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21 November 2022

Downbeat start to funding South Africa's carbon transition

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The release of South Africa's Just Energy Transition Investment Plan (JET-IP) shortly before the opening of COP 27 in the Egyptian City of Sharm El Sheikh was rather subdued. The JET-IP had been under negotiation since five donors – the European Union and the governments of France, Germany and the United Kingdom (known collectively as the JET 'partners') – promised at COP 26 in Glasgow to provide US$8.5 billion (R128 billion) to help South Africa move away from coal-burning energy technologies. But the details of the offer had been kept under wraps until the JET-IP was released in early November.

The process was presented as a model of North-South cooperation and a template for transitions away from coal dependency for other countries, including India, Indonesia and Vietnam. South Africa depends on coal for nearly 80 percent of its electricity and is the world's 14th biggest emitter of carbon while being only the 31st largest economy. Not to put too fine a point on it, South Africa is a testing ground for financing the global transition away from carbon dependency. As Allegra Stratton, former communications chief in the office of the UK Prime Minister, puts it in a Bloomberg opinion piece, 'South Africa is key to net zero'.

South Africa is simultaneously dealing with an enduring energy security crisis. 2022 has, even before the year has ended, seen loadshedding on a larger scale than ever before. The average South African has had to endure 1 949 hours of power outages this year, according to the Council for Scientific and Industrial Research. The country is scheduled to retire nearly half of its aging fleet of coal burning power stations by 2035. State-owned energy utility Eskom intends taking 22 000 Megawatts (out of a 2022 installed capacity of 45 000 MW) offline.

There is clearly an opportunity to replace coal generation with renewable energy. But there is political opposition from interests clustered around the coal industry. A 'just' transition involves minimising net job losses especially in Mpumalanga Province where most coal mining occurs and where the bulk of the coal-burning power plants are located.

The 217 page JET-IP document put together by the Presidential Climate Commission over the past 12 months is an immense achievement. It had to negotiate different departmental interests within government – with the Department of Trade, Industry and Competition especially eager to secure a slice of the donor funding for Electric Vehicle and green hydrogen development – as well as incorporating different funding models and objectives from different donors.

In September, South Africa's environment minister, Barbera Creecy, commented that 'government had underestimated how complicated the (US$8.5 billion) offer (made at COP 26) was'. Nevertheless, on the 4th November, the plan was released, ready to be presented to the donor countries in Egypt, three days later.

Yet far from trumpeting his government's achievement, South African president Cyril Ramaphosa chose to linger on the limitations. In a speech to the Presidential Climate Commission, he announced that the investment plan would require R1.5 trillion (approximately US$100 billion) over the next five years, with R1.030 trillion required by the electricity sector alone. This, Ramaphosa pointed out, 'is significantly greater than the funding that has been offered (by the JET partners)'. He noted that a just transition for South Africa requires 'a significantly larger grant funding component' and went on to add that 'we are placing the ball firmly in the court of the international community'.

'I will be communicating with the leaders of the US, the UK, Germany and France, to garner additional grant funding to support our plan', said Ramaphosa.

South Africa's president went on to repeat these points, in slightly less blunt language, at Sharm El Sheikh, three days later. 'Our continent (Africa) will need a predictable, appropriate and at-scale funding stream … this places great responsibility on developed economies to honour their commitments to countries with the greatest need', he said.

In fact, the donor figures unveiled in South Africa's Just Energy Transition Investment Plan are deeply disappointing. The US$8.5 billion offered at COP 26 in Glasgow turns out to be less than ten percent of South Africa's costed plan for the next five years. The donor funding was of course never intended to finance an entirely new renewable energy generation industry in South Africa. From the start, the point was made that it is intended to 'crowd in' finance from other sources, especially the international private sector.

But even in the JET-IP's most optimistic forecast – where R500 billion (US$33 billion) is leveraged from the South African private sector – there is a funding gap of R700 billion (US$46.6 billion).

Only US$329.7 is in the form of grant finance, less than four percent of the total US$8.445 allocated. Sixty percent of this comes from a single source, Germany (US$198 million). The grant offerings of the other partners – the US (US$20.15 million), the UK (US$24 million), France (US$2.5 million) and the EU (US$35 million) – look decidedly meagre by comparison.

Most of the remainder is in the form of concessional loans (US$5.325billion) of which the largest part (US$2.555 billion) comes from the Climate Investment Funds' (CIF) Accelerating Coal Transition (ACT) facility financed by the World Bank, the IMF and the African Development Bank. But there is nothing unusual about soft loans from multilateral organisations. This is far from being the sort of generous on-budget international assistance that the South African government – and the world generally – had been led to think was being offered at COP 26.

A further breakdown of the numbers makes the contributions offered by the US and the UK look especially threadbare. Apart from relatively small grant contributions, the US is offering only commercial loans (US$1 billion) while the UK offers commercial loans (US$500 million) and loan guarantees (US$1.3 billion). This looks more like ordinary business than an adequate response to what politicians claim is a looming catastrophe. It is no wonder that Crispin Olver, CEO of South Africa's Presidential Climate Commission described the package as 'peanuts'.

The negotiations over the JET-IP package were conducted, from the donor side, by officials. It appears to have been reduced to a bureaucratic tick box exercise. What is not apparent is any sign of the commitment voiced so prominently by their political principals in Glasgow a year ago. If this is a template for net zero transitions in the developing world it seems inadequate.

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