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Climate Finance for South Africa at COP26: Watch this space.

Anticipated Announcements at COP26: All eyes on Glasgow

Amidst a lot of speculation about climate finance announcements at COP26, South Africa and the EU (on behalf of partners France, Germany, UK, and USA) have confirmed that a deal for an accelerated and just coal phaseout in South Africa will soon be revealed. [1,2,3] It is important to manage expectations for an announcement that will, most likely, be indicative rather than definitive when it comes to details on the amount and terms of the agreement.

As long as clear principles and a pathway to credible, scalable, and well-sequenced financial support are set, it could still represent significant progress. Such an approach could also:

- prevent underpricing financial commitments,
- allow sufficient time to consider proposals and identify gaps,
- undertake thorough analysis of full costs and risks, and
- ensure support is available not only to (or through) the most organized and vocal actors - but also targeted to the most vulnerable and impacted, specifically local coal communities.

This is an optimistic interpretation and significant challenges remain:

1. **Transparent and measurable commitments** are needed to ascertain whether support is sufficient, fit for purpose, and ultimately delivered. Wealthy countries do not have a good track record when it comes to indicative commitments, which has eroded trust and good faith. Most notoriously, they failed to deliver (or even agree on an accounting methodology) on their pledge to provide $100 bn/year in climate finance by 2020.
2. **High-level pledges need to be tied to local-level needs** in coal mining communities and regions. This is especially hard where details are thin. In the various proposals and reports to date, it is not clear that the locally-embedded and -responsive requirements of just transition financial support will be appropriately earmarked.
3. **Front-loading financial support** for accelerated action is required to crowd in and de-risk other sources of funding and investment, as well as build social and political support. Promises for future action aren't helpful.

What do we know about the offers and proposals being negotiated?

On the side of wealthy countries, it has been reported that an amount of "almost **US$5 bn** towards ending the country's dependence on coal" was proposed by them in September 2021.[4] Though not a perfect comparison, this is equivalent to about *a tenth* of what the German government set aside for its *own* coal phase-out **(EUR40 bn/ US$46 bn)** of a similar size coal power fleet with far less daunting socio-economic conditions (e.g. only ~20,000 direct coal jobs compared to ~80,000 in South Africa). South Africa may also receive grant financing between US$200 - 500 mil. from the Climate Investment Funds. Altogether, the sum is underwhelming— though better than nothing.

On the South African side, estimates of the full costs on an accelerated and just energy transition suggest around **US$300 bn** will be needed in the coming decades, with the bulk going to rapid expansion of renewable energy, as well as transmission and distribution investments. [5] While a significant portion can be covered by private investment and other sources, some aspects cannot - especially managing the social and economic impacts of an accelerated coal phase-out. International climate finance is a critical lever to unlocking these flows and closing funding gaps.

When it comes to specific proposals, the focus thus far has been on the power utility Eskom, which owns and operates South Africa's coal power plants. According to the most recent estimates, Eskom will need around US$30 bn over the next 10-15 years to manage the first part of the coal phase-out (22 GW), including just transition initiatives, repurposing existing plants, and extending the grid to support renewables (see box 1 for more detail).

Box 1: Two Proposals for Eskom's Just Transition hinge on conditional concessional finance and consider pricing additional mitigated carbon emissions

In South Africa, there are two (similar) proposals widely covered in the media and public discourse.[6,7] Both refer to an 'additional carbon mitigation' price of US$7/t. This would be a bargain for wealthy countries, because prices are already much higher in many jurisdictions and are expected to increase over the decade– in the EU, carbon prices have already breached EUR60/t (~US$70/t).[8] Both proposals also underscore Eskom's financial troubles. Eskom is heavily indebted and dependent on regular state bailouts. The utility needs significant financial support even without an accelerated coal phase-out, concessional finance will be critical.

The Just Transition Transaction (JTT) – Meridian Economics

The idea: South African treasury would secure loans for the coal transition, with interest rates reduced to concessional rates (saving on interest) *if* South Africa meets mitigation goals for an accelerated coal phase-out, with agreement on a set price (R or US$/t$CO_2$) of *additional mitigation* resulting from the accelerated decarbonization of the power sector (with complete phase-out by 2040).

The price tag: The example used is US$7/t$CO_2$ (South Africa's current carbon price) corresponding to ~US$7 bn net present value in savings (associated with a US$16bn loan value), noted as a "highly efficient $/t rate for *sponsoring countries* over 25 years."

Just transition considerations: The treasury would earmark a portion of the savings value for a Just Transition Fund, envisaged to crowd in other public and private sources of finance to support coal workers, affected communities, and assist in developing an alternative economy in the main coal province. The annuity allocated to the fund would be wholly dependent on mitigation efforts. As regards the governance of the fund, it is only noted that it will need to be carefully considered.

The Just Energy Transition (JET) - Eskom

The idea: Transition towards a cleaner energy future while enabling the creation of new job opportunities for those displaced by the replacement of coal by cleaner technologies. Eskom would play a role in:[9]

- Social upliftment, local manufacturing, and reindustrialization
- Decarbonization and shutdown of coal plants

- Building cleaner plants
- Grid expansion and strengthening
- Unbundling Eskom

Eskom and the South African government would need concessional financing, granted on a "pay for performance" basis. Eskom would pilot just transition interventions at coal plants that are currently in the process of decommissioning. (Most of) coal power phased out by 2050.

The price tag: Initial numbers (June 2021) on Eskom's financing needs were around US$10 bn, mainly based on costs to repower coal plants to run on alternative fuels.[10] More recently, media reports predict Eskom will need US$27 bn to build some new generation, transmission, and distribution infrastructure, while Eskom CEO Andre de Ruyter pegged the number a bit higher, between US$30-35 billion.

Just transition considerations: JET mainly focuses on employment and local socio-economic benefits Eskom would "create" through various interventions. For example, one project area on microgrid installation notes benefits such as: extending electricity access to unserved 13% of the population, training community members for microgrid maintenance jobs, and contributing to small business creation and other public goods.

What's missing or inadequately covered?

Eskom's role in a coal phase-out and low-carbon transition is only one piece of the puzzle. Aside from that, and the mismatch between the quantity and structure of initial offers and expected needs, a few further areas would benefit from more explicit attention:

1. **A transition in the coal mining sector:** Unlike Eskom, which is state-owned, coal mining in South Africa is primarily private and for-profit. Until recently, the coal mining houses with the largest share of production were international (e.g. Anglo American). However, most have divested – essentially leaving the costs and risks to the South African companies that have taken over.[11] This is concerning as coal mining is where most jobs losses will be (i.e. not in Eskom). In addition, coal is important for household and business use, as an input in industry (e.g. liquid fuel production, steel, etc.), and as export revenue (almost 30% of total production is exported), raising questions about the implications and needs of an accelerated coal transition in other parts of the coal value chain.
2. **Implications for affordability of electricity:** The economy at large and citizens will increasingly depend on power as climate action drives electrification of other sectors (e.g. transport). Electricity prices have increased more than 400% in the past 10 years and Eskom's JET indicates that prices will need to increase further. Reducing energy poverty and inequality are also important for a just transition.
3. **Governance and transparency:** South Africa is a pioneer in its work on international and national justice considerations for climate action and the net-zero transition. While public consultations have been central to the underlying processes, more transparency and better use of existing representative bodies - such as national parliament - may lead to greater accountability and public acceptance. This will be especially important in the case that a just transition fund is established. The country has battled with state capture and maladministration in the past, with energy and infrastructure sectors being prime targets. Institutionalized oversight and appropriate checks and balances will be crucial.

4. **Transformation:** Central to most policy debates in South Africa is the question of political and economic transformation, as the country continues to address the history of colonialism and apartheid that underlies the highest levels of inequality in the world. Coal has had no small part in this history and there are important questions about what this means for restorative justice and how the low-carbon transition will serve transformation objectives more broadly.

What comes after the announcement?

As an important touchstone for the 'just transition' and accelerated coal phaseout outside the high-income world, South Africa has responded with ambitious plans and leading initiatives. This includes ongoing work by the Presidential Climate Change Commission to develop a consensus-driven, overarching Just Transition Framework. In addition to the energy transition, the economy-wide framework will cover topics such as energy, water, and food security, and infrastructure resilience.[12] The Commission is still assessing the financial implications and needs of a just transition. Nevertheless, it is certain that international finance will be determinative to realizing South Africa's plans.

While it is unlikely that the anticipated COP announcement will meet these requirements outright, it will hopefully provide a credible first step commensurate with South Africa's efforts and needs. It could also end up setting the bar for other countries trying to secure international support. While the quantum of financial support offered will be an important indicator, the quality of the agreement overall - including as relates to transparency, accountability, and scalability - will signal if just climate finance is within reach.

Endnotes

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