FACTSHEET

ACCELERATING COAL TRANSITION (ACT) INVESTMENT PLAN FOR SOUTH AFRICA

CIF CLIMATE INVESTMENT FUNDS

BACKGROUND

There is no winning the fight against climate change without a just, rapid transition away from coal. If coal were a country, it would be the single largest greenhouse gas emitter in the world. Coal-fired power plants are increasingly uncompetitive with renewable energy and out of step with a green economy. Coal-dependent countries have a once-in-a-generation opportunity to re-evaluate new coal assets being built, and re-purpose existing assets that still have considerable life left. Yet in the developing world, this is easier said than done, with coal deeply interwoven into economies, societies, and livelihoods.

Since 2008, the Climate Investment Funds (CIF) has been on the vanguard of helping developing countries as they solve challenges like these – currently supporting nearly 400 projects across more than 70 countries, and mobilizing more than $62 billion in finance.

In November 2021, CIF established the Accelerating Coal Transition (ACT) program, a new initiative to support coal-reliant developing countries as they capitalize on this moment of change. The ACT program is structured around three core pillars – governance, people and communities, and infrastructure – each designed specifically to address one of the three major challenges of coal transition. The goal of ACT is to provide the support needed to ensure a holistic, socially-inclusive, and equitable transition. **In the first phase of ACT, CIF selected South Africa as one of four pioneer countries for investment alongside India, Indonesia, and the Philippines.**

THE CHALLENGE

South Africa runs on coal. 87% of the country's 52 GW of installed generation capacity is coal-fired, and coal is responsible for almost half of all national CO2 emissions. This is also an energy system that is rapidly aging, and will require decommissioning: The 15 coal-fired power plants of Eskom, the public utility generating most of the South Africa's electricity, are on average 41 years old and the cause of frequent power outages. The moment is ripe for an extraordinary transition. Yet as South Africa shifts from coal to clean power, there are numerous challenges that must be tackled at the same time including:

- **An urgent need for additional power capacity:** As old coal-fired plants are decommissioned, urgent sources of new power capacity must come online, including by scaling up the country's ample renewable energy resources. This will require both public and private sector investment, which has been held up by investor concerns in South Africa's current system.

- **Reduction in local government revenue:** In the Mpumalanga Province, where 76% of South Africa's coal-related employment is concentrated, many communities and people depend on the coal mines and plants for their livelihoods, and essential public services like electricity, water, and health care. Closing coal mines and power plants risks reducing local government revenue, and even further limiting public services.

- **Social buy-in.** The coal-to-clean transition in Mpumalanga and, by extension, South Africa, will face enormous social challenges. With high rates of unemployment, large numbers of people living on the poverty margin, and an economy highly dependent on the coal value chain for income and livelihoods, a just and equitable transition is critical. This requires collaboration across sectors and empowering those most at risk from the transition.

CIF'S ACT SOUTH AFRICA INVESTMENT PLAN HIGHLIGHTS

The ACT investment plan is specifically tailored to address each of South Africa's unique challenges. First, it will demonstrate potential solutions by the public sector to ramp up the process of decommissioning Eskom's coal-fired power plants, providing opportunities for further scale up even after this phase of CIF's supported work is completed. Secondly, it will increase the national power supply capacity from renewable sources through a series of public and private sub-projects. Finally, it will focus on the long-term impacts on lives and livelihoods, creating new opportunities for coal workers and affected communities to meet South Africa's energy security, climate change, and poverty reduction targets.

The projects are:

1 | Retiring and Replacing Coal-based Power Generation Capacity.

(Financing: CIF grant $20 million, CIF concessional loan $330 million)

Using concessional finance, the initial project will jump-start the decarbonization of South Africa's electricity sector. This project will: (i) advance the decommissioning dates of up to three Eskom-owned coal-fired power plants in Camden, Grootvlei, and Hendrina; (ii) install renewable energy and energy storage capacity on a public-private-partnership or direct project-finance basis, and in doing so establish a track record of financing replacements for retired thermal generation capacity; and (iii) provide just transition support to coal plant employees and training opportunities for suppliers, contract workers, and communities. Specific support measures will target women, unemployed youth, and other vulnerable groups.

2 | Mpumalanga Community Development Project.

(Financing: CIF concessional loan $75 million, CIF grant $25 million, further co-financing with bilateral development partners, philanthropies, World Bank (IBRD) and African Development Bank (AfDB) loans, and private sector investments).

Communities have critical impacts on the social and economic fabric of the transition process. This project will work directly with community organizations and provincial and municipal governments to: (i) mobilize affected communities and build capacity to support decision-making over local investments; (ii) strengthen governance mechanisms and the institutional capacity of provincial, municipal and local government authorities; and (iii) invest in community infrastructure and income-generating opportunities in the green sector using participatory approaches. This includes support to the "Mpumalanga Green Cluster," which will support green-tech small and medium-sized enterprises (SMEs) growing their businesses, enable bigger businesses to improve their environmental footprint, and improve the enabling environment for more local investment.

3 | Energy Efficiency, Distributed Generation and Community Generation Programs.

(Financing: CIF $50 million, with a partial credit guarantee)

This project will develop a Mpumalanga-focused program that will drive the development of energy efficiency and distributed generation projects. Distributed generation projects have a strong economic impact, driving higher job creation than grid-tied solar photovoltaic plants and allowing utilities to leverage private capital for additional incremental generation capacity. The program is thus expected to drive skills development and job creation in the energy services sectors, in energy-

intensive end-use sectors, and a broad base of small-, medium-sized and micro-enterprise (SMME) activities. The initiative will also reduce the exposure of enterprises, particularly SMMEs, to rising energy prices – increasing the long-term resilience of these companies.

ACT funding will be channeled through multiple multilateral development banks (MDBs) and mobilize financing from the government of South Africa, as well as the private sector and other development partners. The $500 million of ACT funding is expected to directly catalyze 5.3 times ($2.605 billion) as much investment for South Africa's Just Energy Transition Partnership, or JETP, mostly from public-private partnerships for repurposing and replacing coal-based power generation capacities with dispatchable renewable power generation.

MDBs have a critical role to play in helping countries meet their climate ambitions by leveraging institutional expertise, experience, networks, safeguards, and other policies. They are committed to increasing clean energy, sustainable land-use and other green infrastructure investments while mobilizing private finance.

FUTURE IMPACT

CIF's ACT program and its financing mechanisms will help catalyze South Africa's long-term transition from coal, while generating job creation and upskilling that will last into the future:

- The ACT-supported decommissioning will remove approximately 71 million tons of CO2 in potential GHG emissions and improve ambient air quality.
- ACT program financing will help overcome first-mover costs for new and innovative renewable energy technologies; support the development of necessary economic and skills base; build confidence among local stakeholders and communities; and accelerate the participation of private developers as well as commercial lenders.
- These will, in turn, build investor confidence and ensure long-term financing of future coal plant closures and repurposing and capacity replacement, including support by other development partners and the philanthropic community to help accelerate transition.

CIF's ACT program in South Africa is a crucial first step in accelerating transformational change toward net-zero emissions through inclusive, climate-resilient development pathways.

THE CLIMATE INVESTMENT FUNDS

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