

# SOUTH AFRICAN PUBLIC FINANCE AND CLIMATE CHANGE

## ➤ OVERVIEW OF CLIMATE CHANGE AND FINANCE IN SOUTH AFRICA

**1**

**IT'S WARMING.**

**2**

**IT'S US.**

**3**

**WE'RE SURE.**

**4**

**IT'S BAD.**

**5**

**WE CAN FIX IT.**

These 5 points are probably the simplest summary of climate change. Southern Africa is warming twice as fast as the rest of the globe, which has experienced 1.1°C temperature rise, while South Africa has experienced a 2°C rise. Human activity is the cause of this warming, in particular the burning of carbon, in the forms of fossil fuels: coal, oil and gas. It has led to multiple catastrophes in recent years, and these are set to intensify. Cyclones Kenneth, Idai and Eloise have all battered Mozambique and affected South Africa in the past 3 years. South Africa continues to experience drought that has stretched our disaster response capabilities to their limits. Climate change will heighten our societal inequality, with the poor most impacted. We need climate justice – a more equal and just society with less pollution and not at risk of climate impacts.

Addressing climate change is the biggest challenge of our time, and while institutions and our government are aware of this, our action and plans are highly insufficient. While we may not be able to simply stop burning fossil fuels tomorrow, we can plan for, implement and, crucially, fund a just transition to renewable energy. There is an opportunity cost here – every rand we spend on fossil fuels is a rand that isn't available for the just transition. The Climate Policy Initiative, with the support of the Development Bank of Southern Africa (DBSA), has cost the risk of not pursuing a transition to renewable energy at two trillion rand. We need to support our public finance institutions to direct funding towards renewable energy, but at the same time we must demand transparency in their financing, and that they stop funding fossil fuel projects. They cut short the lives of our people, pollute our country, fuel climate change and are expensive, increasing our financial risk in transitioning to a new energy future.

## ➤ SOUTH AFRICAN PUBLIC FINANCE INSTITUTIONS

**DBSA & IDC** Strategies to reduce climate-related risks and take advantage of opportunities in support of sustainable development objectives should be reflected in the investment policies and practices followed by public finance institutions (PFIs). Finance and investment policies, including due diligence processes, should guide investment decisions and direct their capital allocations towards sustainable activities. Despite this, the DBSA and Industrial Development Corporation (IDC) performed poorly in a 2019 assessment of their climate change policies against four international PFIs. Their negative performance is a consequence of their lack of transparency as well as political and policy directives to continue financing coal and coal fired power, in line with the Integrated Resource Plan. The IDC, in particular, has limited the public's ability to scrutinise the sustainability of its investment decisions by failing to make the criteria on which it assesses its investments publicly available. In relation to their investment practices, both the DBSA and IDC have issued green bonds and have committed to financing renewable energy. Nonetheless, they continue to finance unsustainable, high-polluting, and carbon-intensive sectors which diminish efforts to shift capital from fossil fuels and unsustainable activities towards the realisation of sustainable development objectives.

**ECIC** The Export Credit Insurance Company is a state agency that invests public money in projects overseas which it claims will bring employment benefits to South Africans. Unlike several other export credit agencies, it does not make the projects it considers known to enable public participation in its decision whether or not to finance these projects. The agency attributes this to South Africa not being a signatory to international guidelines. The projects are mostly in the extractive or construction industries and mostly in developing countries in Africa.

## ➤ TWO EXAMPLES OF SPECIAL CONCERN



### 1 *Musina Makhado Special Economic Zone (MMSEZ)*

The Musina-Makhado Special Economic Zone (MMSEZ) is set to house a 3,500MW thermal power plant, coking plant, steel plant and further heavy metallurgical industries reliant on coal for energy. The SEZ is located near three open cast coking coal mines to support industrial activity. The cumulative impacts of mining and industry are anticipated to be devastating for the region, according to the final Environmental Impact Assessment. Emissions threaten to

worsen climate change and derail South Africa's attempts to reduce greenhouse gas emissions in line with the Paris Agreement and our Nationally Determined Contributions. It also is likely to lead to land, air, and water pollution, threatening both human life and biodiversity. Water consumption for power generation and metallurgical industries are likely to exhaust local water resources, placing agricultural activity at risk. The IDC and DBSA are expected to finance industrial and infrastructure development in the SEZ. Under the Special Economic Zone Act (16 of 2014), capital expenses are funded by the Department of Trade and Industry, while the Special Economic Zone Fund is to support the promotion and development of MMSEZ. Vigilance and oversight are required to ensure that investment decisions and funding conditions attached to public funds adequately consider social and environmental impacts.

## 2 **Mozambique Liquid Natural Gas**

The more than 50 billion dollar LNG industry, led by Total, Eni and ExxonMobil in Cabo Delgado, northern Mozambique, has caused suffering for local communities for years, even though gas will only be extracted after 2024. The project's Environmental Impact Assessment admits that the construction phase alone will increase the greenhouse gas emissions for the whole of Mozambique by 10% by 2022. Only 12% of this gas will be used in Mozambique and already over 550 formerly self-sustaining families have been displaced to make way for the Afungi LNG Park which houses the industry's onshore support facilities - fisherpeople have been moved many kilometres from the ocean, and farmers have lost their land, offered only meagre plots in compensation. The only jobs community members have received from the industry have been short-term construction, cleaning, and other unskilled jobs. The region is faced with a violent insurgency in which over 500 000 people have been displaced and many killed, and on top of this, communities face brutality and extortion from the heavy-handed Mozambican military and indiscriminate killings by South African paramilitaries, who prioritise protecting the industry. The IDC is providing financing for the Mozambique LNG Project, as well as \$120 million from DBSA and \$800 million from the ECIC which refuses to make its EIA publically available.



IMAGE CREDIT:  
JUSTIÇA AMBIENTAL  
/ FRIENDS OF THE EARTH  
MOZAMBIQUE

## ➤ WHAT NEEDS TO CHANGE

**Public finance institutions have a critical role to play in financing the transition towards a low-carbon, sustainable and just society. Yet, many of the investments and infrastructure programmes that are currently underway or planned are directly contradicting South Africa's mitigation and adaptation commitments. To end public financing of fossil fuels, we recommend that members of Parliament and Portfolio Committees take the following actions:**

- Parliament must ensure that ambitious climate change legislation is applied consistently in government's work.
- Public finance institutions must finance energy projects that support our climate goals, and go further by committing to not finance any new fossil fuel projects.
- To improve transparency, the IDC, DBSA and ECIC must make the following publicly available: finance and investment policies, contracts with private corporations, Environmental Impact Assessments and other risk assessments, including those undertaken by external consulting firms or partner states collaborating in project financing.
- Parliament must hold the IDC, DBSA, and ECIC accountable where they fail to fulfil their legislative mandate, and where transparency is limited or lacking. Members of Parliament must ensure opportunities are created for meaningful and inclusive public participation and consultations ahead of all proposed development investments, and ensure free prior and informed consent is upheld.
- Parliament must ensure public finance institutions investment is in line with the Paris Agreement and their investment criteria need to be made Paris compliant.
- In line with the Public Finance Management Act (PFMA) and the legislative mandates of public finance institutions, parliament must interrogate and perform oversight on the IDC, DBSA, and ECIC's audit reports to ensure their investment decisions and funding conditions have adequately considered social and environmental impacts.
- The ECIC says that it is committed to 'best practice risk management principles'. This suggests that as a matter of fundamental risk management in accord with international best practice, the IDC, DBSA and ECIC should immediately commit to reporting in terms of the guidelines established by the G20 Task Force on Climate-related Financial Disclosures (the TCFD). These guidelines are the state of the art in risk management for carbon- and climate-related investments. Members of parliament should ask these institutions what they are doing to become TCFD compliant.
- It is vital that we use public finance in an accountable and transparent way to transform Eskom, the biggest polluter on the continent. The Climate Justice Coalition's Green New Eskom campaign demands a rapid and just transition to renewable energy for Eskom. More details about the campaign can be found at [GreenNewEskom.org](https://GreenNewEskom.org). Parliament must make new funding to Eskom conditional on Eskom accelerating a just transition to renewable energy and not investing further in new coal or gas.



**350Africa.org**



**African Climate  
Reality Project**

