

PRESS BRIEFING DOCUMENT: COSTING FINANCIAL SUPPORT NEEDS FOR MPUMALANGA'S ECONOMIC TRANSITION: A SCOPING STUDY

Authored by Lonwabo Mgoduso, Celeste Renaud and Dr Emily Tyler

Date of release: March 2021

Background

In 2018, Meridian Economics conceptualised the 'Just Transition Climate Transaction' (JTCT), a blended finance loan to South Africa's state-owned monopolistic coal utility, Eskom, in return for a commitment to accelerate the phase down of coal-fired power generation. The JTCT aims to assist in addressing the debt burden of Eskom through enabling access to green finance, accelerating the transition away from coal. This would also provide catalytic financing for a 'Just Transition Fund' to support coal workers and affected communities and assist in developing an alternative economy for Mpumalanga coal province. The briefing note that discusses the JTCT in further detail shall be published on the [Meridian website](#).

Summary

The purpose of this study is to conceptualise the key elements of a socio-economic transition package for Mpumalanga and develop a high-level scope of the funding needs associated with the coal region's transition. The study investigates funding needs for 3 key just transition support focus areas:

1. **Transition management** – the cost of developing an institutional structure responsible for coordinating stakeholder engagement and implementation processes.
2. **Coal worker support mechanisms** – the cost of providing compensation, retraining and employability support for coal mining and power generation workers affected by the transition.
3. **Holistic, regional socio-economic development programme** – the costs of establishing skills development and other educational infrastructure in the region, establishing the basic infrastructure for Special Economic Zones, upgrading general public infrastructure and embarking on land rehabilitation initiatives.

The study proceeds to first quantify the costs of coal worker financial support needs, which we argue are dependent on the pace of the energy transition. These costs were investigated in the context of both a 'Current Policy' and an 'Ambitious' energy transition scenario for Mpumalanga and coal workers¹. The proposed systematic methodology to explore the employment implications in both these scenarios builds on a set of existing literature in the energy employment space. This study only investigates employment implications for the coal value chain segment related to power generation.

¹ These transition scenarios are drawn from the [Meridian Economics-CSIR 'Vital Ambitions' Study](#) (2020), which investigated the electricity system cost of various South African power sector transition scenarios. The 'current policy' scenario is a modelled projection of the IRP2019 and the 'Ambitious' scenario is an accelerated transition that is likely to align South Africa's power sector with its climate mitigation obligations under the Paris Agreement.

Secondly, this study scopes some of the foundational costs related to the remaining elements of an overall Just Transition programme including establishing a transition management structure (i.e. JT coordinating body), and an enabling environment for socio-economic activity in Mpumalanga. We use a bottom-up approach to identify available costs, which whilst not fully comprehensive, poses questions as to what may be feasible.

Key takeaways

This study presents an initial approach to thinking about financing of key components of a JT programme in Mpumalanga:

- At first pass, the foundational **costs of ensuring a just transition appear very manageable** relative to others in the development and power sector space.
- This small spend, however, may be key to unlocking a **thriving future for the Mpumalanga region**.
- The **pace of acceleration away from coal** in the power sector has direct implications for the cost of worker transition support.
- However, accelerating the transition will **unlock new regional economic opportunities**.
- **An accelerated transition will also create access to international finance** to support a just transition and social development.
- There is a **need for additional data and analysis to confirm and extend these findings**, and therefore to guide the support of South Africa's just transition.
- Financial support is only one aspect of ensuring a just transition

Accelerating the transition will unlock new economic opportunities and create access to international finance to support social development. An accelerated transition is also most likely required if South Africa is to meet any net-zero commitment by 2050. Access to international funding will likely be predicated on South Africa's commitment to a Just Transition strategy that aims to establish work and community support mechanisms as well as a commitment to a national decarbonisation plan. This will demonstrate South Africa's alignment with a global drive to proactively reduce emissions associated with the power sector.

Recommendations for further research

In addition to investigating some of the high-level funding requirements for a Just Transition programme, this study contributes to a growing research agenda. Some research recommendations include:

- Commissioning a detailed audit of coal workforce, numbers and positions in value chain.
- More thorough modelling of transition impacts and the relationship between the reduction of coal generation and employment, for example utilizing macro-economic models.
- More granular analyses on the best blend of worker support mechanisms, these must be mapped to age and skills profiles of the workforce.
- Investigations and case studies into what this may look like in the real world? We need to test quantitative assumptions against actual on-the-ground realities – this should include consultation with key stakeholders: unions, workers, mining houses.
- Analyses of what type of funding is best suited to the various needs.
- Investigating how specifications in the Human Resource Development Plan contained in Social Labour Plans (of mining houses) and are aligned to supporting workers through a transition, e.g., provisions for upskilling.
- Investigating current educational institution capacity, and the feasibility of existing institutions becoming training hubs.

- Tracking emergent research on international examples / best practices – particularly those emerging from global South context, high levels of inequality and poverty will provide insights.
- A deep dive into what the future Mpumalanga economy could look like, taking into account existing and realistic developments in skill sets, infrastructure etc.