U.S. Position on the South Africa - Eskom Investment Support Project and the Country Partnership Strategy Progress Report
4/8/10

The United States recognizes the exceptional nature of the Eskom Investment Support project, which has come to the World Bank as a result of the global financial crisis and would otherwise have been funded privately. The United States also recognizes the extraordinary energy needs faced by South Africa, where the economic recovery could be hampered by periodic blackouts in the absence of new capacity, and a significant portion of the poor still lack access to power. This project has implications for the region's economic growth, stability, and ability to address challenges of health, education, and poverty.

The United States notes South Africa's active participation in the Copenhagen climate negotiations, its subsequent signing onto the Copenhagen Accord, and its efforts to develop a vision for a low carbon development path. South Africa's plan for expanding reliance on renewable energy, its energy efficiency program, its reforms to regulatory and tariff structures, and its plans to shut down inefficient coal power projects as new capacity is added are all commendable.

The Eskom Investment Support Project, however, presents a challenge for the World Bank and for the United States. Providing below-market financing for a 4800 MW coal plant undercuts the World Bank's strategy of helping countries pursue economic growth and poverty reduction in ways that are environmentally sustainable. The World Bank has expressed a clear desire to place global collective action and climate change at the center of its work; however, its support for this project without commensurate support to reduce South Africa's energy-related emissions is difficult to reconcile with the Bank's desire to be a leader in climate change mitigation and adaptation Helping countries define development trajectories consistent with low carbon intensity must become a core part of the Bank's work. We must integrate into all of our work the stark fact that our planet faces severe risks of catastrophic climate change, with the greatest risks to low income countries. Business as usual solutions are no longer acceptable.

In light of the project's substantial greenhouse gas emissions, uncertainty about future mitigation efforts associated with the project and local pollution controls, weaknesses in environmental impact assessments, and procurement deficiencies, the United States wishes to be recorded as abstaining on this project.

The United States recognizes that South Africa's energy strategy , at least in the near term, will include coal for baseload power generation, and that this plant is important for South Africa's economic growth and poverty alleviation efforts. However, the United States has serious concerns that the World Bank is proposing to finance a new coal-fired power project that will be among the largest sources of CO_2 emissions in the world at the same time that the Bank is seeking to take on a central role in the global climate agenda. In addition, the United States has reservations about the inconsistencies with the Bank's Procurement Guidelines, weaknesses in the environmental assessments, and uncertainty about the installation and operation of local pollution controls.

Turning to each of these issues:

First, the asymmetry between the enormous source of emissions from a 4800 MW power plant and 200 MW of renewables cannot be ignored. This asymmetry is why the World Bank' Expert Panel concluded that the project is inconsistent with the spirit of the World Bank's strategic framework for development and climate change, and why we and the Panel recommend that the World Bank and South Africa commit to a transition partnership to reduce overall energy-related emissions. As a demonstration of this commitment, the United States welcomes the South African government's commitment for scaling up renewable energy. The project includes a package of investments for IBRD funding – $260 million for renewable energy investments and $440 million for energy efficiency investments. The United States also welcomes the Clean Technology Fund's proposed co-financing of the renewable energy components. Finally, the United States welcomes the South African government's recent public statement on its commitment to using $1.25 billion of the remaining IBRD resource envelope for emission mitigation, to include carbon capture and storage readiness in the development and design of the Kusile plant, and to consider accelerating the shutdown of inefficient coal facilities in the future.

Second, on procurement, while the United States appreciates that the Bank has secured agreements that all of the contracts it finances will be subject to the Bank's fraud and corruption provisions, there are multiple inconsistencies between Eskom's procurement process and the World Bank Procurement and Consultant Guidelines. The United States urges the World Bank to work with Eskom to improve its international procurement practices, and to ensure that the procurement that has yet to take place on this project, and on any subsequent World Bank-financed project, fully conforms to the World Bank's Procurement and Consultant Guidelines.

Third, we believe that the project's environmental impact assessment (EIA) is deficient. The EIA should have assessed two key associated facilities that are needed for the project to operate: (1) the planned construction of a water transfer system needed to supply half of the water needs for the power plant (Crocodile West Transfer Water Scheme), and (2) the expansion of the Grootegeluk coal mine being used to supply the Medupi power plant. Because these facilities are essential for the project to operate and they will have significant environmental impacts, they should have been subject to a full environmental impact assessment and included in the World Bank's posted environmental assessments. In addition, the cumulative impact assessment is weak because it does not appear to cover all of the planned developments in the area.

Fourth, the United States is concerned about the adequacy of efforts to mitigate local air pollution and water scarcity issues. We hope that the operation of environmental controls for Medupi will be clarified, and that the Bank will provide assistance as needed to reduce local pollutants and carbon emissions from other plants.

In closing, the United States wishes to make it clear that, despite its abstention on the overall Eskom operation as it has been packaged for the Board, the United States welcomes its renewable energy and efficiency components. The United States also expects that the World Bank will adhere to both the letter and spirit of its development and climate change strategic framework in the future. Finally, the United States expects that the World Bank will not bring forward any other new coal-fired power projects that: (a) fail to provide more evidence of serious upstream engagement by the Bank to find alternatives, or (b) in middle income countries, are not accompanied by actions that, in the aggregate, when implemented will offset the plants' emissions. In addition, the United States sincerely hopes to see a growing pipeline of clean energy investments throughout sub-Saharan Africa.