

# Business

## ‘SA on a path to unjust transition’

The country needs a greener economy but energy specialists say policymakers must ensure a fairer economy in the process

Sarah Smit

South Africa might have finally taken a positive turn in its prospects for new investments, which have been on the decline for about the past decade, recent data has shown that.

The data, compiled by Nedbank, forecasts that fixed investments will expand by 3.5% in 2022, better than the 0.2% recorded last year. Nedbank’s economists — although cautious, considering significant downside risks — expect a gradual improvement in fixed investments over the next five years.

Investments in energy and water infrastructure are partly to thank for the upswing in capital expenditure, with projects worth R152-billion. Nedbank foresees “a flurry” of new projects announced in the renewable energy sector towards the end of this year, as the government’s most recent bid to procure new energy comes to a close.

The coming wave of new renewable projects are the green shoots of South Africa’s energy transition, which holds the promise of more jobs and more spirited economic growth. Better economic and environmental conditions will inevitably have positive spin-offs for South Africa’s poorest households.

But South Africa’s green energy plans do not guarantee inclusive growth and, energy specialists say, a more progressive transition could be just what the country needs to solve its glaring inequality problem.

### Upsides

Last month, President Cyril Ramaphosa said that if all goes to plan, recently announced measures to arrest South Africa’s deepening energy crisis will create the conditions for growth and employment.

The president’s projection of a brighter energy future is cast against a grim backdrop. Before the economy was set on the path to recovery, after Covid-19 inflicted a devastating blow, the country’s GDP endured a decade of declining growth. Below-par growth has gone hand-in-hand with low investment appetite by the private and public sectors.

Unemployment has soared. Between the last quarter of 2008 and the last quarter of 2021, the number of South Africans without jobs almost doubled from four million to 7.9-million. The real unemployment rate is 45.5%.

Plans to pour huge amounts of state resources into the transition to renewables have often come attached to the promise that investment into a greener future will also aid the economy.

In response to the 2008 global financial crisis, for example, then United States president Barack Obama signed the American Recovery and Reinvestment Act into

law. The law mandated government spending, tax cuts and loan guarantees to jumpstart the economy. The \$800-billion stimulus package included the single largest investment in clean energy at that point in US history, providing more than \$90-billion in strategic clean energy investments and tax incentives to promote job creation and the deployment of low-carbon technologies.

By the White House’s account, the stimulus was a success, although some have disputed this. A 2016 report found that the recovery Act raised the level of GDP by 2% to 3% from late 2009 through mid-2011. Solar and large wind projects funded through the Act supported an average of 52 000 direct and indirect jobs over that period, the report concluded.

In later years, US policymakers on the left would propose a Green New Deal, a set of social and economic reforms and public works projects similar to former president Franklin D Roosevelt’s response to the great depression of the 1920s and 1930s.

The left’s vision of the Green New Deal — which advocates for a just transition, ensuring environmental sustainability, decent work, social inclusion and poverty eradication — has not yet come to bear. But this week the US senate approved the Inflation Reduction Act, greenlighting another historic clean energy spending programme. The Act also approves a tax hike on corporations.

A recent study by the Political Economy Research Institute at the University of Massachusetts Amherst found that the Inflation Reduction Act could create nine million jobs over the next decade.

The Inflation Reduction Act recognises that there are inevitable economic benefits to the transition.

“There are many upsides to the transition. Of course, economically, it represents a new cycle of investment in new technologies, new businesses, new jobs,” said Gaylor Montmasson-Clair, a senior economist at research institute Trade & Industrial Policy Strategies, a non-profit, economic research institution based in Pretoria.

“That is quite clear. With the transition, you’re looking at an economy that’s a lot more efficient, uses a lot less energy, a lot less resources ... And, of course, the end goal is not GDP growth, the end goal is wellbeing. But if we have a new investment cycle that triggers investment in better jobs, better technologies, better products and better services.”

He said these economic upsides are “the easy end”.

“Because that’s going to happen no matter what. We have had three industrial revolutions ... They will happen no matter what. The challenge is whether we can use that to improve social conditions.”

### A pro-rich transition

Since Ramaphosa announced his plan to solve the country’s energy crisis, a number of organisations have expressed concern that it will entrench inequalities.

The General Industries Workers Union of South Africa, for example, released a statement noting that the

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procurement of additional generating capacity, through independent power producers (IPPs), has resulted in higher electricity tariffs. Eskom has proposed a 38% tariff increase next year.

Imposing more IPPs in the electricity system serves to exacerbate profiteering, according to the union.

Energy economist Lungile Mashele agreed, noting that if South Africa continues on its path towards green energy, the transition stands to create a more unjust society.

According to Mashele, the renewable independent power producer programme benefits international developers and those with deep pockets. “It creates a very wealthy energy elite who don’t act in the best interest of the greater society.”

She noted that the tariff increases linked to renewables and transitioning the energy system are being imposed on the most unequal society in the world with one of the highest unemployment levels.

Montmasson-Clair said that South Africa and the world is on the pathway towards “a very unjust transition”.

“It is effectively a very pro-rich transition that benefits rich countries, rich corporations and rich households. And if we don’t do anything, that is what is going to happen. Of course, there will be some benefits along the way for the broader society. But it is actually likely to deepen inequalities,” he said.

“That is where policy comes in. Public policy is critical to ensuring that investment and the outcomes of the transition benefit everyone.”

### What needs to happen

As Montmasson-Clair pointed out, South Africa has no choice but to

transition for the sake of its economy as well as the wellbeing of its citizens.

South Africa is at a pivotal moment in its transition, he said. “Given where we are — as one of the most carbon intensive economies in the world and we are famously the most unequal economy in the world — we have a starting point that is at a low base ... We have such a difficult starting point that we can really see the opportunities for progress.

“Positive progress comes with decarbonising the economy ... and creating new jobs, many more jobs. That is the challenge of the just transition.”

Energy specialist Clyde Mallinson said a just transition should challenge policymakers to imagine a far fairer society.

One way that the transition could help solve South Africa’s inequality crisis is by using citizen ownership of a new energy fleet to create a basic income grant, he said.

The money generated by a new energy fleet would allow it to pay out a dividend to all those who own a stake in it. Once its owners have paid back what they owe the bank for lending them the money to buy that stake, they will essentially have a basic income grant in the form of renewable energy dividends. “So there is a mechanism hidden within the transition that could allow us to fund a basic income grant in South Africa.”

Stories of what is possible need to be repeated to push the government into action, Mallinson said.

“There needs to be a rallying around using energy and energy provision to create a fundamental transformation of our horrible, unequal social political construct. That is what needs to happen.”

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