
IEJ Climate Finance At COP27: A First Take On South Africa's JET-IP

Note: This Fact Sheet is an initial analysis by the Institute for Economic Justice of South Africa's recently-released (on 4th November 2022) Just Energy Transition Investment Plan (JET-IP) climate financing deal. It is designed to help interested parties understand some of the hidden concerns of the JET-IP. It draws from a detailed Policy Brief on the subject completed prior to the publication of the JET-IP. A further analysis of the JET-IP will be forthcoming.

What is at stake at COP27 Climate Finance Negotiations?

Discussions over climate finance will be central at COP27. In 2009, developed countries committed to raising USD 100 billion by 2020 to help developing countries reach their mitigation targets. They have so far failed to meet these commitments.

The finance that has been raised has relied heavily on subsidised private finance at commercial interest rates and required developing countries to take on large portions of the risks for the new projects. This is in line with an emerging consensus that development finance, and climate finance in particular, should be funded through mobilising international *private* financing. In this view, state finance, as well as international donor finance, should be used to make private investment more attractive through 'de-risking' private sector investment. However, this exposes developing countries to substantial debt and risk. This de-risking strategy should be treated with caution by developing countries and compared against other more traditional state-led financing options, including unconditional grant financing from Global North to Global South. Developed countries need to open up the policy room for developing countries to pick their own mix of appropriate financing options and climate policies.

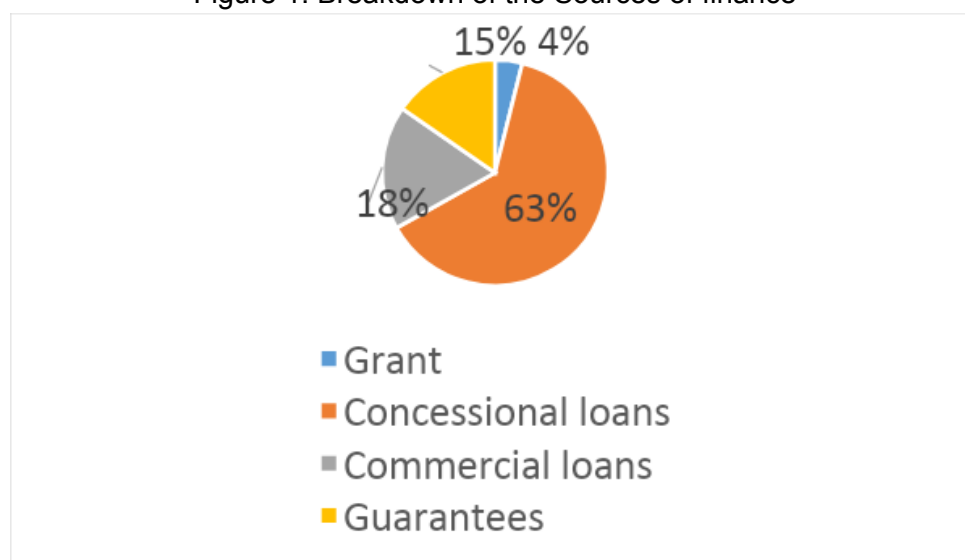
Developing countries need climate financing which will not put them under unsustainable debt burdens, and will not conflict with their other developmental objectives. This is of particular concern given the long history of international debt that has limited Global South countries' development, provision of basic services, and political sovereignty. In the context of the common but differentiated responsibility for climate mitigation, countries' responsibility for mitigations extends beyond their borders, and into the international role they play in enabling a global shift towards sustainable development. Considering the much larger cumulative emissions per capita of developed countries, they bear a responsibility to ensure that financing for climate mitigation in the Global South allows for development, and does not aid in extractive and exploitative patterns of short-term financial extractivism for private gain while burdening the state and society with unsustainable debt.

Overview of the JETP and the JET-IP

The Just Energy Transition Partnership (JETP) is a plan to mobilise USD 8.5 billion for investment in South Africa's transition towards renewable energy, over the next three to five years. The plan was announced on 2 November 2021 and involves a partnership between the South African government and the governments of France, the United Kingdom, the United States, and the European Union. The recently released Just Energy Transition Investment Plan (JET-IP) is slated as a five year needs-driven investment plan that sets out financing principles and preferred terms and conditions. The plan aims to meet South Africa's Nationally Determined Contribution (NDC) while promoting a 'whole of society' approach to climate finance.

What is striking about the JET-IP is the dominance of loans over grants. Grants make up about 4% of the total financing outlay while loans make up 81% (that is concessional plus commercial loans), with the majority being concessional loans (see Figure 1).

Figure 1. Breakdown of the Sources of finance



Source: The South African Presidency (2022)

Another striking feature of the JET-IP is that it is predominantly an infrastructure plan with 89.4% of financing targeted towards infrastructure. The bulk of the infrastructure financing goes towards the electricity sector (generation, transmission, and distribution), accounting for 81% of the total JET-IP finance. Economic diversification and innovation, as well as skills development, are part of what will supposedly make up the 'justice' elements of the JET-IP. However, these have been apportioned 0.3% and 0.1% of the financing respectively.

Table 1. Breakdown of Sectoral Targets

in USD 1 billion	Electricity	Electric Vehicles	Green Hydrogen
Infrastructure	6.9	0.2	0.5
Planning and implementation capacity	0.7		0.2
Skills development	0.012		
Economic diversification and innovation	0.022		

Source: The South African Presidency (2022)

Key Initial Takeaways of the JETP and JET-IP

The deal will rely heavily on utilising these funds to 'de-risk' investment by the private sector and 'blend' public financing with private financing to attract foreign private finance. This raises a number of concerns.

1. The financing is tied to the expansion of private-sector energy generation, through lock-ins and demand agreements, which will likely raise the cost of energy provision thereby limiting access and exacerbating energy poverty.
 - Public Private Partnerships in general - and IPPs in particular - are a core feature of the JET-IP. The JET-IP states that the bulk of new generation investment will come from the private sector in the form of Renewable Energy Independent Power Producers Programme (REIPPP) in the near future.
 - Unfortunately, the full terms of these agreements have historically been shrouded in secrecy, and yet they have significant implications on the public energy system. This, in essence, compounds the South African government's failure to ensure that this is a meaningfully participatory democracy.
 - IPPs make use of a range of de-risking instruments such as long-term 20-year off-take contracts that lock-in the state to high tariff prices from preceding bid windows even after market prices in successive bid windows for renewable energy have fallen.
 - In a best case competitive market scenario (that is, without contractual lock-ins), these cheaper costs could be passed on to Eskom and its consumers as IPP renewable energy providers would need to reinvest their profits in improving their operational efficiencies and replace technology with new technology.
 - However, the worst case scenario is often true in the energy sector; that is, liberalised energy markets are highly concentrated with few private companies, which allows them the market dominance to charge higher prices. The high monopoly power they hold is due to the 'lumpiness' of the investments, natural monopolies in infrastructure provision, and the associated large economies of scale.
 - An example of this is the privatisation of the British energy system (generation and distribution) that led to an oligopolistic market structure that allowed retailers to charge higher prices. From 2001-2017, overall energy bills rose by 39% in real terms.
2. All of the profits garnered through private-sector provisioning and financial speculation will accrue to the private sector while the South African government carries the risk.
 - IPP contracts that lock-in the state over the long term, along with their associated demand guarantees, are built that way to ensure that the private sector can sell securities backed by these guaranteed streams of income. This allows them to enjoy financial rents from short-term speculative activity all 'de-risked' by various forms of subsidies.
 - Therefore, earnings from the resale and refinancing of investment is the major attraction for private financing in the energy sector, rather than earnings from the underlying infrastructure's revenue stream, due to the financial rents that can be extracted from short-term speculative activity.
3. In spite of the non-issuance of state backed guarantees for future projects under the REIPPP, the South African fiscus remains at risk from sovereign guarantees provided under Bid Window 1 to Bid Window 4.

- Until recently, IPPs required ‘state backed guarantees’ – that is, a guarantee that the state will be able to pay the loan obligations should the need arise – on the loans mobilised by the private sector for them to be ‘bankable’.
 - The value of state-backed guarantees for Eskom¹ per 1GW of installed capacity is R7.95 billion, while the value of state-backed guarantees for IPPs² per 1GW of installed capacity is R38.47 billion to date (under Bid Window 1 to Bid Window 4).
 - In its Budget Review of 2022, the National Treasury stated that: “A [government study](#) is exploring alternative support for the REIPPP. This is expected to result in a reduction or elimination of guarantee requirements for the programme (REIPPP), reducing the stock of contingent liabilities.”
 - In line with this, it is welcome that the JET-IP appears to move away from state guarantees in the REIPPP. However, this is only for future IPPs. The JET-IP’s Contingent Liabilities Section (pgs 114-115) makes no mention of the reduction or removal of REIPPP state backed guarantees under Bid Window 1 to 4, choosing only to focus on mechanisms to reduce Eskom’s state backed guarantees.
 - Such a reduction in state backed guarantees for Bid Window 1 to 4, would require the state to enter into renegotiations with those IPPs, so that the state can implement a considered, sustainable solution to managing this public liability. Previous attempts by the state to renegotiate contract terms to manage Eskom’s fragility were thwarted by the IPP sector’s threats of court action.
 - This implies that the status quo of high state exposure to IPP state backed guarantees will remain with the risk borne by the state and the profit reaped by the IPP.
4. While the JET-IP emphasises ensuring access to the grid as a strategy for the reduction of energy poverty, it ignores energy affordability concerns. In fact, the ‘cost reflective’ tariffs adopted as a core feature of the JET-IP will maintain high electricity prices and limit support for the cross-subsidisation of poor households.
- Market-centric generation of electricity puts pressure on the state to ensure adequate revenue is secured through user fees and tariffs. ‘Cost reflective tariff structures’ should more honestly be labelled ‘cost + profit + interest reflective tariff structures’ as ‘normal’ rates of profits are naturalised and hidden as costs. This is necessary to guarantee the revenue streams that the state has promised the private sector in off-take agreements.
 - This means that the heavy reliance on private finance could produce large pressures to increase user fees.
 - This can be extremely regressive and undermines development, as energy poverty faced by poor South African households may be drastically exacerbated by raising electricity tariffs.
 - Of the R319.06 billion that the JET-IP targets for catalytic investments for municipalities, R0.2 billion is targeted towards knowledge generation or developing research models for cross subsidisation.
 - Therefore, the JET-IP does not make investment commitments to substantively support the Free Basic Electricity (FBE) subsidy for poor households which will be needed as embedded generation comes on stream at greater scale.
5. Although the JET-IP acknowledges that the localisation of the renewable energy value chain is part of the ‘justice’ component of the JETP, there remains little

¹ Eskom has in total R350 billion for 44 GW

² IPPs have in total R200 billion for 5 GW

attention paid to robust ways of utilising the energy transition to support the localisation of renewable energy value chains, thus limiting the overall benefit to South Africa.

- The majority of jobs in the renewable energy value chain are estimated to be in the renewable energy *manufacturing* sector and not in electricity generation. Therefore, there is a need to ensure that renewable energy infrastructure provision is accompanied by adequate investments in renewable energy manufacturing in order to have an impact on job creation in that value chain.
 - The JET-IP has apportioned only R1.6bn for localising the clean energy value chain (which includes renewable energy manufacturing), whereas the electricity sector infrastructure build requirement (decommissioning, distribution, and renewable energy generation and transmission) is scaled at R648bn.
 - This imbalance will continue the dominance of South Africa's existing growth path - the Minerals-Energy-Finance Complex - which is not a job creator as it employs more machinery than people as it is highly capital intensive.
 - Moreover, this will mean hundreds of thousands of workers along the coal value chain will not be adequately absorbed into the new clean energy system, creating a crisis of social reproduction for themselves and their dependents.
 - Robust industrial financing that supports the industrialisation of the renewable energy value chain is a necessary counterweight to the short-term price rise associated with the sector's development. The access to cheap debt for this sector over the medium term will help it to be cost competitive.
 - Without adequate industrial financing to counterweight the cost creep of localising the renewable energy value chain, the IPP sector will resist industrial policy measures that impact the cost competitiveness of inputs as their objective is to maximise profit at the least cost, no matter the developmental implications.
 - In fact, the sector's evasion of, and resistance to, local content rules has culminated in the JET-IP endorsing the idea that a "pragmatic approach will be taken to local content requirements for near term renewable energy investments, with the designated local content for solar panels reduced from 100% to 35% for Bid Window 5" (pg 34). Moreover, within this context, the quotation below drawn from the JET-IP, creates further uncertainty on what will be simplified in a proposed review of the government's PPP policy framework and at what cost to decent work creation. The JET-IP reads:
 - o "Government's review of the Public-Private Partnership (PPP) policy framework will simplify approval and compliance requirements for the participation of private investors in the JET-IP" (pg 114).
 - Without robust industrial financing action in support of the industrial policy programme for localisation of the renewable energy value chain, the JET-IP risks replacing the ecological crisis with a colossal social crisis.
6. There is no social security support for affected communities and workers, such as those in South Africa's coal-belt in Mpumalanga.
- While the JET-IP acknowledges the advice of the International Labour Organisation's (ILO) guideline to provide social security (such as healthcare, income security and social services etc.) and employment guarantees to affected workers, youth, and communities affected by the energy transition, these are not adequately provided for as part of the USD 8.5 billion commitment, if at all.
 - Under an accelerated ESKOM decommissioning programme, an estimated [124 000](#) jobs could be lost nationally by 2030 (direct, indirect and induced), with up to [8000](#) direct job losses predicted in Mpumalanga's coal region alone.

- Funding for social protection during the energy transition will be crucial and could take the form of social assistance schemes and universal benefit schemes such as basic income support, which can support households through the unpredictable outcomes of job losses, reskilling, and relocation. With increased casualisation of labour, existing social insurance schemes will not be sufficient to provide for the loss of livelihood incurred through the decommissioning process. Investment into public employment schemes and employment support schemes must accompany any investment into renewable development. Job guarantees are also a strategically important intervention in the context of the JET.

All of these elements are highly concerning as the JETP appears to be a prototype for an emerging model of climate financing. Unless the model's flaws are sufficiently politically contested, it will likely be repeated in many other contexts.

A Path Forward for Fair Climate Finance

Fixing climate finance isn't just about mobilising more finance or improving the terms of de-risking for developing countries, although both are important. Just climate finance will mean radically expanding the policy toolkit available to developing countries, and international policymakers. Climate mitigation policy for developing countries should draw inspiration from historic industrial policy, which has proved essential in meeting other critical developmental challenges. Thus, tools for climate finance should be shaped after traditional industrial policy financial tools and should be used in coordination with a wider industrial policy toolkit. Further a just transition cannot only focus on mitigation, but also has to include plans and funds for adaptation and social policy.

Climate finance for developing countries can be mobilised via a wide range of alternative policy measures:

1. **Regulating de-risking private climate finance through PPPs:** through contract transparency, appropriate risk allocation, cost management (through PPP and public provisioning cost comparisons), improving the state's capacity to negotiate, and developing enforcement mechanisms for local content requirements, an appropriate risk-sharing structure between the state and IPPs could, theoretically, be possible. This would ensure that the state does not assume a disproportionate amount of risk, and support energy access and employment creation. However, regulating PPP for this purpose must contend with a global financial architecture that has entrenched the prioritisation of minimising private sector risk exposure and maximising profit opportunity.
2. **Climate reparations:** Developing countries are owed climate reparations due to their lower portion of responsibility for cumulative emissions per capita, and the higher damage from climate change they suffer.
3. **Debt cancellation:** Debt cancellation for developing countries could form a key part of freeing up existing fiscal resources for investment in the green economy. A significant portion of the developing countries' debt is odious and unjust.
4. **Strengthen multilateral public climate finance regime:** A multilateral public climate financing regime is vital to achieving mitigation and adaptation, under the UNFCCC principle of common but differentiated responsibility. A multilateral regime will allow for debt cancellation and reparations for climate justice. In contrast, bilateral agreements made on a country-by-country basis will encourage a race to the bottom and are undemocratic as they are shrouded in secrecy. Developing countries will

have to compete with each other to secure blended financings on exploitative terms, and these countries will be burdened with unsustainable debt and risk in order to support private returns.

5. **Grants:** Climate finance should ensure a much greater role for grants for developing countries than loans.
6. **Special Drawing Rights:** A special issuance of International Monetary Fund (IMF) Special Drawing Rights (SDRs) can provide additional finance, as during the Covid-19 pandemic. These should then be reallocated from developed to developing countries as in the current system Global North countries, particularly the United States, would receive most of SDRs but need them the least.
7. **Mobilising domestic finance and taxes:** Developing countries should be given expanded policy room to raise financing domestically, through tighter regulation of domestic financial markets, monetary policy, increased taxation, and greater international cooperation to limit capital flight and tax evasion.

Finally, intellectual property rights for the development of green technologies for mitigation and adaptation should be made more flexible. Climate finance should be linked to a wide variety of other industrial policy options allowing developing countries to use green technology value chains to develop their own economies. Technology transfer policies should not rely on turnkey solutions which reproduce patterns of dependency and underdevelopment.

Glossary

Blended finance: Blended finance is finance composed of public and private finance.

De-risk: the process by which state finance, as well as international donor finance, is mobilised and leveraged to reduce private sector risk in order to attract private sector finance into investment projects.

Grant: financial awards that does not have to be paid back;

Nationally Determined Contribution (NDC): Mitigation targets that nations declared as part of the Paris Agreement (Article 4, paragraph 2).

Turnkey solutions: Imported technologies, which cannot be maintained by local firms without continued reliance on international partners.

Minerals Energy Finance Complex: South Africa's economic development has been dominated by a collection of mining, energy, mineral beneficiation, and financial industries, collectively known as the MEFC. This has historically been dependent on cheap electricity from coal. This has resulted in relatively high per capita CO₂ emissions in South Africa. But this responsibility for carbon emissions is concentrated among a small elite and many South Africans bear no responsibility for South Africa's high historical emissions. MEFC sectors are not job creators as they employ more machinery than they do labour.

Renewable Energy Independent Power Producers Programme: The Renewable Energy Independent Power Producer Procurement Programme (REIPPPP) is an initiative by the South African government aimed at increasing electricity generation through private sector investment in solar photovoltaic and concentrated solar, onshore wind power, small hydro, landfill gas, biomass and biogas.

Special Drawing Rights: International Monetary Fund instrument that gives countries access to foreign currency when they are facing an economic crisis.

The Climate Ambition to Accountability Project (CAAP) is a joint project between the World Wide Fund for Nature (WWF), South African Climate Action Network (SACAN) and the Institute for Economic Justice (IEJ). Its overall objective is to realise the effective participation of South African organisations in climate change governance to ensure enhanced climate policy ambition, implementation and accountability. CAAP is co-funded by the European Union. This publication is the sole responsibility of CAAP and does not necessarily reflect the views of the European Union.

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