022. If the RST has a strong climate mandate, possible linkages with the Paris Agreement should be considered. Since RST financing is likely to be linked to financing from another IMF facility, it may have traditional forms of IMF conditionality attached to it. At this stage it is anticipated that the RST will have a focus on policy and structural reforms relating to climate action, with a series of 'policy criteria' being imposed in order to receive RST funding.[12]

Criticism of the IMF

The IMF's policy prescriptions since the 1980s have been heavily criticised by developing country governments and civil society actors for exacerbating social and economic challenges and inequalities rather than alleviating them.

The main critiques levelled at the IMF relate to its governance, its policy prescriptions and the related consequences for economic and social human rights. The IMF's quota system, which determines the voting power of each country, means that developing economies that need assistance the most are the ones that have the least say in the organisation. The IMF's structural adjustment programmes of the 1980s and 1990s were based on promoting free market economic policies (privatisation, liberalisation and deregulation, and public sector cuts) – the so-called Washington Consensus. These policy conditionalities, which developing countries had to adopt in order to access IMF loans, had a lasting economic and socio-economic impact on the developing economies that had to implement them. Their consequences are still with us in, for example, the weak public healthcare systems in many African countries that have had to battle Ebola and, more recently, COVID-19.

Policy conditionalities have evolved since the 1980s, but are still rooted in the free market ideology of promoting growth, limiting the size of the public sector, servicing debt and supporting the private sector. While these issues are considerations for countries experiencing balance-of-payments problems, or indeed for countries wishing to avoid them, the adoption of any policies is based on trade-offs. These trade-offs tend to be between pro-growth and pro-equity policies, with the IMF's policy prescriptions usually

10 Pazarbasioglu and Ramakrishnan, "Sharing the Recovery".

11 IMF, "Transcript of the IMFC Press Briefing", October 14, 2021.

12 Paul Steele, Sejal Patel and Ulrich Volz, "Creating a Resilience and Sustainability Trust (RST) at the IMF: How to Support Climate-Vulnerable Countries" (Policy Note, International Institute for Environment and Development and Centre for Sustainable Finance, SOAS University of London, London, October 2021).

preferring the former. Such approaches disadvantage vulnerable groups such as the poor, women, children and the elderly, because they focus on fiscal austerity, reducing the public wage bill or privatising services. When governments requiring bailouts have to comply with policy prescriptions from an unelected international institution, the result is a shrinking of the democratic space for economic policymaking. In response to criticism the IMF sought to streamline and reduce its conditionalities, but a 2018 review of programme design and conditionality found that structural conditions were on the rise again.[13] As addressing climate change becomes more urgent, policy prescriptions that focus on growth based on existing energy systems are also problematic.

These critiques of the IMF are important in considering what role, if any, the IMF can play in climate change and in South Africa's just transition more specifically.

The IMF and climate change

For many years climate change was conceived as a narrow environmental issue, but as the scale and scope of required responses have become clearer, it is now evident that climate change must be mainstreamed across all sectors of society and government ministries, including trade, health, agriculture, economic development, energy and international relations. Macroeconomic considerations will increasingly be impacted by climate change, and macroeconomic policies will, in turn, be part of climate responses.

> Macroeconomic considerations will increasingly be impacted by climate change, and macroeconomic policies will, in turn, be part of climate responses

Within the IMF there is growing consensus that climate change poses grave macro-critical risks to national and global financial systems. In recognising climate change as a macro-critical issue, the IMF acknowledges that tackling it is essential to achieve macroeconomic and financial stability, which is at the heart of its mandate. In 2015, the same year as the Paris Agreement, the IMF identified climate change as an 'emerging structural issue'.[14] It was only in 2019 that the IMF acknowledged that climate change is a macro-critical factor.

13 Bretton Woods Project, "What Are the Main Criticisms of the World Bank and IMF?", June 4, 2019, 4.

14 Ulrich Volz, "The IMF and the Macro-Criticality of Climate Change", in *Building Back a Better Global Financial Safety Net*, eds. Kevin P Gallagher and Gao Haihong (Boston: Boston University, 2021), 108–118.

Georgieva recognised the centrality of climate change to the work of the IMF, saying that the[15]

> criticality of addressing climate change for financial stability, for making sure that we can have sustainable growth, is so very clear and proven today, that no institution, no individual can step from the responsibility to act. For the IMF, we always look at risks. And this is now a category of risk that absolutely has to be front and centre in our work.

Since then, Georgieva has reiterated the importance of climate change in the IMF's mandate several times. In 2021, at an IMF seminar entitled "A Critical Year for Climate Action", Georgieva said that the IMF considers its role as supporting its members in climate mitigation and adaptation strategies, which include supporting sufficient financial buffers to react to shocks and invest in resilience and adaptation. She emphasised three pillars to accelerate the transition to a low-carbon economy: substantially raising carbon prices and pricing more emissions (only 23% of carbon emissions are priced), providing sufficient funding for green public investments, and buffering the impact on and re-skilling those currently working in high-carbon sectors.[16]

The IMF has already taken a number of steps to integrate climate into its work. It has published papers on fuel subsidies, carbon pricing, developing resilience to natural disasters, and the financial impacts of climate change.[17] Climate is also being mainstreamed into existing publications. For example, the *Global Financial Stability Report* for October 2021 has a chapter on sustainable finance, and the IMF's *Fiscal Monitor* for October 2019 focuses on climate mitigation policies. Its October 2020 *World Economic Outlook* dedicates a chapter to 'Mitigating climate change: Growth and distribution friendly strategies', which addresses the political economy effects of the climate transition.[18]

Considerable work has also gone into reforming the IMF's surveillance activities. Between 2015 and 2017 it piloted a series of Climate Change Policy Assessments jointly with the World Bank that have served as inputs into Article IV reports, focusing on resilience building and climate change adaptation. These were used as a basis to determine the suitability of including climate within the IMF's surveillance work. This culminated in the *Comprehensive Surveillance Review* (CSR) published in 2021, which confirms that climate change will be one of the key focus areas the IMF will address during surveillance.[19] The background paper to the CSR acknowledges that domestic policy challenges related to climate change, such as adaptation or policies to deliver a Nationally Determined Contribution (NDC), are included in the IMF's bilateral surveillance mandate. As a result they are valid topics for

---

15 IMF, "Can Central Banks Fight Climate Change?", (Seminar, Washington DC, October 16, 2019).

16 IMF, "A Critical Year for Climate Action: A Conversation between Kristalina Georgieva and John Kerry (Seminar, Washington DC, April 7, 2021).

17 See, for example, IMF, "Fiscal Policies for Paris Climate Strategies" (Paper, Washington DC, 2019); IMF, "Building Resilience in Developing Countries Vulnerable to Large Natural Disasters" (Policy Paper, Washington DC, 2019); IMF, "Macroeconomic Policy and Climate Change Mitigation" (Working Paper, Washington DC, 2021).

18 IMF, *World Economic Outlook: A Long and Difficult Ascent* (Washington DC: IMF, October 2020), 85–113.

19 IMF, "Comprehensive Surveillance Review: Background Paper on Integrating Climate Change into Article IV Consultation" (Policy Paper, IMF, Washington DC, 2021).

Article IV consultations whenever they cross the threshold of macro-criticality.[20] Following from this, the CSR proposes that the IMF turn its focus to the mitigation activities of the 20 largest emitters of greenhouse gas (GHG) emissions, which include South Africa.

Ahead of the spring meetings in April 2021, the IMF also launched a new Climate Change Indicators Dashboard.[21] However, the indicators do not focus on social and labour vulnerabilities in the main; rather they include economic activity indicators (GHG emissions, national targets and carbon emissions per unit of output), cross-border indicators (related to trade and direct investment), financial and risk indicators (climate-driven hazards and exposure, vulnerability and lack of coping capacity), government policy indicators (environmental taxes, environmental protection, exposure and fossil fuel subsidies) and climate change data (global temperature, CO_2 concentrations, sea level, land cover and climate-related disasters).

The introduction of transition risk in Article IV and FSAPs

The IMF Strategy to Help Members Address Climate Change Related Policy Challenges (IMF Climate Strategy) was published in July 2021.[22] The strategy acknowledges that climate change has manifold macroeconomic and financial policy implications. These include:

- impacts on fiscal management and public debt sustainability as the economic costs of climate change responses translate into revenue losses and spending pressures;
- financial stability impacts such as the transition risk of assets of financial firms being revaluated and becoming stranded;
- greater volatility in output and prices such as fossil fuel prices and the impacts of climate policy on interest rates; and
- impacts on trade, exchange rates and exchange rate regimes as climate change affects relative prices and trade flows.

Climate change risks thus have a direct impact on issues forming the subject of Article IV surveillance reports. Equally, the IMF acknowledges that, as part of a national mitigation effort, social and structural policies are needed 'to ensure a just transition, repurpose human and physical capital, and build the infrastructure for a low-carbon economy'. This could include targeted support for households and workers.[23]

The strategy argues that there should be a systematic and strategic integration of macro-critical aspects of climate change into the IMF's core activities. It proposes relatively

20 IMF, "Comprehensive Surveillance Review".

21 IMF, "Climate Change Indicators Dashboard", https://climatedata.imf.org/

22 IMF, "IMF Strategy to Help Members Address Climate Change Related Policy Challenges" (Policy Paper 2021/07, IMF, Washington DC, July 30, 2021".

23 IMF, *Climate Strategy*, 10.

large-scale changes to introduce adaptation and resilience, mitigation and transition risk across a large number of its Article IV reports, FSAPs and capacity-development activities each year. To operationalise the policy, it proposes adding up to 95 staff to boost capacity – an issue that still needs to be finalised during the discussion of the IMF's overall budget.

The IMF has proposed that Article IV consultation reports cover climate-related policies wherever climate change triggers macro-critical policy challenges, in line with its mandate.[24] Speaking at a G20 side event in July 2021, Georgieva was clear that Article IV and FSAPs would cover the mitigation policies of the top 20 emitters, 'adaptation in countries that are especially vulnerable to climate shocks, and transition in economies heavily dependent on fossil fuel production'.[25] In other words, the IMF would examine both physical and transition risk.

To achieve this, the IMF proposes addressing adaptation and resilience building every three years for those countries that are most vulnerable to climate change. It also proposes addressing the climate change mitigation policies of those countries most critical to the global mitigation effort every three years, while transition risk management would be covered every five to six years for all members.[26] The IMF's Executive Board has insisted that this will be voluntary and that countries will not be compelled to submit themselves to this level of climate-related analysis. The IMF has also proposed that climate risk be expanded to all FSAPs, and that climate-related capacity development be increased significantly in accordance with the demands of members.[27]

During a panel discussion early in 2021, Johannes Wiegand, Chief of the Development Issues Unit at the IMF, acknowledged that the IMF's current priority was mitigation and assisting the largest emitters of GHGs to reduce their fossil fuel consumption.[28] This was informed by a view that, given limited capacity, this was an area where the IMF could have the greatest impact. It has resulted in mitigation becoming one of the climate change priorities of surveillance.[29]

The IMF understands transition risk as managing the risks associated with achieving domestic climate policy objectives that arise as a result of the transition.[30] For example, the Climate Strategy identifies issues arising from domestic policy efforts to meeting an NDC, which entails associated reforms to social and investment policies, tax regimes and laws, as well as challenges arising from the global transition to a low-carbon economy, such as

24 See the critique of its current approach in Bretton Woods Project, "A Proposed Framework for IMF Engagement in Country-level Surveillance on Macrostructural Issues; Inequality, Gender and Climate Change. A Civil Society Submission to the 2019–2021 IMF Comprehensive Surveillance Review", March 15, 2021.

25 IMF, "Remarks by IMF Managing Director on Global Policies and Climate Change", July 11, 2021.

26 IMF, *Climate Strategy*, 14.

27 IMF, *Climate Strategy*.

28 Bretton Woods Project, "Why Climate Transition Risks Are Macro-Critical: The IMF and Enabling a Green Recovery" (IMF, Civil Society Policy Forum Panel Discussion, March 31, 2021).

29 Bretton Woods Project, "Why Climate Transition Risks".

30 Bretton Woods Project, "Why Climate Transition Risks".

impacts on trade, as potential transition management issues.[31] Earlier, in 2020, the IMF articulated this transition risk in narrower terms:[32]

> Financial institutions could incur losses on exposures to such firms with business models not built around the economics of low carbon emissions. These firms could see their earnings decline, businesses disrupted, and funding costs increase due to policy action, technological change, and shifts [in] consumer and investor behavior. Risks can materialize especially if the shift to a low-carbon economy is abrupt (as a consequence of prior inaction), poorly designed, or uncoordinated globally. Going forward, a key next step in developing stress tests for transition risks will be to capture 'second-round' effects – in which a decline in asset prices leads to fire sales, which further depress asset prices, generating a vicious cycle and an amplifying mechanism for an initial shock.

This interpretation does not explicitly refer to the social risks of the transition, to which states have to respond through their budgets and macroeconomic policies.

Transition risk in past Article IV reports

Earlier in 2021, the IMF was candid that it needed to do more work on transition risk, and that in the few instances where it had taken action, it had 'done the wrong things'.[33] Echoing this, ActionAid USA and the Bretton Woods Project have criticised the IMF for its position on transition risks, following a review of all 595 Article IV reports conducted in the IMF's 190 member countries between the signing of the Paris Agreement in 2015 and March 2021. The review finds that the IMF's policy advice has endorsed, or directly supported, the expansion of fossil fuel infrastructure in 105 countries.[34]

The fund has also been questioned for its approach to fossil fuels during surveillance, primarily in relation to its focus on 'demand-side' issues, to the neglect of supply-side considerations.[35] In their analysis, they argue that the promotion of austerity measures and carbon-intensive exports by the IMF may be worsening countries' exposure to transition risks, which in turn can exacerbate stranded asset risk and contribute to debt crises.[36]

A report published by Recourse in November 2021 analyses the IMF's economic surveillance of three countries (Indonesia, Philippines and Vietnam) between 2019 and 2021, ie, the period during which the IMF began focusing on climate change in earnest. It finds that the

---

31 IMF, *Climate Strategy*, 15.

32 Tobias Adrian, James Morsink and Liliana Schumacker, "Assessing Climate-Change Risk by Stress Testing for Financial Resilience", IMF Blog, February 5, 2020.

33 Johannes Wiegand, speaker, at Bretton Woods, "Why Climate Transition Risks".

34 Jon Sward et al., *IMF Surveillance and Climate Change Transition Risks: Reforming IMF Policy Advice to Support a Just Energy Transition*, Report (Washington DC and London: ActionAid and Bretton Woods Project, 2021).

35 Sward et al., *IMF Surveillance and Climate*.

36 Sward et al., *IMF Surveillance and Climate*.

coverage was uneven across Article IV and FSAP reports, but that it was progressing in a pro-climate direction.

However, there has been limited coverage of physical transition risks. It is only in the case of Vietnam that the potential trade-offs between economic policies and climate protection are discussed. Transition risks require more analysis than found in the case studies, and there is no discussion of 'spillover transition risks', eg, carbon border taxes of major trading partners.[37]

Recourse has conducted a similar analysis of the extent to which the IMF's technical assistance reports have integrated climate change into their advice. In the areas of climate change, such technical assistance could include advice on environmental tax reforms, public financial management plans to build resilience against physical risk, and efficient carbon and energy pricing.[38] Recourse finds that there has been limited consideration of climate objectives in the technical assistance reports. Where climate risks are discussed, they focus on physical risks, not transition risks. Nevertheless, it is important to stress that this is a fairly new area for the IMF, and it has acknowledged that it requires more capacity.[39] Among Recourse's recommendations is that the IMF's technical assistance place environmental and climate change considerations on an equal or higher footing than economic growth and other 'traditional' measures of macroeconomic performance.[40]

The IMF in South Africa

As indicated above, the IMF's track record in Africa and the developing world has been chequered, and elicits strong anti-IMF sentiment in many countries among government and civil society actors. Historically, South Africa has not been a regular borrower from the IMF, nor has it been subject to a structural adjustment programme. Since 1994 the post-apartheid government's avoidance of IMF loans and attendant conditionalities can be linked to this perspective.[41] This aversion to the IMF was particularly strong among the ANC's alliance partners – the Congress of South African Trade Unions and the South African Communist Party – with concerns that its conditionalities would undermine the gains of the liberation movement,[42] and that the IMF's 'cure was worse than the disease'.[43]

Financial sanctions during apartheid meant that the IMF did not provide financial support to South Africa. In 1982 the IMF granted South Africa a $1.1 billion loan, amid controversy;

37 Alexander Kentikelenis and Thomas Stubbs, "Missing Links: How Climate Change Remains Peripheral to IMF Economic Surveillance Activities" (Recourse, Amsterdam, November 2021), 6–7.

38 Kentikelenis and Stubbs, *Out of the Shadows*, 4–5.

39 Kentikelenis and Stubbs, *Out of the Shadows*, 5.

40 Kentikelenis and Stubbs, *Out of the Shadows*, 11.

41 Brian Kahn, "Debates over IMF Reform in South Africa" (Friedrich Ebert Stiftung, Studies on International Financial Architecture, Bonn, 2000).

42 Kahn, "Debates over IMF Reform".

43 Kahn, "Debates over IMF Reform".

however, this was the last loan to South Africa until the end of apartheid.[44] When the IMF re-entered the scene in the early 1990s, the primary debate was around the choice between redistribution before growth or growth before redistribution.[45] The IMF provided a financing facility of $850 million to the Transitional Executive Council just before the country's first democratic elections in 1994, to support its balance of payments. This loan entailed standard levels of conditionality such as tariff reductions and cutbacks in public expenditure.[46] This was the last loan South Africa was to take from the IMF until the COVID-19 pandemic in 2020.

Ironically, the Mandela government's adoption of the Growth, Employment and Redistribution programme in 1996 was characterised by many on the left as a domestically developed structural adjustment programme. This was because its policies to get the post-apartheid economy on its feet were very similar to the prescripts of the Washington Consensus of the IMF and the World Bank.[47] However, as Alan Hirsch writes, the ANC's position on economic policy when it came to power was based[48]

> on an assessment of the conditions of the domestic and world economies, and a preoccupation with not giving up sovereignty to international financial capital, private or multilateral. It was not … simply a victim of fashion, or of the browbeating of the… [IMF] or foreign private bankers.

In a review by Shaukat Ansari of the dialogue between the IMF and the government, certain activities by the World Bank and reports by international financial institutions in 2014, he concludes that National Treasury, the Reserve Bank and fund officials shared common views on economic policies.[49] In light of this, he argues that the fund's advice reinforced the economic approaches already prevalent at the Central Bank and Finance Ministry.[50] The influence of the fund also extends into global capital market sentiment and credit ratings, through signals from its reports and statements, thereby indirectly shaping national economic policymaking.[51] In that context, the IMF's support and advice, while central to neither South African economic policy nor its macro-stability, play a subtle but important role.

---

44 Kahn, "Debates over IMF Reform".

45 See, for example, Desmond Lachmann and Kenneth Bercuson, "Economic Policies for a New South Africa" (Occasional Paper, IMF, Washington DC, 1992).

46 See Vishnu Padayachee, "The Evolution of South Africa's International Financial Relations and Policy: 1985–95", in *The Political Economy of South Africa's Transition: Policy Perspectives in the Late 1990s*, eds. Jonathan Michie and Vishnu Padayachee (London: The Dryden Press, 1997).

47 The strategy's main proposals were greater fiscal deficit reduction to contain debt service obligations, a reduction in tariffs, budget reform to strengthen redistribution, a commitment to moderate wage demands, lower inflation and an expansionary infrastructure programme to address backlogs. See Alan Hirsch, *Season of Hope: Economic Reform Under Mandela and Mbeki* (Pietermaritzburg: University of KwaZulu-Natal Press and IDRC, 2005), 98–99.

48 Hirsch, Season of Hope, 5.

49 Shaukat Ansari, *Neoliberalism and Resistance in South Africa: Economic and Political Coalitions* (London: Palgrave Macmillan, 2021).

50 Ansari, *Neoliberalism and Resistance*.

51 James M Boughton, *Tearing Down the Walls: The International Monetary Fund 1990–1999* (Washington DC: IMF, 2012), 284; See also James Vreeland, *The IMF and Economic Development* (Cambridge: Cambridge University Press, 2003), 53; R Stone, *Lending Credibility: The International Monetary Fund and the Post-Communist Transition* (Princeton: Princeton University Press, 2002), 4.

Nevertheless, political sensitivities around IMF loans are still very present in South African government circles. When the COVID-19 pandemic hit the economy in 2020, causing a contraction and rising unemployment, including in the informal sector, the trade unions and elements within the ANC insisted that IMF financial support was unwanted.[52]

However, South Africa did request assistance from the IMF to help it address the health and economic impact of the COVID-19 pandemic. In July 2020 the IMF approved $4.3 billion in emergency financial assistance under its Rapid Financing Instrument to South Africa at an interest rate of 50 basis points, with repayments to be made 3.25–5 years after disbursement. South Africa had to provide the IMF with a letter of intent setting out the policies it planned to implement over the next few years. These were the policies that had already been set out by Treasury as part of the government's response to the pandemic,[53] specifically in the June 2020 supplementary budget. The letter of intent was not made public, but the IMF, in its press release announcing the loan, noted that[54]

> [t]here is a pressing need to strengthen economic fundamentals and ensure debt sustainability by carrying out fiscal consolidation, improving the governance and operations of SOEs, and implementing other growth-enhancing structural reforms. The COVID-19 crisis heightens the urgency of implementing these efforts to achieve sustainable and inclusive growth. *Specific reform commitments at the time of the October Medium-Term Budget Policy Statement will be a critical step to buttress the credibility of the reform efforts and should be followed by steadfast implementation*. Efforts to preserve the central bank's inflation mandate and proactive bank regulation and supervision, particularly for small banks, will also be important. (emphasis added)

At this stage, South Africa's willingness to access the rapid financing facility is unlikely to translate into its seeking out IMF financing outside of this instrument. However, if South Africa is unable to consolidate its fiscal position, and specifically its debt-to-GDP ratio, it may well be forced to ask the IMF for financial assistance in the future. This in turn raises a crucial question about the correlation between the need for fiscal consolidation (in the interest of debt sustainability) and the need for greater public financial resources to deal with the social consequences of transitioning to cleaner energy.

Furthermore, South Africa receives non-financial assistance from the IMF in the form of policy advice during Article IV missions, FSAPs and, on request, technical support and capacity building. While this support is less visible, it can be no less impactful than conditions attached to finance. Making the IMF's advice on climate change matters (and

---

52 "SA Won't Consider IMF Adjustment Programme, Says Tito Mboweni", *Times Live*, April 14, 2020.

53 D Bradlow et al., *International Cooperation, Trade and Security: South Africa Covid-19 Country Report*, Interim draft (Pretoria: Department of Planning, Monitoring and Evaluation, Government Technical Advisory Centre and National Research Foundation, 2021).

54 IMF, "IMF Executive Board Approves US$4.3 Billion in Emergency Support to South Africa to Address the COVID-19 Pandemic", Press Release, July 27, 2020.

especially on their linkages with other socio-economic challenges) more transparent and attuned to assessing the just transition risks will be crucial for South Africa. Ensuring that government policies integrate the just transition requires the ability to scrutinise policy advice and decision-making processes.

CHAPTER 3

South Africa's climate change challenges

South Africa has a carbon-intensive economy, ranking 13th globally for its total GHG emissions.[55] It is also the largest emitter in Africa. It is host to the world's largest single-point source of carbon emissions at Sasol's Secunda refinery, which exceeds the total GHG emissions of more than 100 countries.[56] The country also recently completed the construction of the world's two largest dry-cooled coal-fired power plants, Medupi and Kusile, of 4.8GW each. These plants add to South Africa's coal-dominant energy mix, with coal-fired power generation constituting 73% of nominal capacity in 2020.[57] The level of fossil fuel reliance in the energy sector means that South Africa has the highest carbon intensity of the G20.

The mineral–energy complex is deeply woven into the fabric of South Africa and has been central to the country's politics and economy for more than a century. The power sector co-evolved with patterns of energy and carbon-intensive industrial development, ranging from liquid fuels and chemicals to steelmaking and aluminium smelting.[58] These developments have also shaped infrastructure, including roads, rail and water.

Although the World Bank classifies South Africa as an upper-middle-income country, it is a deeply unequal society with high levels of poverty. It has one of the highest Gini coefficients in the world (0.625),[59] with half of the nation living below the national poverty line.[60] These inequalities are further skewed by race and gender, with white-headed households earning approximately 4.7 times more than Black-headed households, and with female-headed households more likely to be poorer on average.[61] In 2021 the country's unemployment reached 34.4%, a record high.[62] It also has one of the highest youth unemployment rates in the world (about 64.4% of people aged between 15 and 24),[63] with these rates increasing year on year.[64] The COVID-19 pandemic has exacerbated the situation.

---

55 Some ranking organisations rank it as 12th. See Global Carbon Atlas, "Global Ranking of GHG Emissions for 2020", http://www.globalcarbonatlas.org/en/CO2-emissions.

56 Antony Sguazzin, "The World's Biggest Emitter of Greenhouse Gases", *Bloomberg Green*, March 17, 2020.

57 Joanne Calitz and Jarrad Wright, *Statistics of Utility-Scale Power Generation in South Africa in 2020* (Pretoria: Council of Scientific and Industrial Research, 2021).

58 Trade and Industrial Policy Strategies, "Making Sense of Jobs in South Africa's Just Energy Transition: Managing the Impact of a Coal Transition on Employment" (Policy Brief, TIPS, Pretoria, 2021).

59 World Population Review, "Income Inequality By Country 2021", https://worldpopulationreview.com/country-rankings/income-inequality-by-country.

60 UN Development Programme and Oxford Poverty and Human Development Initiative, *Global Multidimensional Poverty Index 2020* (New York: UNDP and OPHI, 2020).

61 Aroop Chatterjee, Leo Czajka and Amory Gethin, *Estimating the Distribution of Household Wealth in South Africa* (Johannesburg: Southern Centre for Inequality Studies, 2020).

62 Statistics South Africa, *Quarterly Labour Force Survey Q4: 2020* (Pretoria: StatsSA, 2021).

63 Cecil Mlatsheni and Lauren Graham, "Young People and Women Bear the Brunt of South Africa's Worrying Jobless Rate", *The Conversation*, September 7, 2021.

64 Chatterjee, Czajka and Gethin, *Estimating the Distribution*.

The country has suffered years of stagnant growth and revenue shortfalls. Gross national debt is about 70%, and will peak, according to Treasury estimates, at 78.1% of GDP in 2025/26.[65] More than one-fifth of the government's budget is now spent on servicing the debt – more than is spent on health or social development.[66] South Africa also has a consistently negative balance of trade.[67] The economy has been subject to multiple credit downgrades for a number of years with concomitant impacts on the cost of borrowing and servicing debt.[68]

These factors have left the economy extremely vulnerable to the shock of the pandemic, which continues to cripple post-COVID recovery prospects.[69]

In October 2020 the South African government presented its Economic Reconstruction and Recovery Plan,[70] which emphasised, among others, the following priority sectors to rebuild after COVID: energy security; industrial base to create jobs; infrastructure development; the green economy; and food security. This is intended as the blueprint for the country's reconstruction. In most instances these sectors have a direct intersect with issues of a just transition, yet the document as a whole never refers to climate change and makes only one mention of the just transition (in the context of the energy security theme). Infrastructure development is identified as a critical component of the plan. Some 55 new infrastructure projects were unveiled during 2021, valued at around ZAR 595 billion ($39 billion). The government has noted that there is a funding gap of around ZAR 441 billion ($29 billion), which it hopes the private sector will be able to fill; however, little has been said about how such infrastructure can be made more climate resilient and integrate both environmental and social dimensions.

Transitioning to a cleaner economy will be fiscally and economically expensive, and will have social costs

In October 2021 Treasury published a technical paper on 'Financing a Sustainable Economy'[71] focused on the stability of the financial sector against the background of growing climate risk. The paper recognises that transitioning to a cleaner economy will be fiscally and economically expensive, and that it will have social costs. Furthermore,

65 National Treasury, *Budget 2021: Budget Review* (Pretoria: National Treasury, 2021).
66 Claire Bisseker, "Enoch Godongwana vs Raiders of the Treasury", *Business Live*, November 18, 2021.
67 National Business Initiative, *Just Transition and Climate Pathways Study for South Africa: Decarbonising South Africa's Power System* (Johannesburg: NBI, 2021).
68 Meridian Economics, "The Just Transition Transaction: A Developing Country Coal Power Retirement Mechanism" (Policy Brief, Meridian Economics, Cape Town, 2021).
69 Meridian Economics, "The Just Transition Transaction".
70 Government of South Africa, "South African Economic Reconstruction and Recovery", https://www.gov.za/economy.
71 Government of South Africa, National Treasury, "Financing a Sustainable Economy" (Technical Paper, National Treasury, Pretoria, 2021).

it sees the climate-risk element of a sustainable finance approach as the first step in broadening the work to encompass social and governance matters, including how to treat other environmental and social risks. This is another area where Treasury could work with the IMF, other government departments and civil society actors in incorporating their intersectionality.

South Africa's transition risks

Although not easily defined, broadly speaking transition risk typically refers to risks associated with a transition to a low-carbon economy, often arising from policy, legal, technology and market changes that can lead to stranded assets, loss of markets, reduced returns on investment and financial penalties.[72]

South Africa faces both physical and transition risks related to climate change as it reorientates its development towards a low-carbon and climate-resilient economy. Such risks are macro-critical, and rightly fall within the fund's mandate.[73] However, the application of the 'macro-critical' standard may itself require further refinement as it 'remains inadequate, inconsistent, and difficult to apply by IMF staff in practice'.[74]

The decommissioning of 5 200MW of coal-based generation capacity – in accordance with the 2019 Integrated Resource Plan (IRP) and to meet South Africa's mitigation targets in its NDC[75] and the net-zero ambitions of the Low Emission Development Strategy 2050 – will fundamentally alter the energy mix, with wide-reaching socio-economic consequences. This is particularly the case for the disruption of the national coal value chain and associated investment and employment within these sectors, as well as the communities and municipalities that rely on them.[76] Decommissioning will not only affect employment but will also impact productivity and output levels. In addition, South Africa's exports are highly vulnerable to spillover risks, such as the introduction of carbon border adjustment mechanisms and EU legislation currently being negotiated on sustainable supply chains.[77]

Electricity supply risks and stranded assets

South Africa is the second-largest economy in Africa, and produces over 40% of the electricity on the continent.[78] The country's electricity sector, however, has been riddled with political, economic and technical challenges that have resulted in Eskom's being technically bankrupt and suffering critical capacity and energy shortfalls. Eskom's fleet of coal-fired power stations are also aged and many are due to be decommissioned in the

72 Andy Reisinger et al., *The Concept of Risk in the IPCC Sixth Assessment Report: A Summary of Cross-Working Group Discussions* (Geneva: Intergovernmental Panel on Climate Change, 2020), 15.

73 IMF, *Climate Change Strategy*.

74 Bretton Woods Project, "A Proposed Framework for IMF".

75 Namely, to emit within a range of 398–510 Mt CO_2-eq by 2025 and within a range of 350–420 Mt CO_2-eq by 2030.

76 TIPS, "Making Sense of Jobs".

77 Vera Cherepanova, "EU Drives a New Approach to Supply Chain Sustainability", Navex Global, 2021.

78 International Energy Agency, *Africa Energy Outlook 2020* (Paris: IEA, 2020).

near future. While the reasons for Eskom's demise are complex, political influence and resistance by labour unions and the coal transport industry to what was perceived as a threat to jobs have delayed the procurement of renewable energy supply. Resistance by some unions to renewable energy manifested in court action, marches and road blockades in 2018.[79] It is clear that climate change raises a number of political economy issues such as these, which must be acknowledged directly by surveillance. These important distributional questions have not been tackled by the IMF under claims of 'country ownership'.

Eskom's dire situation has resulted in rolling national power cuts, locally referred to as 'load shedding', straining the economy for more than a decade. Not only have power cuts significantly affected GDP growth and small and emerging businesses, but, together with fast-increasing electricity prices, they have also created additional burdens for poor and vulnerable households, many of which are headed by women.[80]

While considerable effort has gone into procuring new electricity capacity (including renewable energy), maintaining the fleet and managing demand, one of the largest challenges is addressing the utility's ZAR 401 billion ($26 billion) debt. As the former deputy minister of finance, Mcebisi Jonas, recently stated, the debt is 'accelerating [Eskom's] terminal death spiral, and if the utility goes down, so does the economy. The debt also precludes Eskom from accessing finance for new generative assets in renewable energy.'[81]

In addition to liquidity and energy security challenges, Eskom and other carbon-intensive sectors of the economy face a stranded asset risk. Research done in 2016, for example, highlighted that Medupi and Kusile were at risk of becoming stranded assets if national emissions constraints were tightened.[82] It also found that any new coal-fired power plants would most likely be stranded assets in future years. Subsequent to this research, South Africa revised its NDC to reduce its projected GHG emissions, introduced a carbon tax, and committed to implementing a carbon budget process for individual emitters. These factors heighten the stranded asset risk, not only for Eskom's fleet but also for a number of high-carbon-intensity sectors across the country.

Different figures have been proposed for what it will cost to decarbonise Eskom, with amounts ranging from ZAR 10 billion ($0.65 billion) to ZAR 400 billion ($26 billion),[83] but

79 For example, in 2018, the National Union of Mineworkers initiated court proceedings against the renewable energy contracts that had been concluded between the government and independent power producers (IPPs). The union argued that the contracts were costly and the entry of IPPs could lead to job losses in the coal sector. Marches by the Coal Transporters Forum to the Union Buildings and road blockades in protest against renewable energy developments took place in 2017.

80 This issue is common in range of Global South countries, such as Pakistan (including its SOEs and bankrupt national energy supplier). Pakistan's IMF loan is suspended until the country imposes unpopular increases in electricity tariffs by removing subsidies.

81 Mcebisi Jonas, "The Political Economy of the Transition: Implications for a Just Climate Transition" (Opening Address, Presidential Climate Commission Conference on a Just Climate Transition, Zoom Virtual Meeting, September 14, 2021).

82 Jesse Burton et al., "The Impact of Stranding Power Sector Assets in South Africa" (Working Paper 43, Mitigation Action Plans and Scenarios, Cape Town, 2016), 43.

83 "Eskom Needs $10 Billion to Repurpose Most Coal Plants by 2050", *Bloomberg News*, June 30, 2021. See also "David Masondo: Public Debt, Eskom and a Low-Carbon Economy", *Business Day*, September 7, 2021,

Eskom's balance sheet precludes it from raising this funding.[84] To the relief of many, a $8.5 billion deal to 'enable the just transition' has recently been brokered between South Africa and the UK, US, France, Germany and the EU.[85] The finance will be constituted through a mixture of grants, concessional loans, guarantees and private investments, and comes with technical support over the next three to five years, although the exact terms have yet to be worked out. The Minister of Forestry, Fisheries and the Environment, Barbara Creecy, has stated that the finance will be used to support Eskom's plans to repurpose eight to 10 ageing power stations, reskill and upskill workers for new jobs, and develop new enterprises in towns historically dependent on Eskom's value chain.[86] It is intended to reach communities, women, young people and organised labour through targeted programmes. A smaller portion of the funds will be channelled to develop new sectors for job creation, including electric vehicles and green hydrogen. The partnership is unique insofar as it focuses on achieving a just transition, and seeks to ensure support for workers and communities. Yet much will depend on the details of the financing agreement. Such details – including the balance of grant and concessional funds, the conditionality and the interest rates – have yet to be made public. A taskforce has been established to address these issues and outline the scope of actions by mid-2022.

While the volume of finance has been described as a 'good first step' by Creecy, it is a relatively small step in the context of just transition financial needs.[87] She noted publicly that countries in the region need over $4 trillion over the next 15 years to achieve a just transition.

Employment

In 2019 the coal mining sector employed just under 90 000 workers.[88] On average, each mine worker supports five to 10 dependents.[89] A low-carbon transition puts at risk between 2 and 4 million livelihoods in this sector.[90] Many coal mine workers are not readily re-employable in other sectors due to age, educational attainment, poor health (often arising from occupational exposure) and a lack of alternative jobs.[91] Decreasing coal output will have stark impacts on whole towns and regions. Approximately 80% of coal mining takes place in two districts in Mpumalanga – Nkangala and Gert Sibande – where most job losses are likely to occur.[92] Electricity generation and petrochemical production (in Secunda) are also concentrated in Mpumalanga. A just transition is also likely to affect other sectors

---

84 Grove Steyn, "SA's COP26 Climate Finance Deal Is Its Last Best Hope", *Business Live*, November 10, 2021.

85 Department of Forestry, Fisheries and the Environment, "South Africa Establishes a Historic International Partnership to Support a Just Transition", November 2, 2021.

86 "Barbara Creecy: Just transition Pledge a Step in the Right Direction for Developing Nations", *Business Day*, November 7, 2021.

87 Tembile Sgqolana, "Barbara Creecy: African Countries Need Support – and About R4-trillion – to Move from Fossil Fuels", *Daily Maverick*, November 17, 2021.

88 Climate Investment Funds, *Supporting Just Transitions in South Africa: Just Transition Case Study* (CIF, September 2020).

89 NBI, *Just Transition and Climate Pathways*.

90 NBI, *Just Transition and Climate Pathways*.

91 Claudia Strambo, Jesse Burton and Aaron Atteridge, *The End of Coal? Planning a "Just Transition" in South Africa* (Stockholm: Stockholm Environment Institute, 2019).

92 TIPS, "Making Sense of Jobs".

along the coal value chain, such as transport, electricity generation and petro-chemical production, as well as the formal and informal manufacturing, retail and service sectors that have evolved alongside the coal industries.[93] These losses will also likely have broader impacts on growth, productivity and exports.

The fragility of South Africa's labour market is integrally tied to the macro-fiscal health of the economy. As the IMF has itself observed in the context of the impacts of the pandemic in South Africa, any rise in unemployment will increase poverty and inequality in the country and jeopardise its growth revival.[94] The inevitable phase-down of coal will also necessitate active management of the extent and pace of retirement and early attrition, which needs to be matched to appropriate support, welfare, reskilling and re-employment.[95] In addition, this process should speak to the wider structural challenges driving unemployment in the country, including education and skills deficits, a lack of integrated industrial policy and infrastructure constraints.[96]

Communities

Not only will jobs be affected – whole communities stand to be impacted, particularly coal-dependent communities in Mpumalanga. These communities are already highly vulnerable, and are under-served in terms of health, sanitation and education.[97]

The early planned and unplanned closure of coal mines will further exacerbate the considerable environmental impacts already experienced by nearby communities, such as high levels of water and air pollution.[98] A recent study has, for example, shown that about 5 000 people die annually in the nation's coal-belt because of poor air-quality standards.[99] Health and environmental impacts also have material macroeconomic implications. Research done in 2017 suggested that the health impacts and associated economic costs of coal-fired power stations' current emissions of air pollutants were $2.4 billion a year, including through premature deaths, hospital admissions, lost work days and chronic diseases.[100] These impacts highlight the vulnerability of communities to environmental pollution from coal mining, including closure impacts, and the broader macroeconomic implications that may arise. They also indicate that coal mine closures will need to be done responsibly, so as not to worsen the environmental and social impacts. Integrated mine closures require communities and governments, not only companies, to play a key role.[101]

---

93 CIF, *Supporting Just Transitions*".

94 IMF, *Request for Purchase under the Rapid Financing Instrument, Press Release, Staff Report and Statement by the Executive Director for South Africa*, IMF Country Report No. 20/226 (Washington DC: IMF, July 2020).

95 TIPS, "Making Sense of Jobs".

96 Jesse Burton, Andrew Marquard and Bryce McCall, "Socio-Economic Considerations for a Paris Agreement Compatible Coal Transition in South Africa" (Energy Research Centre, CSIR, Pretoria, 2019).

97 Burton, Marquard and McCall, "Socio-Economic Considerations".

98 Institute for Economic Justice, 350Africa.org and the Climate Justice Coalition, *No Going Back to Normal: Imagining a Just Recovery in South Africa* (Johannesburg: 350Africa.org, 2020).

99 Reuters, "The Cost of Coal in South Africa: Dirty Skies, Sick Kids", *Daily Maverick*, November 4, 2021.

100 Mike Holland, *Health Impacts of Coal Fired Power Plants in South Africa* (Cape Town: Centre for Environmental Rights, 2017).

101 Dawn Brock, "Responsible Mine Closures Ensure a Sustainable Environment and Economy", International Council on Mining and Metals, March 11, 2019.

Exports

The high carbon intensity of South Africa's economy means that its export market is exposed to significant risk, as its trading partners shy away from carbon-intensive products and jurisdictions. Several of South Africa's key export markets have all set net-zero targets,[102] and the impact of border carbon taxes, proposed by the EU from 2023, will be felt in the country. The EU's sustainable supply chain laws will likely have a similar impact on South Africa's trade with the bloc.[103] Coal is one of the nation's largest exports by value – in 2019 approximately 39% in value and 26% in volume of South Africa's coal was exported.[104] The export of high-quality coal cross-subsidises local mining operations that supply lower quality coal to Eskom. It has been estimated that there will be losses of up to $83.7 billion in coal exports by 2035 as a result of falling prices and demand.[105]

Coal is not the only carbon-intensive export commodity. Exports from the mining, manufacturing and agricultural sectors are also anticipated to become less competitive in a carbon-constrained future. Regionally, these sectors provide the majority of employment opportunities for unskilled labour. A loss in exports is also likely to worsen unemployment levels.[106]

South Africa's financial sector also has significant exposure to the challenges faced by exports. If export industries are weakened, this will inevitably have a knock-on effect on the financial sector and must be understood as a key transition risk. Financial sector instability could increase economic pressure on South Africa in a vicious circle that could end up at the IMF's door. The climate risk to the financial sector – and thus financial stability – has recently been recognised by Treasury in a technical paper published in October 2021. The paper makes recommendations on a process to 'establish minimum practices and standards with regard to climate change and emerging environmental and social risks'.[107]

Opportunities

While South Africa faces a number of challenges during its transition, there are also a number of opportunities. The country is endowed with considerable wind and solar potential and, in turn, potential for renewable energy production and green hydrogen. Its motor vehicle manufacturing expertise could evolve into electric vehicle production. It has a stable and well-regulated financial services sector, which can be a compelling base for green finance in Africa.[108] For example, the One Million Climate Jobs campaign – the outcome of a collaboration between trade unions and environmental justice organisations –

102 "The Race to Zero Emissions, and Why the World Depends on It", *UN News*, December 2, 2020.
103 Vera Cherepanova, "EU Drives a New Approach to Supply Chain Sustainability", Navex, April 22, 2021.
104 TIPS, "Making Sense of Jobs".
105 Matthew Huxham, Muhammed Anwar and David Nelson, *Understanding the Impact of a Low Carbon Transition on South Africa* (Nairobi: Climate Policy Initiative, 2019).
106 NBI, *Just Transition and Climate Pathways*.
107 National Treasury, "Financing a Sustainable Economy".
108 NBI, *Just Transition and Climate Pathways*.

highlighted the potential for 1 million climate jobs in the renewable energy, transport, construction and repairs, agriculture, waste, industry and education sectors.[109]

However, it will not be possible to reskill everyone, and the longer-term associated social protection dimensions will have to be developed and financed. Unlocking these opportunities requires engaged, transparent, inclusive, equitable, transformative and beneficial processes for all, including the most vulnerable.[110] It also requires effective execution and coordination by the state, working with non-state partners. This may be in conflict with the IMF's prevailing stance to prioritise 'growth-friendly fiscal consolidation' that is centred on reducing real current expenditure and broadening the tax base.

109 Alternative Information and Development Centre, *One Million Climate Jobs: Moving South Africa Forward on a Low-Carbon, Wage-Led and Sustainable Path* (Cape Town: AIDC, 2016).

110 CIF, *Supporting Just Transitions.*

CHAPTER 4

The just transition in South Africa

The term 'just transition' is defined in different ways across countries, institutions and stakeholders, depending on their world view and their particular context. There is a procedural and a distributive (restorative) justice dimension to a just transition. Both are essential.

The just transition is both the means identified by South Africa to respond to its transition risks as well as its mitigation and (to a lesser degree) adaptation intentions. The country is still in the process of defining the content of a just transition and how it will be implemented. Over the past several years national government, labour, civil society organisations (CSOs) and think tanks have invested in social dialogue to answer these questions, under the rubric of a national dialogue on the just transition. This dialogue has its roots in 2009, when the just transition was raised at the Congress of South African Trade Unions as a means of protecting the most vulnerable to climate change. It was then recognised in South Africa's National Climate Change Response White Paper (2011) as a policy imperative. In 2017–2019 the National Planning Commission (NPC) conducted a social engagement process on the meaning of the just transition. In doing so, the NPC sought to situate poverty and inequality as critical challenges to the just transition and focused on the health and environmental impacts of fossil fuels.111 The just transition is now a central pillar of the most recent Climate Change Bill (2021) and the revised NDC. It has also been the subject of a series of academic writings, position papers and proposed strategies by business and civil society.[112] One of the first and primary tasks of the newly created Presidential Climate Commission (PCC) is to build a social compact around the just transition and to develop a Just Transition Framework. This process is still underway.

It is not the intention of this report to seek to define the just transition or trace how it will be implemented, mindful that this work is already ongoing within the PCC.[113] Rather we intend to highlight some of the key considerations, and points of agreement and departures to potentially guide and inform how the IMF may wish to approach and/or support the just transition in South Africa and similarly placed developing economies.

In the PCC's recently released just transition report, the concept of a just transition is framed as a transition that ensures that particularly groups with limited resources, such as workers, their communities and small businesses, can take advantage of opportunities brought

111 Muhammed Patel, *Towards a Just Transition: A Review of Local and International Policy Debates*, Technical Report 1 (Pretoria: Presidential Climate Change Commission, 2021).

112 David Hallowes and Victor Munnik, *Down to Zero: The Politics of Just Transition*, Report (Cape Town: groundWork, 2019); NBI, *Just Transition and Climate Pathways*.

113 The PCC is developing a consensus-driven framework on the Just Transition. See PCC, "Just Transition Framework", https://www.climatecommission.org.za/just-transition-framework.

about by the transition to a more sustainable economy.[114] The PCC's framing moves beyond a narrow conceptualisation of the just transition and frames it instead as a society-wide process, with potential risks and opportunities across a broad array of stakeholders. Drawing from the NPC process and the definition in the Climate Change Bill, the PCC proposes an interpretation of the just transition that is quite ambitious and entails[115]

> putting people, especially those living in poverty and the vulnerable at the forefront … [of achieving] a just transition to a net-zero CO_2 economy and society by 2050. In a just transition, we emphasise urgent action on climate change and social justice. We have built the resilience of our economy and our people through affordable, decentralised, diversely owned renewable energy systems; conservation of our natural resources; equitable access to our water resources and sustainable, equitable and inclusive land use for all, especially for the most vulnerable, including women. The high value we place on healthy ecosystems, land, water, and air, underpins our future, and ensures a better and healthier life for all who live in South Africa, and contributes to the creation goals of decent work for all, social inclusion, and the eradication of poverty.

The PCC outlines the following strategies as potential options (among many) to achieve the just transition:

- promoting technological adjustments (such as production process adjustments and infrastructure upgrades) to minimise climate-related impacts on vulnerable groups, including carbon mitigation and adaptation technologies;
- developing new economic opportunities in affected local economies, for example by scoping realistic opportunities for affected workers and fast-tracking support systems, relying on local government to help achieve this;
- adopting active labour market policies that help individual workers to find new livelihoods by assisting affected workers and small businesses to adapt to changing economic conditions through targeted tools that give more people access to the labour force and quality jobs, or transition them out of the labour force;[116] and
- using social protection to improve resilience and give communities and workers the time to find new opportunities. (This can take the form of long-term income support for displaced workers and self-employed people, to enable them to transition to emerging opportunities. None of South Africa's social protection programmes is currently geared to assisting regions or industries facing a general downturn.)

---

114 Patel, *Towards a Just Transition*.

115 Patel, *Towards a Just Transition*.

116 Job and training placement schemes, which include placement and training centres, and job matching services; retraining towards future growth jobs, which includes infrastructure to provide workers with training and skills for new economic opportunities; temporary income support during transition, which can take the form of unemployment insurance, grants or severance packages; support for small businesses, through incubators, finance and identifying business opportunities; and transitioning out of the labour force, which includes early retirement and voluntary retrenchment packages.

There is apparent consensus among a diverse group of stakeholders that the just transition needs to be driven by a national state-coordinated approach that involves local government and follows an inclusive process that builds trust between partners and mitigates corruption.[117] There is also agreement on the need for renewable energy and a low-carbon future, with stakeholders calling for policies to create jobs in sustainable sectors; prioritise jobs for women, localisation, training and skills development; and ensure strong community interaction.[118] In many of these areas, the private sector is an important stakeholder in terms of implementation.

In relation to energy, there is approval for decentralised generation and new models of energy ownership, including community ownership.[119] Stakeholders also agreed on the need for equitable access to land, its efficient use in high-density areas, localised food production, sustainable agriculture and food security, and mine rehabilitation in restoring land and creating jobs.[120] While essential, these present a level of ambition and scope that will require significant state capacity and coordination especially at local level, which has eluded the state to date. As argued in the shared Open Agenda for a Just Transition, put forward by four CSOs, an expansive approach needs to be adopted to address communities as a whole. This should include a new healthcare system that works for all, transport and communication systems that are inclusive and enable meaningful participation, and improved local service delivery.

Of course, the just transition is not only the state's responsibility. There is currently debate on state management and ownership of energy infrastructure, and the extent to which this should be privatised. Equally, there are debates about what kind of security employment should offer in a profoundly unequal economy and the appropriate future mix of technologies to achieve a low-carbon future, including, for example, the role of nuclear energy. Gas is also supported as a transition fuel. The National Business Initiative, a voluntary coalition of South African and multinational companies working towards sustainable growth and development in the country, supports gas as part of the shift from coal. It also emphasises that it should not be introduced in a way that locks the country's electricity and synfuels sector into gas for the long term.[121]

Some continue to position the coal value chain as a means for economic growth and employment, for instance by advocating for clean coal technologies. Others, such as the alliance behind the Open Agenda for a Just Transition, are calling for an end to coal and for a new sustainable energy system that serves the majority and ends all finance for coal and fossil fuel investments, including gas. These questions and sometimes contradictory positions make it difficult to prioritise and implement an integrated road map. While

117 Patel, *Towards a Just Transition*.

118 Patel, *Towards a Just Transition*.

119 Patel, *Towards a Just Transition*.

120 Patel, *Towards a Just Transition*.

121 Terence Creamer, "NBI Study Sees Role for Gas in South Africa's Transition to Low-Carbon Economy", *Engineering News* SA, November 2, 2021.

stakeholders agree on the need to phase out coal, there is divergence on the role of coal in the nation's energy future, the timing of phase-outs and managing this process, and the risks of privatising Eskom if it were to be unbundled.[122]

Moreover, there is yet to be agreement on whether a net-zero or zero-carbon goal is an appropriate end point, and on the timeline for the just transition.[123] Discussions have also centred around the decommissioning of coal mines and the need to protect scarce water supplies and vulnerable communities, with debates on the role of the state in financing and overseeing rehabilitation and the appropriateness of leaving market forces to manage land use.[124] The Open Agenda for a Just Transition, for example, argues for a just transition that supports the rehabilitation of post-coal-mining landscapes to a condition that allows crop cultivation and the generation of safe livelihoods. This should come with a focus on access to land, land reform, community access to mined properties, and increased land ownership for women.[125]

One of the more challenging aspects of divergence relates to the level of ambition that should be pursued in a just transition. In its least ambitious conceptualisation, a so-called 'managerial reform' approach, the just transition would foster greater equity and justice within the existing economic system and focus on the impacts of the transition, ie without changing the underlying economic model and balance of power.[126] This approach accepts rising inequality with a focus on distributive justice.[127] It has a worker-centric approach, by for example focusing on retraining programmes and pension schemes/compensation, while largely ignoring other vulnerable groups.

On the other end of the scale is a far more ambitious conceptualisation of the just transition that focuses on an overhaul of the existing economic, social and political system, by seeking to hold responsible those actors in South Africa whose decisions and actions have contributed to the economic, social and environmental crises. In doing so it promotes a change in the rules and modes of governance and the pursuit of alternative development pathways. There is no blueprint for these pathways, with each being decided on a case-by-case basis and with processes dependent on context-specific scenarios and the social baseline from which they emerge. It is best described as 'rooted in bottom-up, grassroots democracy, social/public ownership, strong social protection and industrial policy, community-level resilience, and inter- and intragenerational solidarity'.[128] It includes within its conception restorative justice[129] – an approach to the just transition that is not necessarily followed in other parts of the world.

122 Patel, *Towards a Just Transition*.

123 Patel, *Towards a Just Transition*.

124 Patel, *Towards a Just Transition*.

125 Life After Coal, "Just Transition Open Agenda", https://lifeaftercoal.org.za/about/just-transition/open-agenda.

126 Patel, *Towards a Just Transition*.

127 Research by TIPS and the PCC frames the three components of the transition as procedural (the fairness of decisions and decision-making process and the extent to which these empower stakeholders); restorative justice (identification of harms and the estimation of appropriate remedies, including finance and rehabilitation); and distributive justice (how resources are allocated among stakeholders).

128 Patel, *Towards a Just Transition*.

129 Namely, the identification of harms and the estimation of appropriate remedies, including finance and rehabilitation.

In line with its expansive definition of the just transition, the PCC, together with CSOs, supports this broader society-framed approach. As the PCC rightly points out: 'Groups beyond workers must be considered, given that their livelihoods are typically also tied to fossil-intensive value chains and certain groups can mobilise resources to block or stall transition processes.'[130]

What is clear is the need for a relatively high level of ambition if the transition is to be truly just and meaningfully address the full gamut of anticipated impacts in South Africa. For these reasons, any just transition support needs to be sensitive to domestic conceptualisations of the just transition, including the PCC's framing of this as a society-wide process.

Going forward, a transition plan is needed to manage the direction and the process of the coal (and energy) transition. This requires a credible knowledge base and a minimum consensus to orient stakeholders to organise themselves.[131] Having such consensus would enable an ambitious government vision and cascading implementation plans. The development of the Just Transition Framework by the PCC as part of a national consultative exercise is an important initial step, although far more detailed plans are required in due course. The government needs to develop more granular plans of what it intends to do to roll out the just transition in different sectors. These planning instruments, in turn, would be important frames of both the financial and policy-related needs of the country and could be used to guide and inform interactions with support from the IMF. In the interim, pending the development of more detailed plans by the national government, it would be useful for the IMF to engage on existing policies and plans in its Article IV and FSAPs. The crucial element is the significant pressure that rolling out a just transition will place on state institutional capacity and finances in the country in the context of the deterioration of both in the past several years.

Implementing a just transition requires structural transformation of the nation's economy. It will require not only unprecedented levels of finance but also innovations to the existing financial ecosystem, coupled with fundamental system-level change.[132] This will require structural change of the financial system to overcome traditional barriers to finance, particularly for early-stage, small-scale, higher-risk, novel technology-based projects, as well as capacitating and accommodating new social partners within such projects.[133]

130 Patel, *Towards a Just Transition*.

131 Patel, *Towards a Just Transition*.

132 Sandy Lowitt, "Working Paper for the Presidential Climate Commission: Finance and the Just Transition" (TIPS, Pretoria, October 2021).

133 This may entail financiers' becoming involved in project development; will require capacity and structures to deal with non-traditional parties, support to get projects through the deal pipeline, and new and different approaches to where in an organisation funding decision-making occurs; and will need to be innovative and creative in terms of instruments, mechanisms, facilities and processes.

> Implementing a just transition requires structural transformation of the nation's economy. Not only unprecedented levels of finance but also innovations to the existing financial ecosystem, coupled with fundamental system-level change

The IMF on South Africa's climate change and just transition risks

Historically, the IMF has not directly addressed climate change in its surveillance activities in South Africa. Its position on South Africa's climate obligations, the country's transition to a low-carbon economy, and its risk exposure as a result of its high reliance on fossil fuels has tended to be either agnostic or directly supportive of the government's activities in expanding fossil fuel developments.

For example, during the construction of South Africa's largest coal-fired power plant, Medupi, in 2014, the Article IV Staff Report commented positively on the Eskom Investment Support Project and its $3.75 billion loan from the World Bank. This loan was primarily used to finance Medupi, together with a few smaller energy developments. From the outset, CSOs, including groundWork and EarthLife Africa, staunchly opposed Medupi and the World Bank loan on the basis that renewable energy would create more jobs and that coal expansion would impose unsustainable debt on the economy.[134] By contrast, the Article IV report noted that the Investment Support Project helped to strengthen public infrastructure, support the expansion of electricity supply, and allow South Africa to accelerate its development of renewable energy generation capacity.[135] On this score, the fund welcomed the ongoing infrastructure projects, especially in power supply, and encouraged greater private sector participation, supported by careful preparation and sound frameworks. While the Investment Support Project did include a portion dedicated to renewable energy, the vast majority of the investment was to support the development of Medupi's coal-fired power generation capacity.

South Africa's energy challenges are covered in the IMF's Article IV reporting, but not directly in relation to the impact on a just transition. Rather, they relate to the crisis in Eskom. In 2020 the Article IV report noted that the South African government was committed to unbundling Eskom and that the IRP would invite more renewable energy into the mix;[136] however, it did not explore the implications of these commitments further or address South Africa's climate policy in any detail. The upcoming Article IV report, due

134 Hallowes and Munnik, *Down to Zero*.

135 IMF, *South Africa: Staff Report for the 2014 Article IV Consultation – Informational Annex* (Washington DC: IMF, December 11, 2014).

136 IMF, *2019 Article IV Consultation – Press Release; Staff Report; and Statement by the Executive Director for South Africa IMF*, IMF Country Report 20/33 (Washington DC: IMF, 2020).

in February 2022, will discuss transition considerations and the role of structural reforms in achieving South Africa's climate ambitions. This will be one of the first times that the IMF will have expressly addressed climate change in its Article IV reporting on South Africa.

In the past, the fund also did not question the role of fossil fuel reliance in Eskom's problems. Recent Article IV reports underscore the underlying risks to Eskom's viability as being the high cost of coal input materials (significantly above global averages) and the fact that both wages and the number of employees have increased by 50%.[137] The 2019 Article IV report indirectly addresses the volatility and precariousness of fossil fuel pricing, and the effects this has on energy security. What the report does not but should address, are the global and national dynamics relating to climate change and energy input costs over the past few years and some of the wider market dynamics arising from existing and planned climate and energy policy. It should also address how these, in turn, further fuel Eskom's vulnerability, as well as the vulnerability of workers and communities that rely on its operations.

The IMF has also tended to provide advice that supports a reduction in the public wage bill and encourages raising taxes, including VAT, which, absent foodstuff exemptions, disproportionately impacts the poor. The advice on the wage bill is unsurprising given that South Africa's wage bill-to-GDP ratio is among the highest globally,[138] without the associated productivity and efficiency outcomes. In line with its traditional support for targeted social assistance as a means to offset the impacts of taxes,[139] the IMF has supported 'priority pro-poor social spending' in South Africa, particularly for education and health expenditure to become more efficient.[140] The just transition imperative, however, raises the question about whether targeted social measures are sufficient in this changed context.

The IMF has also called for product and labour market reforms to include greater competition and private participation in network industries.[141] While these reform proposals are in step with the IMF's traditional advice globally, considered attention will need to be given to its appropriateness where, for instance, potential just transition responses include forms of income support for whole regions and novel community ownership models of energy infrastructure. Reductions in the public wage bill will also be a particularly delicate issue, especially where retrenched Eskom workers from decommissioned power stations may need ongoing economic and related support. There are also associated political challenges related to such decisions.

137 IMF, *2019 Article IV Consultation*.

138 IMF, *2019 Article IV Consultation*.

139 International Trade Union Confederation, "The IMF Should Support the Financing of Universal Social Protection, Health and Education", June 14, 2019.

140 IMF, *2019 Article IV Consultation*.

141 IMF, *2019 Article IV Consultation*.

CHAPTER 5

What role could the IMF play to support South Africa's just transition?

The IMF's current engagement with South Africa is largely via the Article IV consultations. The recommendations of these consultations are influential, especially if they are in accord with Treasury's approach to macroeconomic matters. Going forward it is clear that Article IV consultations will consider climate change as a macro-critical factor. Climate change will also have to be factored into any technical assistance the IMF is requested to provide by the South African government. If the IMF plans to focus on climate change and transition risks, it is important for South African actors to engage with it so as to influence the process and outcomes. We emphasise this point as many civil society actors with whom we spoke voiced strong objections to the IMF's involvement in South Africa's just transition.

In exploring the question of what role the IMF could play in helping South Africa navigate its just transition, this report distinguishes between systems and processes that the IMF will need to adopt globally and those themes that are South Africa-specific.

What should the IMF do?

As indicated above, climate change and its societal impacts are new areas for the IMF, which still has to build up its capacity and expertise in this area. To engage with these issues effectively will necessitate scaling up relevant capacity and knowledge.

In doing so the IMF should consider with what issues to engage and how to avoid mission creep. The proposals below draw in part from work done by Recourse, ActionAid and other CSOs, as well as authors' interviews.

When to engage and when not to

ActionAid and a group of other CSOs (including Oxfam)[142] emphasise principles on when to engage and how to engage. They propose going beyond the IMF's macro-criticality standard to 'macro-relevance'. In order to determine the macro-relevance of factors such as climate change, as well as inequality and gender, and so that IMF staff do not explore these factors unevenly or in an ad hoc manner, they propose a dashboard of indicators. Such a dashboard should guide IMF staff in a more systematic way on when to intervene, and how. These dashboards could be constituted by existing international indicators that

142 ActionAid et al., "A Proposed Framework for IMF Engagement in Country-level Surveillance on Macrostructural Issues; Inequality, Gender and Climate Change: A Civil Society Submission to the 2019–2021 IMF Comprehensive Surveillance Review" (ActionAid, Johannesburg, March 15, 2021).

reflect a deeper analysis of the key macroeconomic drivers of economic inequality, gender inequality and climate change, and their appropriate macro-policy responses.[143] Existing indicators could go some way in supporting assessments of the just transition, but might need to be supplemented by additional ones. The IMF may not be the most appropriate international organisation to develop such indicators, but it could encourage other international organisations with the relevant expertise to collect and compile development-related just transition indicators. While there have been attempts to develop such indicators before,[144] these have been poorly defined. Using such a dashboard in its surveillance would ensure consistency in its assessments, and help national governments track their own just transition activities.

Keeping to its lane, working with other international organisations

The just transition is also likely to raise issues that themselves are not necessarily macro-critical but that fall within the mandate of other global organisations. In relation to these issues, the fund can play an important flagging function by signalling the relevance of these issues in its Article IV reports and directing authorities to the appropriate expert bodies, such as the International Labour Organization (ILO), UN Conference on Trade and Development and World Bank, as well as other stakeholders, for policy advice.[145] It could also follow the lead of these other organisations in their areas of competence and incorporate their recommendations into Article IV reports, which could help mitigate some of the IMF's biases in its policy advice. (This also goes to the question of revising orthodox policy prescriptions – see below.) By doing so, the IMF can navigate the interconnected nature of many of the just transition risks facing South Africa and transition risks more broadly, most notably in the areas of economic inequality, climate and gender.[146] This would entail familiarising staff with the mandate of other institutions, and referring matters on to such institutions where they do not have specific relevance to macro-structural health.[147]

Do no harm and review orthodox policy mindsets

The principle of 'do no harm' should be reaffirmed within the IMF's surveillance advice and technical assistance.[148] The IMF will need to deepen its understanding of the relationship between its macroeconomic advice and just transition processes within countries. This entails systematic and robust impact assessments of the effect of its traditional advice on the environment and climate change, as well as economic and gender inequality,[149] which

143 ActionAid et al., "A Proposed Framework". For example, the broad international indicators could include the Gini Index, the Palma Index, the Gender Inequality Index, the Global Climate Risk Index, the Climate Change Vulnerability Index and the Notre Dame Global Adaptation Initiative Country Index. For indicators that reflect a deeper analysis they could include, for example, the new SDG indicator 10.4.2, which measures the redistributive impact of fiscal policies.

144 For example, as part of the Climate Action Tracker 100 project.

145 ActionAid et al., "A Proposed Framework".

146 ActionAid et al., "A Proposed Framework".

147 ActionAid et al., "A Proposed Framework".

148 ActionAid et al., "A Proposed Framework".

149 ActionAid et al., "A Proposed Framework".

The IMF will need to deepen its understanding of the relationship between its macroeconomic advice and just transition processes within countries

have a direct impact on the just transition. It cannot take a siloed approach to advice on the interconnected topics of gender, equality and climate change in a manner that can be conflicting, such as removing consumer fuel subsidies, which is important for tackling climate change but exacerbated inequalities and social unrest in Egypt in 2019.[150] The IMF must engage with structural questions about the economic development models that are necessary in a decarbonised world.[151] Largely market-based approaches are insufficient to tackle the socio-economic challenges of the just transition. Considerations should include:[152]

- how advice on public wage bills affects social service provision and female labour force participation;
- how advice on labour market reforms impacts workers' rights under international labour standards, and in terms of economic inequality, incomes, labour share, non-discrimination and employment;
- how to correct the IMF's optimism bias in growth forecasts that are linked to fossil fuel development and significant fiscal consolidation reforms;
- what the cost of transition risks is for member countries, in particular stranded assets and loss of revenues;
- how to incorporate the development of universal delivery of social protection, including healthcare and basic income security for all, as a means to ease the transition; and
- how to enhance tax progressivity while providing relief from indirect taxes such as VAT for staple foodstuffs, which affects the most vulnerable.

The IMF must engage with structural questions about the economic development models that are necessary in a decarbonised world

150 ActionAid et al., "A Proposed Framework". "
151 Kentikelenis and Stubbs, "Missing Links", 9.
152 ActionAid et al., "A Proposed Framework", 10.

The link between climate change, macroeconomic stability and just transitions must engender a serious reappraisal of the IMF's policy toolkit.

Long-term versus short-term considerations

The time horizon of the IMF's advice will have to lengthen, given that transition risks play out over a much longer timeframe than its historical Article IV focus on a three-to-five-year period.[153] Article IV and technical assistance engagements should focus on alerting countries to the short-, medium- and long-term macroeconomic risks of climate change, the energy transition and social justice.[154]

Processes and procedures

The IMF should systemise and make mandatory national-level consultation on Article IV activities with CSOs, including women's rights groups, youth groups, trade unions, climate groups and indigenous peoples' organisations. Operational guidelines that inform both IMF staff and outside parties that social consultations are a necessary part of Article IV missions and discussions leading to financial support are critical, and the IMF should develop these.

All of the IMF's diagnostic tools need to integrate climate and just transition factors. This would ensure, for example, that the IMF's technical assistance considers environment and climate change on an equal footing with its traditional considerations related to macroeconomic performance, as well as the associated political economy trade-offs that are necessary for the just transition.[155]

The IMF should follow the example set by other international financial institutions and publish operational policies applicable to the use of all IMF resources, including SDRs.

It is also time that the IMF moves to establish an independent ombudsman that can receive and investigate complaints from stakeholders who claim that the IMF has not acted in full compliance with its own policies and procedures, and that they have been harmed as a result.[156] Clear operational guidelines and an independent ombudsman are becoming more necessary as the IMF begins to add important and complex topics such as climate, inequality and gender-based budgeting to its areas of interest and operation.[157]

The process of arriving at loan conditionalities needs to be more consultative and transparent, with meaningful input from non-state actors. This would help to ensure that policy advice is more responsive to the socio-economic demands of the country.

---

153 Rishikesh Ram Bhandary, "How the IMF Can Help Facilitate Green Just Transitions Around the World", Global Development Policy Center, Boston University, October 3, 2021.

154 Heike Mainhardt, "Build Back Better? IMF's Policy Advice Hampers Green COVID-19 Recovery", Recourse, September 2020, 7; Kentikelenis and Stubbs, "Missing Links", 8.

155 Kentikelenis and Stubbs, "Out of the Shadows", 11.

156 Oxfam International, "IMF Paves Way for New Era of Austerity Post-COVID-19," Press Release, October 12, 2020.

157 Oxfam, "IMF Paves Way".

Lending programmes should also be closely connected with economic surveillance reports. If climate change and just transitions are part of surveillance, these issues should not be ignored in IMF loan agreements.[158] To date, the IMF has focused more on tackling immediate economic crises in countries that have IMF loans, while ignoring longer-term structural issues such as the imperative of an energy transition and associated socio-economic challenges.[159]

Emphasising transition risk in the RST

The IMF has not yet defined which 'vulnerable' countries will be eligible to access the RST. Its Climate Strategy made reference to a 2019 IMF report that identified 64 climate-vulnerable countries, as determined by their levels of physical risk to climate change.[160] While South Africa is highly vulnerable to climate change impacts, based on the criteria used by the IMF,[161] it is not included in this list. These eligibility criteria should be sufficiently broad to include countries rendered vulnerable not only by physical risks but also by transition risks. The RST can be used to enhance public sector funding, including through debt instruments with risk-sharing features connected to climate outcomes.[162] Its focus should be on just transition financing of societal and developmental goals for those negatively impacted by climate action.

The RST should be an instrument that is willing to take greater risks in backstopping just transition processes that may be unorthodox and experimental. This underscores an important component of the potential design of the RST, namely that the cost of access to the finance – and the potential conditions that may accompany it – should be sensitive to evolving national debates and determinations on what the just transition may entail in country-specific circumstances. South Africa might not need to access IMF funding via the RST as it has access to other sources of funds. Thus it can evaluate the IMF offer and reject it if the conditions undercut the South African approach to a just transition. However, the RST allows the IMF to provide finance to help sovereigns with their transition risks. The framework for such an endeavour should not replicate the loan conditionalities of countries in balance-of-payments distress.

Possible areas of IMF engagement in South Africa

The areas discussed below refer both to issues that should be taken up in Article IV consultations and to examples of areas where South Africa may wish to request technical assistance from the IMF. Some of these recommendations are beyond the current scope of

158 Kentikelenis and Stubbs, "Missing Links", 8.

159 Kentikelenis and Stubbs, "Missing Links", 8.

160 See IMF, "Building Resilience in Developing Countries Vulnerable to Large Natural Disasters" (Policy Paper, IMF, Washington DC, 2019).

161 Namely, cumulative damage from natural disasters that incur damage amounting to a minimum of 5% of GDP, classification as small states at extreme or high risk of experiencing natural disasters, and disaster vulnerability.

162 Steele, Patel and Volz, "Creating a Resilience and Sustainability Trust".

the IMF but, given the prominence of climate change and just transition implications, need to be gradually introduced in IMF methodologies and collaborative approaches.

The IRP, the just transition and public debt

Article IV consultations could also include the economic and the social and labour implications of the 2019 IRP, as well as South Africa's NDC and Low Emissions Development Strategy 2050. For example, what are the risks associated with aligning the energy sector's emissions with South Africa's NDC? What are the economic and social risks associated with the planned and unplanned decommissioning of Eskom's coal-fired power plants in the upcoming decade, as well as the whole energy value chain, including transport, steel and others?[163] What are the stranded asset risks associated with the IRP and the minister of energy's determination to procure 1 500MW of new coal-fired generation capacity in the near term?

The long-term energy proposals in the IRP that will add renewable energy, nuclear and coal-fired new generation capacity to the grid should also be interrogated. Recent estimates show that the IRP's introduction of new coal generation capacity will cost an additional ZAR 74–109 billion ($5–7 billion), which undoubtedly will have multiple long-term macroeconomic implications. Similarly, the implications of Eskom's 'risk mitigation' emergency power procurement programme warrant more scrutiny from a macroeconomic risk perspective. This programme is seeking to introduce 2 000MW of emergency power onto the grid from, among others, three 'gas-to-power' ships totalling 1 220MW over a 20-year period, with 60% of the tariff rate indexed to the US dollar market price of liquified natural gas, the US dollar to South African rand exchange rate, and the carbon price. These projects are all likely to create additional and unsustainable long-term debt burdens in an already constrained fiscal space. Not only do they lock South Africa into relatively long-term, high-carbon emissions technology but they also undermine the social imperatives (including employment and labour force re-skilling in green power generation and manufacturing) that are essential for the just transition.

Stranded assets and carbon tax

The IMF's Article IV consultations could also discuss the stranded asset and associated risks posed by the reluctance by the national and international finance sector (duly supported by an active civil society) to finance new coal-fired power plants in South Africa, and the implications of South Africa's carbon tax, introduced in 2019. While the IMF has rightly emphasised the importance of carbon pricing as a means to achieve a low-carbon future, the South African carbon pricing landscape is complex and elaborate. Of necessity, carbon pricing assessments would need to consider the broader social vulnerability issues within which they operate in the country. At present, consumers do not have readily accessible alternatives to electricity not generated by fossil fuels, and it is likely that the

163 Taking the form of two 750MW new coal-fired power stations scheduled for 2023 and 2027.

carbon tax paid by Eskom will be passed directly to consumers. At present Eskom pays a relatively low carbon tax, but this will change in 2023 when the tax rate is reviewed. Similarly, revenues generated by the carbon price are currently not ringfenced for social expenditure, notwithstanding the risk of regressive impacts on low-income and vulnerable households.[164] Simply increasing the carbon price may have widespread social impacts, particularly on energy-poor households, women and small businesses, that need to be addressed carefully in the design of the tax and how its revenue is spent. Ways to mitigate such impacts will be crucial.

Adaptation and macro-financial risk

Adaptation is also an important component of South Africa's just transition. The IMF could support the building of resilience through improved mitigation and management of climate-related macro-financial risks. It could also help enhance conditions for critical investments in adaptation and development, by factoring the benefits of adaptation and resilience into its debt sustainability analysis.

Current account deficits and spillover risks

The spillover risks of carbon border-tax adjustments or sustainable supply chain legislation on exporting sectors could also be evaluated for their impact on the current account over the longer term.

Social protection

This is not an area that falls directly within the IMF's expertise and mandate. Discussions on universal social protection are also currently taking place at the ILO with its exploration of a Global Fund for Social Protection. In the IMF's advice on these issues to South Africa, it should coordinate with and use the ILO's expertise. For example, encouraging greater labour flexibility will only increase inequality in wages and working conditions. South Africa's large informal economy means social protection for those chronically on the margins is necessary. Its financing, mindful of South Africa's mounting public debt, requires the government to experiment with policies and social innovation in this area – something that should be encouraged by the IMF.

Against that background, the IMF could engage with the adequacy of South Africa's unemployment insurance in the context of a just transition. This could include an assessment of the macroeconomic implications of the current proposals for a just transition in South Africa. These include the formulation of long-term income support for displaced workers and the self-employed to assist them in transitioning to emerging opportunities.

164 Harald Winkler, "Reducing Energy Poverty Through Carbon Tax Revenues in South Africa", J. Energy South. Afr 28, no. 3 (2017): 12–26.

What the South African government should consider

Government departments to build up their expertise on IFIs

South African government departments (beyond the National Treasury) need to build up their capacity to engage effectively with international financial institutions (IFIs) such as the IMF because of the impact of macroeconomic policy on their portfolios. This will enable these departments to negotiate effectively through adequate preparation, so that their perspectives have an impact on the final outcome. Again, this is something that could be addressed through operational policies. On the IMF side, consultation with all government departments needs to be mandatory as part of operational guidelines.

Treasury should provide leadership in coordinating among government departments, ministries and other levels of government.

Government to engage with civil society on IFIs

Through the leadership of Treasury and other relevant ministries, the government should be more inclusive and encourage civil society to engage on the role of IFIs, including the IMF in South Africa.

What should South African civil society do?

Many civil society actors are justly sceptical about IMF involvement in advising the government on its just transition pathway. Coalitions such as Life After Coal, which published the 'Just Transition Open Agenda', believe that any IMF advice will be detrimental to such an agenda because of its history of setting a conservative, anti-poor macroeconomic approach. In our discussions with civil society actors, some posed the question whether the role of CSOs is not to make sure that the IMF does not enter into this space: 'The IMF has no place to determine national climate change policy.'[165]

However, as this report has shown, the IMF has recognised the macroeconomic risks that climate change poses and, especially since 2019, has begun to incorporate this into its Article IV consultations and technical assistance, although much work is still needed to ensure it is systematic and inclusive.

Advising government

Civil society actors should not eschew engaging with the IMF on the just transition, but rather advise government on how and in what areas it should do so, thus strengthening the government's hand.

165 Civil society participant, workshop on the IMF and SA's Just transition, 8 December 2021.

While the report argues for the IMF to adopt operational policies on more inclusive Article IV consultations across the board in every country, South African civil society should in the meantime propose to the government a mechanism for an exchange of views between it and CSOs on the country's engagements with IFIs.

Deepen IFI expertise

Civil society actors working in the climate change and economic justice fields should aim to build up their expertise in IFIs' diverse work and evolving mandates in order to engage more meaningfully with both IFIs and the government on these issues.

CHAPTER 6

Conclusion

The IMF has identified climate change as a macro-critical issue that it will be integrating into its surveillance activity. Civil society in South Africa is concerned about the IMF's track record and how such a potential widening of its ambit of policy advice may influence the country's just transition agenda in a counterproductive way. South African commentators, when interviewed for this project, noted the considerable domestic work that had already been done in seeking to have a nationally determined agreement on the scope and content of the just transition and their fear that IFIs could undermine this. IFIs could do so by using different understandings and definitions of a just transition and imposing that conceptualisation in eligibility criteria/conditions or finance requirements in a manner that conflicts with national determinations or interpretations. This could also occur through the imposition of social or austerity measures within loan conditionality that actively undermine the deeply social and public nature of the activities which that finance is seeking to support. These fears are not unfounded. Research undertaken by Oxfam in 2020 found that 84% of loans from the IMF were coupled with either a requirement or an encouragement to adopt tougher austerity measures in the aftermath of a crisis.[166]

Achieving a just transition entails addressing not only the causes of climate change (most notably fossil fuel emissions) but also the very foundations of the global economic system, which has its roots in these fuels. This requires a shift in the orthodox policy mindset of what are appropriate economic, monetary and fiscal policies in this new reality.

As the guardian of the international monetary and financial system, the IMF will need to develop macroeconomic policy advice that responds to the significant challenge of transitioning economic systems to tackle climate change without destroying the most vulnerable populations and societies. At the bilateral surveillance level, this entails making the connection between the state's expenditure decisions and priorities, the country's climate goals, and the attendant political trade-offs that should not undermine a just transition.

This report has set out many of the challenges that South Africa is facing in making the energy transition just. They range from the underlying structural problems linked to its apartheid legacy to the specific ones brought on by the growing urgency of the energy transition away from coal. In managing this effectively, South Africa will need a whole-of-government approach, combined with effective consultation and collaboration with non-state actors. If poorly managed, South Africa's transition may have significant social and economic costs and run the great risk of exacerbating the country's poverty and inequality.

166 Oxfam, "IMF Paves Way".

The South African government will need to capacitate itself across all levels of government to engage effectively with the IMF on macro-critical factors and the just transition. It should make proactive decisions about the areas in which IMF technical assistance may be helpful, but it should not enable mission creep, which can happen imperceptibly.

Climate change is one of the macro-critical factors that the IMF has identified, along with gender and inequality, that form part of its engagement with macro-structural issues. An overarching set of guidelines to achieve this is essential. Equally important, however, is the recognition that climate change, together with gender and inequality, is a cross-cutting challenge that necessitates a multidisciplinary and multi-stakeholder approach. At a fundamental level, this entails ensuring that the execution of the IMF's macroeconomic mandate is evaluated through the prism of its policy advice's impact on the just transition, which encompasses inequality, gender and climate change imperatives. In fact, the just transition should be at the core of the IMF's approach to climate change as a macro-critical issue in terms of how it does its Article IV and FSAPs, while keeping in its lane. This, in turn, will require the IMF to reconsider in what contexts advice on austerity measures, for example, may be appropriate. After all, the transformational impact of climate change on economies compels us to think about long-term growth, where investment will come from and how the rewards will be distributed.[167] The role of the IMF is not to deliver climate or energy projects but to ensure that climate risks can be identified and addressed in ways that do not lead to greater socio-economic costs resulting in macroeconomic instability with a societal impact.

167 For an excellent discussion on the myths of austerity and undervaluing the public sector, see Mariana Mazzucato, *The Value of Everything: Making and Taking in the Global Economy* (London: Penguin Books, 2018).

SOUTH AFRICAN INSTITUTE OF INTERNATIONAL AFFAIRS

African perspectives. Global insights.

Jan Smuts House, East Campus, University of the Witwatersrand
PO Box 31596, Braamfontein 2017, Johannesburg, South Africa
Tel +27 (0)11 339–2021 • Fax +27 (0)11 339–2154
www.saiia.org.za • info@saiia.org.za