ECONOMY AND ECOLOGY 11.02.2022

Climate change shouldn't be an investment opportunity

At COP26, South Africa was singled out for an investment deal — allegedly to encourage a transition away from coal. In reality, it's all about profit

It's a little known fact that as many as 36,500 so-called sustainable investment funds – a dizzying array of trillion dollar vehicles – are currently trying to make money off climate change solutions. It would seem, then, that yet another is cause for consternation. So why was an investment deal between South Africa and a handful of developed countries among the main outcomes of the global climate change talks in Glasgow during COP26?

The so-called Just Energy Transition deal is the latest in a string of schemes to monetise solutions for climate change. It exemplifies influence of certain economic principles on climate change solutions. And it confirms that the neoliberal creed is more important than the international solidarity needed to help save and protect vulnerable lives from climate change impacts, including droughts, heatwaves, and sea-level rise. More worryingly, the deal reveals that the same profit-making logic that contributed to climate change problems is being used for its solutions.

But what are the motivations for a handful of developed countries to create yet another climate change investment scheme – and, in particular, one that's only for South Africa?

South Africa's coal dependence

As a leading economic power-house in the African continent, South Africa burns more coal than any other. With more than 70 per cent of its economy fuelled by coal, a transition to renewable sources of energy – which are abundant on the continent – is necessary, even if the South African government admits that the transition 'should not sterilise the development of its coal resources'.

South Africa suffered drought conditions so serious that 'Day Zero' was only narrowly avoided in Cape Town.

However, the deal raises questions as to whether or not it is a strategic solution for climate change or an investment opportunity for a few. Could it as well be a way to induce South African authorities transition faster to renewable energy sources or does it capitalise on the country's comparatively lower investment risks? Surely, one wants to imagine South Africa following in Germany's lead in Europe to phase-out coal as early as 2035. But is South Africa really being led to commit to taking such lead in Africa? Answers should inform whether such deals become a norm.

The seeming eureka moment involving politicians from some 45 countries captured in Glasgow does not appear to have shifted the influence of economic logic on climate change solutions. Although their collective reckoning, 'that coal power generation is the single biggest cause of global temperature increases,' captured in the Global Coal to Clean Power Transition Statement, reflects progress, it did not mark a departure from the mistaken idea that societies can profit their way out of climate change. Moreover, the moment escaped US politicians who refused to sign the so-called 'coal pledge' to 'transition away from unabated coal power generation,' though the US is in a the group of five, including the European Union, now poised to pump billions into South Africa, which also did not sign the pledge.

Profiting from the 'just energy transition'

Justifying why South Africa will get '$8.5 billion over the next three to five years,' the EU, UK, US, Germany, and France say it is to help 'decarbonise the country's electricity system and manage debt of Eskom, its electricity provider, 'drive the creation of green and quality jobs' and protect 'vulnerable workers and communities.' Most of the schemes for releasing that money – 'multilateral and bilateral grants, concessional loans, guarantees and private investments, and technical support' – suggest a profit motive, and it's unclear whether South Africa can choose between 'grants' or 'loans'.

Most of those options do not exemplify solidarity with developing countries' struggle against climate change impacts, now affecting malnourished children and millions facing hunger while pastoralists helplessly watch their cattle drop dead on caked pastures and farmlands

increasingly being abandoned in the Horn of Africa – a region with no rainfall for three consecutive rainy seasons. South Africa earlier suffered drought conditions so serious that 'Day Zero' was only narrowly avoided in Cape Town. And as to whether or not additional 'sources of financing' emerge as promised would depend on South Africa making good on loans, not on the dire need to prevent Cape Town's almost 5 million from a 'Day Zero.'

The South African authorities unequivocally say that 'coal will continue to play a significant role in electricity generation in South Africa in the foreseeable future'.

Coming back to my earlier speculation that funders' want to wean South Africa off coal: anyone with callous interest in international climate change politics will know South Africa has implied otherwise. As suggested by its energy ministry: 'South African coal for local electricity production is among the cheapest in the world.' In its national plan to contribute to global climate change solutions, the government reminds, 'South Africa's economy and energy system is one of the most coal-dependent in the world.' And speculated about coal's future? 'At the present production rate, there should be more than 50 years of coal supply left.'

The South African authorities unequivocally say that 'coal will continue to play a significant role in electricity generation in South Africa in the foreseeable future', after recently opening two plants, Medupi and Kusile. It's a reasonable contention then that USD 8bn will not make a difference to the country's installed generation capacity to which coal contributes 'the largest share of energy generated.'

It's all about business

At the same time, South Africa is certainly not the most vulnerable country in Africa to climate change impacts compared to say Sierra Leone, Liberia, or Nigeria.So why would the country get its own investment deal? The short answer is that South Africa has comparatively lower political and economic risks. It ranks 84 in the World Bank's list of countries with regulations that 'enhance business activity,' well above Sierra Leone at 163, Nigeria, 131 and Liberia, 175.

As opposed to singling out South Africa for business, fulfilling the failed USD 100bn promise to all

For almost a half century, South Africa took the lion's share of foreign direct investments compared among those. Recent 2019 data shows such investments in South Africa more than double those made in Nigeria. Between

developed countries might have been a prudent strategy.

2003 and 2013, disclosed foreign investments from Germany, France, UK, and US to South Africa were significantly more compared to others, and in many cases no investment. And more recent OECD 2021 data shows South Africa as the only African country with foreign investment activity. So as opposed to meeting a 'vital challenge facing humanity,' as claimed, the Just Energy Transition deal follows a decades-old pattern of foreign investments to Africa.

Surely, climate change is a vital challenge. Presently, the World Food Programme needs USD 327 million to save 13 million in three countries from starving to death because of drought. This should afflict moral consciousness. And the global response to such impacts that includes decarbonising developing countries should not be understood an investment opportunity for developed economies, transnational corporations, and private investors. Rather the motivation should be to save vulnerable lives that are the least responsible for the imminent global catastrophe presently exemplified in the Horn of Africa. The starving millions there are certainly not the ones who will rip profits off climate change investment schemes.

As South African authorities insists, 'international support will be required' for a transition to renewable energy. As opposed to singling out South Africa for business, fulfilling the failed USD 100bn promise to all developed countries might have been a prudent strategy.
