Briefing Note 1: JETPs – just transition finance blueprints or business as usual?

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Another year, another Conference of the Parties (COP), and another mixed bag with some small progress and a series of setbacks. Among all the issues negotiated at the event, finance certainly was in the spotlight.

The most emblematic decision of COP27 was the creation of a loss and damage fund, a long-term demand of climate-vulnerable countries. Given the current trajectory of greenhouse gas emissions, which set the world on an average temperature rise of 2.4-2.6°C by the end of the century (based on current pledges), the urgency of such a fund could not be overstated. Many unknowns remain though, particularly in terms of its financing. And the fact that high-income countries have consistently failed to meet their commitment to leverage US$100 billion annually of climate finance for low- and middle-income countries (initially, by 2020), does not bode well. But time will tell.

A salient dynamic has been the emergence of Just Energy Transition Partnerships (JETPs) as a mechanism to foster the transition in the Global South. Following on the announcement at COP26 of the US$8.5 billion JETP for South Africa (with the UK, Germany, France and the US along with the EU), Indonesia struck a US$20 billion deal at COP27. Many others could follow, from India, to Vietnam, to Senegal.

With such arrangements becoming more prevalent, it is worth taking a closer look at South Africa's JETP, the most advanced of the partnerships to date. After intense round-the-clock work and deliberations (but no public participation process, which will occur in early 2023), South Africa released the implementation plan for its JETP moments before COP27.

The US$8.5 billion deal is an important milestone. Yet, the scale of the deal is patently out of kilter with what is required for South Africa to affect a just transition to a green economy. The implementation plan itself estimates that South Africa requires a total of R1.5 trillion over five years to implement a just transition in the electricity, automotive and green hydrogen sectors. The JETP (as it stands now) will cover about R128 billion or 8.5% of that, leaving a significant finance gap. How this gap will be filled remains unclear. The plan assumes that the private sector would contribute R500 billion in the electricity value chain while Development Finance Institutions/Multilateral Development Banks would make R150 billion available. That still leaves a hole of R700 billion over the next five years, based on the investment plan's own modelling estimates.

Evidently, the JETP implementation plan is not a comprehensive plan for South Africa's just transition, but only a contribution towards it covering three energy sectors (electricity, new energy vehicles and green hydrogen). And, of course, one should not expect four countries to exclusively foot the bill, but it does give an idea of the scale of the challenge and how much reliance can be placed on international partnerships.

While US$8.5 billion is a large number in absolute terms, it is worth putting this sum into perspective. Direct investment into South Africa by the UK, US, Germany and France (i.e. the key JET partners) in 2020 alone reached R609 billion, R130 billion, R105 billion and R24 billion respectively, coming to R868 billion or about US$52.7 billion. South Africa's insured export credit exposure in 2021 totalled US$63.8 billion, including US$44.6 billion of short-term trade finance. This gives an idea of availability of insurance and guarantees.

Looking at the details, to what extent is the JETP a "decarbonisation" versus a "just transition" plan? Not surprisingly, the vast majority of the funding is required for the electricity value chain (R1 030 billion), ahead of green hydrogen (R319 billion) and new energy vehicles (R128 billion). The bulk of the funding is for infrastructure (R1 374 billion or 93% of the total envelope), which is destined significantly towards solar and wind generation investments (R474 billion). Economic diversification and innovation are allocated a mere R83.4 billion in comparison. Social investment and inclusion as well as skills development receive R9.6 billion and R2.7 billion, respectively. Overall, R60 billion is considered to be necessary for a just transition in Mpumalanga's coalfields.

The composition of the offer looks more like business-as-usual than a rebalancing of financing terms in line with a global just transition: 63% in concessional loans, 18% commercial loans, 15% guarantees, and a mere 4% grants. Countries also differ in their commitment to grant funding in support of South Africa's just transition, ranging from Germany's US$198 million to France's US$2.5 million. By comparison, over the 2016-2020 period, South Africa received US$3.7 billion of grants from the same partners (UK, US, France, Germany, EU). While these grants cover a wide array of issues (such as health and education), the amount vastly outweighs the grant component of the JETP (US$330 million). This raises questions around the developmental nature of the just transition partnership, especially given South Africa's existing debt constraints.

The terms of loans and guarantees remain, for most, to be determined. But what is known raises further questions. National Treasury released the terms of €600 million concessional loans from France and Germany (€300 million each) forming part of the JETP. At an average rate of 3.3% over 20 years, these loans provide the South African government with relatively cheap finance. But they are denominated in Euros, adding to South Africa's foreign-exchange exposure. More problematically, the loans are for general budget support, and therefore not earmarked for the country's just transition. They may be beneficial to South Africa on their own account, but labelling them as "just transition finance" is problematic.

Separate from the JETP, the European Investment Bank (EIB) has extended a €200-million line of credit to the Development Bank of Southern Africa (DBSA). That has leveraged a further €200 million (half from the Green Climate Fund and half from the DBSA) to support the delivery of 1 200 MW of distributed renewable energy generation by private investors. This facility is set to complement the EIB's contribution to the JETP (US$1 billion of loans and US$35 million of grants). While exact terms are not public, the EIB is known for offering targeted, earmarked finance in local currency.

The JETP is certainly a worthwhile effort to attend to key just transition issues in some of the key sectors of the economy by mobilising and channelling foreign resources. There is a notion, however, that the investment plan is *the* solution for financing South Africa's just transition, and will be provided on inclusive terms beneficial for the country's development. Assessing the plan with a critical eye reveals a mixed bag, made of opportunities, as well as a number of risks and concerns to be borne in mind going forward.