One Hundred and Twenty-Third Sovereign Debt News Update: South Africa To Re-Negotiate the Terms of the $9.3 Billion Climate Finance Pact

By:

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The climate emergency has necessitated the need to safeguard the future by embarking on an energy transition agenda that attempts to balance environmental protection and economic growth for sustainable development. At COP26 in 2021, South Africa, alongside the United Kingdom, the United States, France, Germany, and the European Union introduced the Just Energy Transition Partnership (JETP), which initially pledged $8.5 billion (which has grown to nearly $9.3 billion) to facilitate South Africa's transition from a coal to a low-carbon economy. Three years later, the implementation of the JETP has been delayed due to a series of procedural and financial setbacks over a promise to shut coal plants.

Re-Negotiating the Terms of the $8.5 Billion Climate Finance Pact

As reported in the Ninety Second Sovereign Debt News Update, South Africa concluded a $1 Billion Hydrogen Fund Agreement for the implementation of the $8.5 Billion Climate Finance Pact in July 2023. South Africa's President Cyril Ramaphosa, Netherlands Prime Minister Mark Rutte, and Denmark Prime Minister Mette Frederiksen had concluded a Heads of Agreement to launch a new SA-H2 Fund, which had a goal to raise $1 billion (R18 billion) for green hydrogen. In November 2023, the International Partners Group (IPG) (comprising of France, Germany, the United States, Denmark, the Netherlands and the European Union) increased its funding for South Africa's just energy transition from $8.5 billion to $9.3 billion. The bilateral loan agreements which contributed to this additional funding involved concessional financing from the World Bank, Germany, and the African Development Bank (AfDB). In a statement, and justifying this blended finance package, South Africa's Treasury said "t*he financing facilities from the three institutions are in line with its strategy to diversify its funding mix*."

The government of President Cyril Ramaphosa is pushing to renegotiate the deal $9.3 billion pact with Climate Investment Funds (CIF), a group tied to the World Bank. The government seeks for a delay in the need to close three coal-fired Eskom power plants in the coming years. Specifically, the government prefers to have the decommissioning date for three power stations" moved to the end of March 2030. The decision is motivated by "energy security concerns" as South Africa is still working to reduce its emissions. The intention is to run several of the country's coal plants (including the three encompassed in the CIF deal) below their full capacity. It is imperative to highlight that the country's new plan represents a material change to what was agreed, as it is not clear if the Eskom plants in question would have the technical capability to run at lower levels, potentially undermining a key plank in the government's proposed strategy for cutting emissions. As the first JETP nation, South Africa's retreat from the original terms of its agreement would raise questions around the program's credibility.

Just Energy Transition- At Whose Pace?

South Africa, as the largest greenhouse emitter in Africa producing 534.5 million tonnes of carbon emissions, is on a race reduce emissions. Excessive electricity load-shedding has also forced the country to transition very quickly. However, progress to facilitate a just transition has not been at the pace and scale needed to tackle such crisis. According to the Presidential Climate Commission's (PCC) inaugural assessment of climate action, barriers to progress have included incoherent policies, weak governance structures, insufficient finance and "inconsistent actions" by the government and other partners.

More pressing has been the lack of consensus about the pace of the coal phaseout, thereby delaying the implementation of necessary policy measures to prepare for and enable the transition, such as the draft 2023 Integrated Resources Plan, the Integrated Energy Plan and the South African Renewable Energy Masterplan. Speaking at the Climate Resilience Symposium held in Pretoria in July, President Ramaphosa said South Africa will decarbonise at a pace and scale that is affordable to the economy and society. While acknowledging that the country's continued reliance on coal comes with significant risks, he also emphasized that *"if we act too fast, we risk damaging huge sections of our economy before we have built alternative energy and industrial capabilities."* It is therefore clear that the building of such alternative energy and industrial capabilities requires extra funding.

While South Africa seems committed to the reduction greenhouse gas emissions, concerns have been raised over the efficacy of the recent legislation passed into law. President Ramaphosa signed the Climate Change Act into law on the 18th of July 2024. The legislation sets greenhouse-gas emissions targets for high-emitting government sectors, including transport and agriculture, and requires every city and town to report an adaptation plan. Carbon budgets will also be introduced for companies with significant emissions levels, however after a campaign of corporate lobbying, the legislation was watered down and does not make it an offence to exceed the official emissions limits. This alteration has drawn criticism from environmental experts. According to the Centre for Environmental Rights (CER), a non-profit organisation, the delay in the legislation's operational status is of great concern as the requirements in the Act cannot be enforced until the President issues a proclamation.

More Funds Needed to Drop Coal?

Climate change currently presents an urgent imperative to transform the world's energy system. However, a significant increase in the volume and accessibility of low-cost financing is required in order to achieve both climate and other development goals, and South Africa is coming to this realization. While the country has expressed the ambition of reducing emissions to a target range of 350-million tonnes to 420-million tonnes of CO2 equivalent emissions (a reduction of about 20%-33% from current levels), South Africa requires approximately R1.5 trillion (USD$ 82 billion) in initial funding to transition to a low-carbon and climate-resilient society for the period 2023–2027.

Admitting to this South Africa's Minister of Electricity, Kgosientsho Ramakgopa said "*the South African balance sheet is very weak and will not be able to carry the transition*." Speaking at the Institute for the Future of Work (IFOW) seminar on South Africa's Just Energy Transition and the Future of Work, Ramakgopa emphasized that developed nations have a large part to play in carrying the financial responsibility of the energy transitions in Africa- especially considering that Africa only contributes an approximate 4% to global greenhouse emissions.

Hydrogen As the New Alternative on the Block

In the Ninety Second Sovereign Debt News Update, it was highlighted that South Africa's hydrogen fund would join the SDG Namibia One Fund as the second-of-its-kind, regional blended finance fund to develop and fund green hydrogen projects. In May 2024, it was reported that Namibia and South Africa had signed a Memorandum of Understanding (MoU) at the World Hydrogen Summit in May 2024. The MoU, which took effect following a kick-off meeting on 9 July 2024 in Cape Town, has the two countries embarking on Groundbreaking Green Hydrogen Pipeline Project. This visionary project brings together key players including the Western Cape Tourism, Investment and Trade Agency (Wesgro), the Northern Cape Economic Development, Trade and Investment Promotion Agency (NCEDA), the Namibia Green Hydrogen Programme (NGH2P), Gasunie Waterstof Holding B.V., and Climate Fund Managers (CFM) NL B.V.

However, according to Rystad Energy, an independent energy research company based in Norway that tracks energy projects worldwide, only two of the five green hydrogen projects it is tracking in South Africa are expected to start production before the end of the decade. Rystad Energy said these projects have to overcome significant hurdles, such as the lack of offtake agreements, frequent blackouts, and underdeveloped infrastructure for hydrogen storage and transportation.

Conclusion

The failure of a G20 nation to live up to its commitments around coal power indicates a significant flow in the design of the Just Energy Transition Partnership. This renegotiation underscores just how difficult it is for developing nations such as South Africa (which relies on coal for about 80% of its electricity) to switch to cleaner energy sources. As the most carbon-intensive economy in the G20, South Africa is not the only JETP signatory struggling to meet its commitments, as plans in Vietnam to build a new coal-fired power plant may “complicate” its progress in meeting JETP targets. In all, as seen in the South African case, climate finance has further mechanized the revolving door of debilitating debt burdens in Africa. It is therefore time that the “principle of no net debt increase from climate finance” be adopted as a fundamental norm governing climate finance globally. Caution is therefore required to ensure that African governments do not fall into climate-related debt traps.

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