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Secretly-negotiated South African 'climate finance deal' a gift to private investors while choking local development

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The eyes of South Africans and the world are on the 2022 United Nations Climate Change Conference (COP27) where the USD 8.5 billion Just Energy Transition Partnership (JETP) and the JETP Investment Plan (JET-IP) is being launched. The JETP is a climate finance deal between the South African government and the governments of the United Kingdom, the United States of America, France, Germany and the European Union. The funds are mobilised to support South Africa's transition towards a low-carbon economy and increasing the provision of renewable energy, allocated to three broad programmes — electricity sector, electric vehicles, and green hydrogen.

This partnership and plan are being launched without meaningful engagement with key South African stakeholders. The deal prioritises a highly problematic market-centric approach to financing the energy transition, one that guarantees profits for the financial elite and limits local economic development.

Why the skepticism of the JETP and JET-IP?

At a moment when Global North countries, in line with their historic culpability for climate change, should be pouring money into decarbonisation, only 4% of the JET-IP is in grants, with the rest being loans and guarantees. The deal relies heavily on utilising these funds to 'de-risk' investment by the private sector and on 'blending' public financing with private financing to attract foreign private finance. This has a range of perverse consequences.

1. The financing is tied to the expansion of private-sector energy generation, with Independent Power Producers (IPPs) being a core feature, which will likely raise the cost of energy provision thereby limiting access and exacerbating energy poverty.

   The lock-ins and demand agreements - which guarantee that Eskom will purchase electricity from the IPP at a set price irrespective of the falling price of renewable energy generation - increases the cost of energy provision. The JETP stresses the need to ensure 'cost-reflective tariffs', which could more honestly be labelled 'cost + profit + interest reflective tariff structures' as 'normal' rates of profits are guaranteed to private providers. This will limit support for cross-subsidisation of poor households and put pressure on the state to ensure adequate revenue is secured through user fees and tariffs. This is worsened by the fact that the JETP does not make investment commitments to substantively support the Free Basic Electricity subsidy for poor households which will be needed as embedded generation comes on stream at greater scale.

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 are built so the state is bound and the IPP guarantees its profits. This ensures 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.

3. In spite of plans to end 'state backed guarantees' for loans for future projects under the Renewable Energy Independent Power Producer Programme, 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'. IPPs have far higher guarantees per GW of electricity capacity than Eskom. The JETP moves away from this but only for future IPPs meaning 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. 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 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,* not in electricity generation. The investment needs for the localisation of the renewable energy value chain is estimated at R418bn to meet the Integrated Resource Plan. However, the JET-IP has apportioned only R1.6bn for localising the clean energy value chain (which includes renewable energy manufacturing), a meagre 0.4% of the total needed. This reinforces South Africa's existing capital and energy centric growth path, decreasing the chances of absorbing hundreds of thousands of workers along the coal value chain into the new clean energy system. Subsidised industrial financing is necessary to support renewable energy localisation so local content requirements can be imposed and inputs sourced locally. Already IPPs are opposing this and the JET-IP continues to undermine local content requirements. This risks replacing the ecological crisis with a colossal social crisis.

5. 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 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.

On public participation and procedural justice

Equally concerning is that over the past 12 months, negotiations have been undertaken behind closed doors with little meaningful consultation and engagement with civil society, organised labour, and other stakeholders. Some performative meetings have been held in which key information about the JETP and JET-IP, and the shape it was taking, was withheld from social partners.

This lack of transparency and secrecy has been underscored by the Executive Director (ED) of the Presidential Climate Commission (PCC) - the body tasked by the South African government to develop, frame and implement South Africa's Just Transition Framework. PCC ED, Crispian Olver, in a tweet, called out the "continuing government secrecy about the deal" and argued that the 'deal' should be put "out there for public comments and [to] let everyone engage with the adequacy of its terms". This has not happened and the South African government's failure to be transparent and to facilitate engagement has, as a result, completely undermined one of only three principles in South Africa's Just Transition Framework, the principle of procedural justice.

An assertion from Forestry, Fisheries and the Environment Minister Barbara Creecy that the JET-IP, once launched, would be released for public comment, frankly makes no sense. The idea that after President Ramaphosa having launched the Plan alongside Rishi Sunak, Joe Biden, Emmanuel Macron, Olaf Sholz, and Ursula von der Leyen (or their representatives), government will let South Africans, if so inclined, change the terms of the JET-IP is ludicrous.

What Creecy likely means is that South Africans might be able to comment on how the USD 8.5 billion is spent and allocated locally moving forward. This 'allowance' in many respects will also be severely limited by agreements already reached with the financing parties. A press release from the UK government, for example, states that "USD 1.5 billion of Development Finance Institution support for *private sector investment*" [highlights our own] will come from the US and the UK. It is clear that some terms have been set without public comment.

Given the ongoing lack of transparency in South Africa around power purchase agreements with Independent Power Producers (IPPs), the terms set by the UK and the US for USD 1.5 billion, means these investments are likely to flow to agreements the public has historically not been able to see. This in essence compounds the South African government's failure to ensure that this is a meaningfully participatory democracy.

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

There are a host of more appropriate modes of mobilising climate finance. These include:

- Regulating de-risking private climate finance although the global financial system limits the power of developing countries to do so.
- Enduring climate reparations from developed to developing countries given the former's high cumulative emissions and the extensive climate change harm developing countries will suffer.
- Enacting debt cancellation for developing countries would free up existing fiscal resources for investment in the green economy. A significant portion of the developing countries' debt is odious and unjust.
- Strengthening multilateral public climate finance regime to ensure that secretly-negotiated bilateral country-by-country deals don't encourage a race to the bottom with developing countries competing for blended financings on exploitative terms.
- Expanding grants over loans and other financing mechanisms.
- Issuing and redistributing IMF Special Drawing Rights to provide additional finance, as was done during the Covid-19 pandemic.
- Mobilising domestic finance and taxes through tighter regulation of domestic financial markets, monetary policy, increased taxation, and greater international cooperation to limit capital flight and tax evasion.

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. 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.

All of this requires robust meaningful participation between as wide an array of voices and viewpoints as possible. Unfortunately, in this instance, the Presidency, DFFE, and Presidential Task Teams and Committees have adopted a secretive and insular approach.

Urgency is needed to address the climate crisis we are all confronted with, and although public commitments to address the crisis on an international stage are to be welcomed, South Africa's haste to bookend the finalisation of the JETP and JET-IP, between COP26 in Scotland and COP27 in Egypt, has left the very communities a transition is meant to benefit, at home, behind.

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For further information see:

- *A Framework for Understanding the Just Energy Transition Partnership on South Africa's Just Transition* Policy Brief
- *IEJ Climate Finance At COP27: A First Take on South Africa's JET-IP* Fact Sheet

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