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International partnerships for a just energy transition: findings from South Africa

- Just energy transitions have recently been pursued via a partnership approach
- Equal, reciprocal partnerships are an alternative to traditional conditional financing
- An institutional framework needs to be created due to the cooperation between international actors

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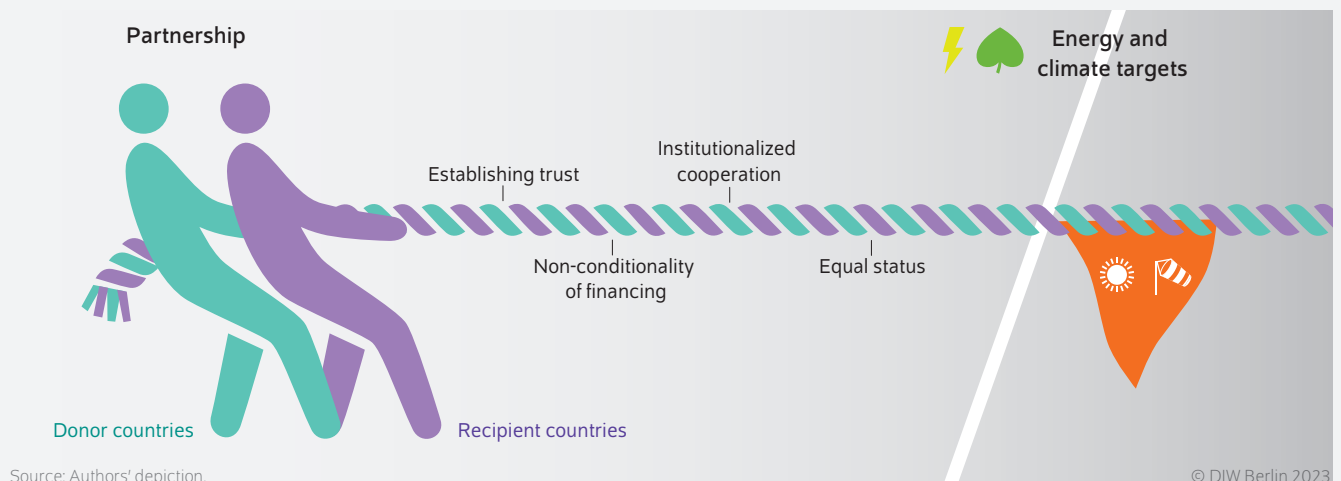
AT A GLANCE

International partnerships for a just energy transition: findings from South Africa

By Heiner von Lüpke, Charlotte Aebischer and, Martha Bolaños

- Just energy transitions in the Global South have recently been pursued via a partnership approach
- A framework agreement for the first partnership (JETP) was concluded between the G7 and South Africa in 2021
- An equal, reciprocal partnership is an alternative to traditional conditional financing
- Agreement on policy goals, norms, and legitimized participation of international partners in national policy processes facilitates cooperation and a shift in climate policy
- An institutional framework needs to be created for cooperation between international actors

Equal partnerships instead of obligations: A more promising way toward a successful energy transition



FROM THE AUTHORS

“Partnerships for just energy transitions are a new approach to shifting global climate policy. To get the countries of the Global South on board and to distribute the costs in a just manner, the focus must be on trust-based cooperation through dialogue rather than on unilateral financial transfers.”

— Heiner von Lüpke —

MEDIA



Audio Interview with Heiner von Lüpke (in German)
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International partnerships for a just energy transition: findings from South Africa

By Heiner von Lüpke, Charlotte Aebischer, and Martha Bolaños

ABSTRACT

In 2021, the G7 and South Africa agreed upon the Just Energy Transition Partnership (JETP). This new instrument in international cooperation should support emerging and developing economies in a just energy transition and in phasing out coal. It is intended to facilitate equal partnerships between donors and recipients, thereby also facilitating the energy transition. An evaluation of the South African JETP shows that while it is de facto an international policy process for setting the course for the energy transition, it still lacks the necessary legitimacy and institutional framework. It can also be seen that the current finance instruments, which usually tie transfer payments to conditions, are only partially effective; they often lack the necessary flexibility in the policy process. In contrast, a joint agreement between donors and recipients that is based on shared policy goals, norms, and reciprocity can facilitate both the necessary cooperation and the subsequent just energy transition. Intensifying political dialogues, conducting mutual policy peer reviews, and improving both the regulatory framework and the legitimacy of cooperation can be useful tools for an effective partnership.

Effective climate policy requires global cooperation. While industrialized countries are currently emitting more greenhouse gases per capita, emerging and developing economies frequently use older technologies. As their economies continue to develop, their emissions will thus increase disproportionately. Therefore, it is not surprising that climate policy has become an important part of development aid. A new instrument with great potential is the Just Energy Transition Partnership (JETP), which countries can agree to participate in. From the international community's perspective, these agreements can be viewed as new methods of cooperation to increase the climate and development goals being achieved worldwide.¹

The energy transition is a complex process. The JETPs take this complexity into account by bringing together national and international stakeholders. First, they are focused on a just energy transition. It must occur within the national energy sectors, with political and sector-specific factors driving the transition in particular.² Furthermore, the JETPs rely on international support and cooperation. Interactions between international donors or their respective agencies and domestic stakeholders in recipient countries play an important role.

The first JETP partnership was settled with South Africa at the 26th UN Climate Change Conference in 2021. The funding amounts pledged under this agreement as well as the intended effectiveness are often referred to as a "new dimension" in this context.³ Since then, JETPs with four other emerging economies all over the world have been in the works (Table 1).

Based on an analysis of the JETP negotiation and planning process with South Africa, initial recommendations can be derived as to how future partnerships can be implemented more effectively (Box).

¹ Heiner von Lüpke, Karsten Neuhoff, and Catherine Marchewitz, "Bridges over troubled waters: Climate clubs, alliances and partnerships as safeguards for effective international cooperation?" (2022) (available online. Accessed on January 18, 2023. This applies to all other online sources in this report unless stated otherwise).

² Peter Newell and Harriet Bulkeley, "Landscape for change? International climate policy and energy transitions: evidence from sub-Saharan Africa," *Climate Policy* 17, no. 5 (2016) (available online).

³ Climate clubs, sectoral alliances or partnerships, and related climate finance designs.

Box

Methodology

The JETP process in South Africa was chosen methodically as a singular case study. From July to August 2022, 21 semi-structured expert interviews were conducted, including eight with think tanks and research institutes, eight with international donors, and five with representatives of the South African public sector. The goal of the interviews was to understand what factors are important for facilitating international cooperation in the context of the JETP and how its effectiveness is currently assessed. Cooperation factors were formed prior to the case study from theories of international development cooperation and cooperation in the context of sharing responsibility in combating climate change, and were further developed through the interview results. Cooperation factors and corresponding diagnostic questions for the interviews were developed for operationalization (Table). The cooperation factors were further developed using the interview findings.

Table

Cooperation factors and diagnostic questions for expert surveys

Cooperation factor	Diagnostic questions for expert interviews
Mutual trust	Is there trust that the partners will act as agreed upon? Do JETP partners trust each other's agenda?
Legitimacy of a transnational policy process	Is it recognized that donor/recipient negotiations are of a political nature? Are such transnational policy processes also politically legitimized?
Institutionalization	Are there agreements on the "rules of the game" for cooperation between donors and recipients? Are such agreements sufficiently institutionalized?
Shared norms and understanding	Do the JETP actors share norms regarding the climate and the development of the energy sector? Is there a shared understanding of the goals and content of the cooperation?

Source: DIW Berlin survey.

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Case study: South Africa and the JETP

The JETP involves three main goals: First, greenhouse gas emissions should be reduced. Second, the energy transition is to be advanced by phasing out coal, using increasingly more renewable energy sources, and developing green hydrogen and e-mobility. Third, a "just, equitable and inclusive transition for workers and affected communities" is necessary "so that all are protected against the risks and benefit from the opportunities presented by this transition, and no one is left behind."⁴

Funding in the amount of 8.5 billion USD was initially committed for a period of three to five years. The majority is to be delivered through loans, while a smaller share will be through grants. An International Partners Group (IPG) composed of the donors (France, Germany, the United Kingdom, the United States, and the European Union) was also formed. On the South African side, a climate finance task team was created with the mandate to lead the negotiations with donors, coordinate government entities, and to advise government institutions on the feasibility of the JETP offer.⁵

Agreed upon internationally, but controversial domestically: South Africa's coal phase-out

The policy process of the just energy transition in South Africa is highly dynamic, involving very different, sometimes contrary, positions (Figure 1). On the international level, there is the IPG and the JETP negotiations (Figure 2). On a national level, there are two groups: One that is concerned with developing renewable energy sources and another that argues for the continued use of coal. In the case of South Africa, the indebtedness of Eskom, a South African state electricity utility, and its issues providing reliable electricity, is a particularly important factor. Widespread social concerns about the affordability of electricity, public debt, and employment changes in the energy sector increase the willingness to reform in principle. However, this does not necessarily equate to phasing out coal.

This division is also reflected in the national discourse surrounding the JETP negotiations. On the one hand, the focus is on phasing out coal, massively upscaling renewable energy, and reducing the use of gas and oil. This narrative is based on arguments of economic efficiency and calls for greater participation of the private sector in energy production. Public sector respondents indicate that most of corporate South Africa agrees with this narrative with the exception of the coal industry.

On the other hand, a narrative of coal as an important national resource—one that provides income, employment, and public revenue—has been established. This narrative mixes facts with sentiment, involving statements about international donors not being able to achieve their own climate and energy policy targets yet advising South Africa on how to be more ambitious with its climate policy targets.⁶ It also argues that the energy transition will come at high costs and damage the South African economy. South Africa's experience with colonialism also plays a role here, as there is a fear that privatization of the energy sector will lead to the creation of markets for western companies and that the South African economy could be exploited once again.⁷

⁵ South African Government, "President Cyril Ramaphosa appoints Mr Daniel Mminele as Head of the Presidential Climate Finance Task Team," press release from February 9, 2022 (available online).

⁶ Jacob Maroga, Tweet from October 7, 2022 (available online).

⁷ Alex Patrick, "Decolonising energy: Why SA must follow 2050 CO2 plans despite its low carbon emissions," *TimesLIVE* (2022) (available online).

⁴ UN Climate Change Conference (COP26), *Political Declaration on the Just Energy Transition in South Africa* (2021) (available online).

Table 1

Overview and available key facts on the planned JETPs

	Planned actions	Focus and goals	Financing	Expected impact on emissions
South Africa	<ul style="list-style-type: none"> Decommissioning hard coal-fired power plants Financing alternative employment opportunities in coal mining areas Investments to accelerate the use of renewable energy sources Investments in new sectors of the green economy 	<ul style="list-style-type: none"> Decarbonization of the economy with a special focus on the energy sector, electric vehicles, and green hydrogen 	<ul style="list-style-type: none"> Committed funds: 8.5 billion USD Estimated required funds for energy transition: 98 billion USD from 2023 to 2027 	Reduction of 1,000 to 1,500 megatons of greenhouse gas emissions in the next 20 years (2021 to 2041)
Vietnam	<ul style="list-style-type: none"> Development of wind and solar energy Retraining and professional support for employees in the (renewable) energy sector 	<ul style="list-style-type: none"> Reducing emissions in the electricity sector Achieving 47 percent of energy from renewable sources by 2030 	<ul style="list-style-type: none"> Committed funds: 15.5 billion USD in public and private financing Estimated required funds for energy transition: 60 billion USD annually until 2050 	Reduction of nearly 500 megatons of greenhouse gas emissions until 2035
Indonesia	<ul style="list-style-type: none"> Decommissioning coal-fired power plants earlier than planned Investments in renewable energy projects 	<ul style="list-style-type: none"> Reducing emissions from the electricity sector by 2030 at the latest Moving the net zero target in the energy sector from 2060 to 2050 34 percent of electricity generated from renewable sources by 2030 at the latest 	<ul style="list-style-type: none"> Committed funds: 20 billion USD Estimated required funds for energy transition: 1.2 billion USD 	Cumulative reduction of greenhouse gas emissions by over 2,300 megatons by 2060 (compared to Indonesia's current emissions path)
India	Details unknown			
Senegal	Details unknown			

Sources: European Commission; the Presidency Republic of South Africa; The German Federal Ministry of Economic Cooperation and Development; Joe Lo, "Rich nations, banks pledge \$20bn for Indonesia's coal-to-clean switch," Climate Change News (2022).

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The role of international partners in South Africa's energy transition

A shared understanding of the objectives and contents of the cooperation as well as political legitimacy are regarded as essential for a successful JETP implementation. Currently, however, there are differing views, both at the national level and between South Africa and the IPG, on the specific direction, speed, and desired extent of the energy transition.

According to the interviewees, there is a broad consensus that the energy transition should happen. However, there is less consensus on how it should be achieved. Groups differ in their opinions on the timing of the coal phase-out and which coal plants should be shut down and when. The same goes for how to phase in renewable energy sources: There are also differing opinions as to whether the electricity sector should be privatized, and, if so, to what degree and under what conditions.

Using donor funds for grid infrastructure of decentralized renewable energy sources, for example, has an impact on the extent and form of privatization of the energy sector. However, this gives the IPG a political role, which is controversial in South Africa: The South African Department of Energy is against international actors as participants in national policy processes, while the Department of Environmental Affairs and the Presidential Climate Committee is more open to it. However, the supporters acknowledge possible downsides: donor-driven policy ideas, for example on the choice of policy instruments; paradigmatic ideas like the privatization versus the public steering of the energy sector; and stifling reporting obligations.

In addition, agreements at the intergovernmental level are not necessarily supported at the implementation level. In the case of South Africa, the emphasis on climate and development-related motives at the political level has enabled intergovernmental agreements to be reached in support of an energy transition (Table 1). However, at the working level of both the implementing organizations and their South African counterparts, the objectives and content of the JETP are still highly contested.

The necessary mutual trust of JETP parties is missing in South Africa

An important factor for successful development policy cooperation is mutual trust. In the case of South Africa, the JETP process has shown that this is still lacking. For example, South African stakeholders request that donors first disclose the financing types, modalities, and instruments before discussing the actual investment plan. South African stakeholders are unsure about the strings attached to finance: Will non-concessional finance lead to new indebtedness? Will there be new and additional finance after all, or will funds that were previously allocated for other purposes just be relabeled as JETP funding? Furthermore, South African stakeholders remain uncertain about the donors' true agenda: Are they trying to find inroads into domestic (electricity) markets to advance foreign direct investment by pushing for privatization?

The donors, on the other hand, request disclosure of the investment and policy reforms plan before discussing the type of financing, as doubts remain that the South African side will implement the 2021 JETP Declaration. The donors

must show accountability, such as in the form of reporting obligations or domestic audits, as there are also concerns that the energy transition could be at risk due to social upheaval as well as concerns about transferred funds being misused. It is noticeable that the South African interviewees and those from the international community perceive the negotiation process differently. Differences include donors allegedly not wanting to fund social justice aspects of the JETP but rather focusing their interest on potential investment projects, such as power generating projects. Furthermore, donors wish for the energy transition to be ambitious and transformative, meaning it may well extend into political decision-making levels. They also claim that the draft investment plan draws too much on existing plans and programs.

Trust issues are not personal, but rather institutional and are, for example, due to different working methods or a different understanding of how the respective organizations cooperate. Possible solutions include, on the one hand, greater transparency about what donors can provide and under what conditions. On the other hand, it should help establish mutual trust if South African partners were to state the risks, threats, and opportunities of the JETP more frequently and more clearly to international donors. Regular and continuous communication between the parties were viewed as an important tool in this regard.

Financing modalities have a fundamental influence on the success of JETPs

Donors and recipients have differing views on the effectiveness, use, and possible side effects of the conditionality of financing. “South African stakeholders want as little conditionalities as possible, and as much grant finance as possible. The donors want it the other way around, including that the JETP be as ambitious as possible.”⁸ Conditionality refers to the strings attached to international finance provided by donors, meaning the types of activities that the finance can be spent on, what objectives it should have, and which indicator achievements it should target.⁹

However, even among donors there are differing opinions. While they agree on the conditionality of financing, they do not agree on its stringency. Stronger conditionality is often considered to have a greater leverage effect for an effective transition. Yet there are doubts about this effect, mainly because the 8.5 billion in funding provided is simply too low to achieve such an effect, especially compared to the estimated needs (Table 2).

Past experiences show that conditionality of finance instruments is successful when there is shared responsibility.¹⁰ Conditionality of climate finance is fundamentally different

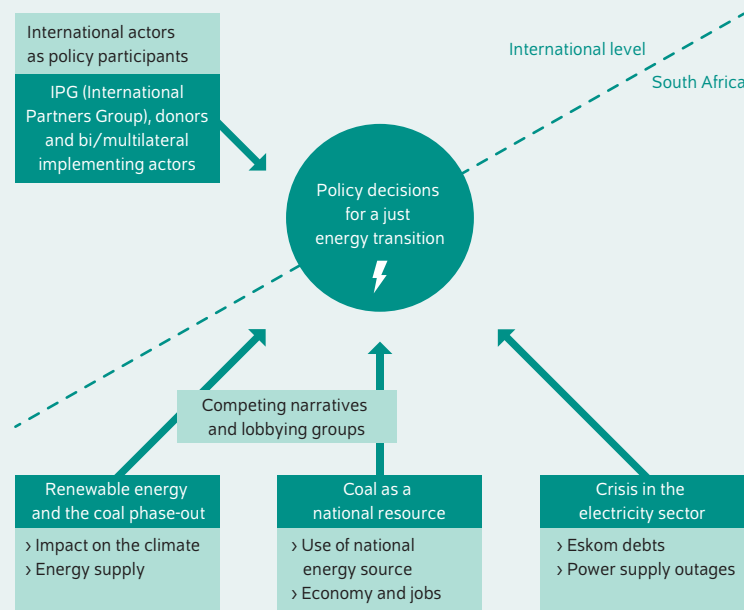
⁸ DIW Berlin survey.

⁹ World Bank, *Review of World Bank conditionality* (2005) (available online).

¹⁰ World Bank, *Review of World Bank conditionality*; Maïke Sippel and Karsten Neuhoff, “A history of conditionality: lessons for international cooperation on climate policy,” *Climate Policy* 9, no. 5 (2009): 481-494 (available online).

Figure 1

Partnership (JETP) as a transnational policy process in South Africa



Source: Authors' depiction.

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This complex political process influences both the partnership as well as the decisions on the just energy transition resulting from it.

to past lending operations such as structural adjustment programs by the World Bank and the International Monetary Fund. There are no longer international financial institutions superimposing a foreign economic paradigm on a developing economy in dire need of finance. Recipient countries are able to choose climate policies at their own discretion.

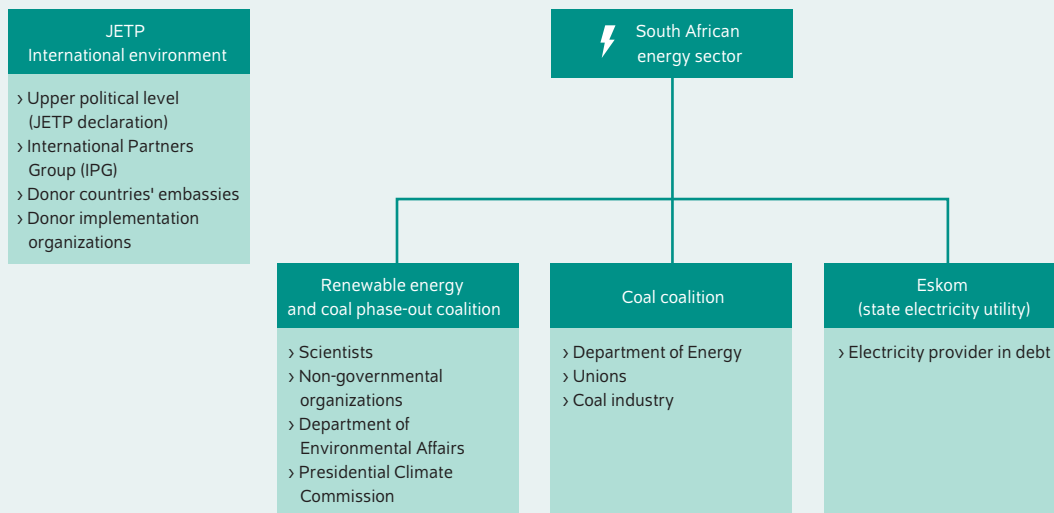
In South Africa, the precarious debt situation of Eskom calls this principle into question. The interviews indicate that the need for financing is related to the fear that the IPG could exploit the situation and push into the South African energy sector with direct investments.

While the interviews “only” reflect subjective opinions, they nevertheless influence the policy process. One problem is that the donors have not clearly refuted these claims until now, but have pointed out that everyone has their own interests. They also lack a deep understanding of the situation in South Africa and the history of colonialism in the country.

A just transition process is likely not going to be linear or something that can be planned completely because decisions over the course of action are the result of political discourse, negotiation, and deliberation. The overall question is: Can conditionality, when agreed upon prior to commencing a just energy transition process, anticipate future decisions over the course of action? Given that policy decisions

Figure 2

South African JETP participants



Source: Authors' depiction.

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There are both national and international participants in the South African JETP.

about the course of action in the energy sector are not yet taken, alternatives to conditionality might be recommended. Such alternatives need to be flexible to remain close to the course of political action. For example, they could be defined throughout a policy negotiation process in which the main objectives and milestones of the energy transition are agreed upon. Above all, they require that international actors from donors and related agencies are acknowledged as actors participating in a policy process.

Conditionality of finance instruments is not a very useful approach in a highly dynamic policy process with uncertain outcomes, as it presupposes that financial contributions would influence political decision making. This is not to say that conditionality cannot work in all circumstances, as demonstrated, for example, by the accession of Eastern European states to the European Union. Here, a common political objective and a set of shared norms and values led to mutual obligations being upheld.¹¹ However, this requires a certain degree of international institutional framework, which has not yet been developed for the JETP.

To reach agreements on cooperation rules that can be applied in decision-making processes such as the JETP, the intended cooperation should be politically institutionalized,¹² mean-

ing that “rules of the game” for all actors’ behavior should be developed and codified.¹³

The institutions, which span across the Global North and South, are notoriously weak in terms of providing frameworks for rules on joint decision making by different countries.¹⁴ Multilateral agreements like the Paris Agreement are based on voluntary contributions and are very decentralized. Other institutions such as the World Trade Organization have conflict resolution mandates, but they are highly specific to their field.

A better way: equal partnerships instead of conditionality

Strengthening the partnership in the energy sector transition in the JETPs could be promising. There are two important reasons for this. First, the connection between international involvement and national implementation in the energy sector transition was a consistent theme throughout the expert interviews. Second, reciprocity is more appropriate to the international dimensions of such a transition. It is not only about the greenhouse gas emissions produced by a country, but also about the trading of energy sources such as coal and green hydrogen. In the interviews, South African stakeholders repeatedly questioned how a donor country can demand an ambitious energy and climate policy from an emerging economy in return for financial support if the

¹¹ Aleksandra Novikova, *Lessons learned for international climate policy from the programming, implementation, and monitoring of the European Structural and Investment Funds in EU Member States – IKEM* (2020) (available online).

¹² Elinor Ostrom, “Background on the Institutional Analysis and Development Framework,” *Policy Studies Journal* 39, no. 1 (2011): 7–27 (available online).

¹³ Mehran Kamrava, *Understanding comparative politics: a framework for analysis* (Routledge: 2008).

¹⁴ Sippel and Neuhoff, “A history of conditionality.”

donor country cannot meet its own targets in these areas. In part, EU policies were even perceived as increasingly less ambitious, such as the decision to classify gas as sustainable in the EU taxonomy or purchases of fossil fuels on the African continent. This one-sidedness could be overcome through a mutual evaluation process, for example along the lines of the OECD policy peer review process.¹⁵

Conclusion: JETP – an international partnership with a high need for institutionalization

The JETP will have effects on the entire South African energy sector in addition to social and climate-related consequences for the whole country. Marginal change is not sufficient for such a transition; rather, what is needed is a fundamental process of change that accounts for the scope and speed of the energy transition, principled decisions about the role of the private sector, and shifts in the income structure and employment of the affected population. To this end, international cooperation approaches should be reimaged.

The case of the South African JETP shows that such transitions are complex public processes involving a range of actors. Moreover, they are non-linear processes in the sense of uncertainty of political outcomes. The highly polarized and fragmented political process of the just energy transition also questions two core principles of development aid, i.e., country ownership and the alignment of donor and recipient mechanisms. This is because the ownership of the JETP is currently with only a fraction of the groups that are engaged in the political process.

In light of the historical circumstances, the question of what role international participants play in national political processes must be clarified. The more important this role is,

¹⁵ Fabricio Pagani, "Peer review as a tool for co-operation and change – an analysis of an OECD working method," *African Security Review* 11, no. 4 (2022): 15-24 (available online).

Table 2

Interpretations of conditionality of international financing instruments in the South African JETP

Interpretation of conditionality of financing instruments	Explanation
1. "A new form of colonialism is sneaking in through the back door"	Conditionality as a tool to force foreign (climate) agendas on the Global South.
2. "We aren't living in the 80s"	Unlike in past decades, South Africa determines the type of conditionalities, as the country is now negotiating from a stronger position.
3. "Conditionality simply doesn't work"	Conditionality produces almost no undesired side effects, but is also basically ineffective in terms of positive effects.

Source: DIW Berlin expert survey.

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the more important it is to create an institutional framework for cooperation. Rules for decision-making within the JETP should be established in this regard not as a sole responsibility of the donors, but also of recipient countries such as South Africa in the larger context of the just energy transition.

To this end, alternatives to conditionality-based finance instruments should be explored, among others. These instruments are proving to be less effective given the political nature of the JETP and the unfinished and uncertain decision-making processes at the time the JETP was signed. In addition to financial support, more flexible approaches to supporting governmental or non-governmental policy advice, media campaigns, and academia may be useful. A possible decoupling of financial contributions (once policy decisions allow for the allocation of such funds) and support for policy processes may be conducive to effective JETP support. However, changes to the current framework for action are likely to be hampered by widespread fears of foreign interference and neocolonialism. In any case, it is important to reach a general agreement on policy objectives, norms, and values between donors and recipients of funding and to use this as a framework for effective implementation.

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