80% of rich nations' $8.5bn pledge to SA's energy transition in the form of loans

By Francesco Guarascio

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About 80% of the billions of dollars pledged by rich nations for South Africa's shift away from coal will be loans, not grants, and some may be hard to unlock due to national rules protecting domestic jobs, an official familiar with the matter said.

Source: Gallo/Getty

Last year the United States, European Union, Britain, France and Germany committed to investing $8.5bn over three to five years to help South Africa reduce its carbon emissions, which are among the world's highest because it depends on coal for 80% of its electricity.

The plan is meant to help the country shut down polluting smokestacks and coal mines and re-purpose their locations for solar panels and wind farms - and eventually electric vehicle and green hydrogen production.

This would create jobs that will help compensate for hundreds of thousands that would be lost in the coal sector.

If successful, it could be a model for other coal-dependent emerging economies in the global fight against climate change.

South Africa requested mainly grants, but international partners are instead mostly offering loans at below-market rates.

Only less than a fifth would be handouts, usually for technical support, the person familiar with the matter told Reuters.

The person, who spoke on condition of anonymity because the discussions were confidential ahead of a November deadline to close the deal, said South Africa's status as a middle-income country limited its access to grants, noting that lending rates have yet to be decided.

The 80% figure, which may still change as talks continue, has not been reported, but there had been reports about international partners willing to offer mostly loans to South Africa.

Financial guarantees for private investors willing to back agreed projects are also part of the offer.

The European Commission and the British government, among the main architects of the scheme, did not comment on the matter.

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Procurement hurdle

It also may be hard to free up funds from multilateral institutions included in the pledge owing to South Africa's procurement rules which protect local firms and workers, the source said. That raises concerns about the $1bn commitment from the European Investment Bank (EIB), the EU's financial arm.

The EIB can fund projects only with limited preference for local content in tenders, likely putting it at odds with South Africa's rules, the person said.

The bank had no official comment, but an EIB official said talks on its more than 10% share of the funding plan were at an "early stage", despite the agreed November deadline.

As talks continue, South Africa has not finalised its list of projects eligible for foreign funds. It has also yet to specify the total cost for greening its energy system - one estimate by academics puts it at $250bn - the source and a second official said.

The investment plan, with an estimate of long-term costs, is meant to be agreed with partners at the United Nations' annual climate conference in Egypt in early November.

"Our work is progressing according to the previously indicated time frames," said former central bank governor Daniel Mminele, who chairs the investment plan's task force, declining to give further details.