Annex two: STATEMENT FROM SA AND AFRICA CIVIL SOCIETY ON ESKOM'S PROPOSED $3.75 BILLION WORLD BANK LOAN

Should the World Bank grant a $3.75 billion (R28.125 bn) loan to Eskom when the Bank Board meets on March 24? *No.* We South African and African organisations which for years have advocated social and environmental justice here and abroad, oppose Eskom's proposed Bank loan – and indeed its new construction programme more generally, for several reasons.

1) A bad project, contributing to energy poverty and environmental destruction. This particular project is fatally flawed, on grounds that Eskom's strategy is:

- based primarily on large coal-fired stations (followed by nuclear) and as many as 40 new coal mines, which will add to South Africa's already extremely high carbon intensity, as well as the air pollution and degradation of scarce water resources;
- designed to continue supplying the world's cheapest electricity mainly to large energy-intensive industries, including steel and aluminium, whose corporations are headquartered abroad (hence contributing to the profits outflow on South Africa's balance of payments);
- to be mainly paid for by unaffordable tariff increases imposed on ordinary South Africans, while the beneficiaries – the largest industrial consumers - are exempt from price rises because of multi-decade special purchase agreements offered to them during apartheid and in the 1990's; and as a result,
- unable to alleviate 'energy poverty', but instead entrenches suffering by imposing 'cost recovery' on people who cannot afford it, with Eskom already admitting a 'typical township household' will face a 2009-2012 monthly price rise from R360 ($48) to R1000 ($130).

2) Inappropriate financing. We therefore oppose all funding, foreign and local, for Eskom's coal/nuclear expansion plans. Were Eskom to engage in a reasonable energy policy based on demand management, with supply shifting to renewable, and the expansion of Free Basic Electricity beyond the current tokenism as well as connections to urban shackdwellers and the rural poor, that would be worthy of support. As for green energy investments that are not import-intensive, local financing would be more appropriate than a World Bank loan - and is readily available, including through state debt and halting subidised electricity contracts to multinationals. The financial danger of a World Bank loan is that the SA currency will crash (as it has five times since 1996), hence making repayment much more expensive (since the loans are not repaid in rand but in dollars), hence adding to the extreme cost burden poor South Africans will face.

3) Eskom's special responsibility to Africa. We must not forget that South Africa consumes more than its fair share of Africa's environmental space for development (more than 40% of CO_2 emissions from just 6% of Africans), mainly because of Eskom, Sasol and other large corporations which emit the vast bulk of greenhouse gases. The World Bank loan will sink Eskom – and South Africa - into not only financial debt to the West, but much deeper 'Climate Debt' to Africa. African civil society unites with SA critics of Eskom's irresponsible climate-denialist projects.

4) The World Bank's special responsibility. Specifically, we oppose World Bank funding for Eskom and call on all governments with Bank voting power to oppose the proposed loan on March 24, when the Board meets. The World Bank has still not offered reparations for its 1951-67 apartheid-empowering loans to Eskom, for which only white people received electricity (but the entire society repaid the loans). Further, the Bank has consistently promoted privatisation and/or commercialisation of state utilities and cost-recovery (resulting in disconnections), which together prevent access to electricity by poor South Africans. We call on the Bank's member governments and directors to endorse the recommendations of the 2004 World Bank Extractive Industries Review. The Review found that, aside from climate damage, the Bank's fossil fuel projects had neither the intention nor the effect of alleviating poverty and called for them to be phased out.

5. The US government's special responsibility. We especially call on the US Treasury – which has opposed Bank coal financing in line with a recent 'Guidance Note' – to veto the proposed loan, and to also halt US government subsidies to the coal industry so as to avoid the legitimate charge against Washington of hypocrisy. We are delighted about three processes internal to the US, which are a model for our own work in South Africa: Sierra Club legal action has prevented new coal-fired plants from being built; courageous activists in West Virginia are engaged in direct action to halt 'mountaintop coal removals'; and the US Environmental Protection Agency adopted December 2009 provisions to implement its 'endangerment finding' that carbon from coal is a pollutant and must be directly regulated. What must be avoided is the US imposing responsibility for carbon cuts on the South, but without providing funding or technology support for renewable energies as part of the 'Climate Debt' that the US owes for taking up so much environmental space. World Bank Executive Directors representing the South have responded to the US Guidance Note making several of these points, and they oppose the use of the Bank as an instrument of US power. This is a fair point, and a long-standing grievance we all share, given Washington's extremely destructive role at the Bank and in the world economy.

Nevertheless, the dissident Executive Directors' response supports further Bank funding for fossil energy and specifically coal-fired power stations, justifying coal as necessary for poverty alleviation and economic growth in developing countries. In reality, economic growth has been accompanied by growing inequality in South Africa and many other countries that suffer 'resource curse'. The poor are mostly left worse off than before. Even where their income improves by conventional measures, the gains are lost to services cost recovery (and disconnections), to health costs imposed by pollution, to the loss of nonrenewable resources, to water/land theft associated with coal-fired power, and to the increased cost of access to amenities previously provided as public goods. In addition, it is common cause that the poor are most vulnerable to climate change. In many countries, they are already feeling the costs in intensified droughts and floods and in the loss of land through coastal erosion.

6) Towards the transformation of energy, production and financing. We see renewable energy, not coal-fired power stations, as the optimal development path for Southern economies, creating more jobs, building local manufacturing capacity, and avoiding the environmental mistakes of Northern countries. As in South Africa, most World Bank coal power projects are designed to supply industry, not people. They do not necessarily increase per capita access to energy. The industries in turn are mostly geared for export in line with the World Bank's promotion of export oriented production. The goods are then consumed primarily in developed countries. Further, many industries are established with foreign direct investments. In the process, much of the heavy industry in developed countries has relocated to developing countries in search of cheaper energy and cheaper labour. Yet because their headquarters are in London, Melbourne, New York, Toronto, Zurich and other offshore sites, a substantial portion of profits is returned to rich countries, exacerbating the poor countries' balance of payments deficit. Because South Africa's payments deficit is so extreme, due to the outflow of profits and dividends to foreign corporations which benefit from the world's cheapest electricity, *The Economist* magazine judged the country as the world's riskiest emerging market (24 February 2009).

7) The demand side management alternative. Instead of expanding its coal/nuclear facilities, Eskom should engage in serious demand side management, beginning by phasing out electricity to smelters that have little linkage with the South African economy and that are capital- rather than jobs-intensive. Concrete plans should be made for a 'just transition', so as to provide alternative, well-paid 'green jobs' – e.g. in subsidised thermal-solar geysers for every house – to those workers who are employed at the smelters. At the same time, the special purchase agreements should be disclosed to the public and opened for renegotiation. The freed up energy should be redistributed to provide for a much larger 'lifeline' supply of universal Free Basic Electricity – with a rising block tariff to encourage conservation to improve spinning margins which will buy time for a switch into renewable energy technologies. By not expanding its coal/nuclear facilities and instead redistributing the electricity capacity it has, and by simultaneously switching to renewable sources, Eskom can survive this crisis. But it can only do so if it is not in the clutches of the world's leading financier of climate destruction, the World Bank.