TAKING THE JETP PATH: PUSHING FOR CHANGE

Strategic Reflections from the JETP Learning and Knowledge Exchange Summit

Hosted in September 2022

Co-hosts:

PRESIDENTIAL CLIMATE COMMISSION
TOWARDS A JUST TRANSITION

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This report draws extensively on the presentations, discussions and questions that were shared at the JETP Learning and Knowledge Sharing sessions co-hosted by the African Climate Foundation, Presidential Climate Finance Task Team and Presidential Climate Commission held on 8 and 29 September 2022, in Cape Town, South Africa.

The host organisations would like to extend their sincere gratitude to those who participated, and to the partners and funders that sponsored the event, specifically the ClimateWorks Foundation, Bezos Earth Fund, Global Energy Alliance for People and Planet, and Bloomberg Philanthropies.

Thanks to the excellent panellists and presenters for their time and willingness to share their vast experience, as well as all the many people who contributed to the event's success.

Disclaimer: Please note that this report captures conversations and reflections made during the Learning Exchange in September 2022. The event organisers recognise that a number of developments have taken place since the event, which may not be reflected in this report.

KEY MESSAGES

Context

- Dynamics in the global political economy have reconfigured supply chains, geopolitical relationships, and driven short-term energy price spikes and a focus on energy security. Concerns about energy security in the Global North have seen both a ramp up in renewables as well as an interest in gas supply from new country partners and, in some instances, a return to certain coal-fired energy plants, albeit likely only in the short term.
- For the Global South, the hope of economic recovery from the downturn resulting from COVID-19 and now exacerbated by the war in Ukraine is also challenged by high and unsustainable debt levels. This limits the fiscal resources available for climate action and other development priorities.
- Global climate finance commitments have not been met nor is adaptation finance anywhere near sufficient. Loss and damage financing is also not yet secured. Just Energy Transition Partnership (JETP) finance needs to be understood in this broader context of a shifting landscape of insufficient climate finance and reparations. Outside of multilateral structures, JETPs may result in the unlocking of some short-term finance at a country level against a clear plan.

Where does a just transition begin and end?

- Energy transitions will fundamentally be reconfiguring a country's development path with major impacts on workers and communities in terms of employment, skills and opportunities, both in sectors that are declining and in those that will grow.
- A just transition covers more than just energy, but the energy transition is the cutting edge where impacts will be felt earliest and most acutely.
- Countries have different approaches in terms of the pact of their transitions, priority decarbonisation sectors and energy mix, but they are unified around the need to address both climate and development issues in an integrated way, and, in the energy sector, to focus on energy access and security at the same time as decarbonisation. Different JETP paths are likely.
- A just transition requires inclusivity and participation to be placed at the heart of the growth and development model. Just transition concerns are, however, open to interpretation at a country level.
- A broad just transition will last into the long term as the economy and society transition towards a less carbon-intensive, more equitable and inclusive development path.

Country architecture

- A cross-cutting and widely representative institution, with high-level political support, can **coordinate the many actors and inputs** required to determine the design of a country-wide just transition approach or framework. In South Africa's case, the Just Transition Framework, prepared by the Presidential Climate Commission, is a specific piece of policy designed to support discussions and broad-based consultation. It assists the JETP process by distilling the requirements, concepts and areas of action for a just transition.
- A national just transition should link together a country's Nationally Determined Contribution (NDC), which is country owned and led, with sector, skills and infrastructure plans. NDCs should set the context for the investment required to achieve them and the climate finance that can be mobilised through JETPs.
- Just transitions are not a policymaking process; they need to be **built upon existing policies, legislation and plans**.
- Research and data can deliver an empirical body of evidence to drive ambitions and build, in principle, shared carbon and justice ambitions among diverse stakeholder groups. Data and models are critical to building an understanding of where investments are required, including at the sectoral and local levels, where this level of detail seldom exists.

Finance

- The cost of capital must be reduced and should be substantially cheaper than what is available on bond and capital markets.
- Fiscal frameworks need to price in the cost of carbon.
- The private sector will need to provide much of the JETP funding – this requires that different pockets of private finance are unlocked, including the passive investor community.
- Financial innovation exists but requires more policy coherence and models for bankability to be scaled.
- The architecture of multilateral finance and multilateral development banks (MDBs) must be reformed. In addition to addressing the cost of capital, project preparation funds must become far more accessible.
- Conceptual clarity is required on the location of just transition funding in the global context of green and climate finance.
- It is important to be clear on inclusions and exclusions in a JETP, as well as monitoring and evaluation metrics, in order to ensure that funds are used in the manner for which they are intended and that greenwashing is avoided.

South Africa's JETP IP

- South Africa's JETP has seen the country engage in the negotiation of how USD8.5 billion with an International Partners Group will be invested in the country's just transition, raising important questions about purpose, quantity and quality of the finance. South Africa has focused on preparing a detailed Investment Plan (IP). The preparation of the plan has also demonstrated the importance of the need for participation and socialisation in the process of preparing the IP.
- Prioritisation within the current draft IP has been partly determined by projects that are better scoped and costed/at design stage. The project pipeline needs to be developed.
- Research and data are critically important and funding should be made available to scope all the elements of a just transition.
- The cost of the IP to 2027 is ten times more than the IPG commitments, and this is not the full cost of the transition to 2050. This indicates the enormous scale and investment needed.
- The IPG's offer of funding is largely concessional finance and risk mechanisms, with grants only a small share. This raises questions about how advantageous the terms of the funding are overall.

Problematising capabilities

- The country institutions that lead, negotiate and structure finance for JETPs are not necessarily the right structures for implementation, which needs to be separately geared up. The structure of the state needs to be 'fit for purpose' to implement the JETP.
- Subnational levels of government are going to be critical to the just transition but need mandates, funding and capabilities to play this role in a coordinated manner.
- Lessons should be learned from historical challenges to infrastructure project design and delivery.
- Community engagement methods and processes need to be fair to communities and not create expectations for change where no power or mandate exists to enable these changes.

Roles for philanthropies

Philanthropies have a critical role in supporting the enabling 'soft infrastructure' of institutional capacity, social inclusion and research and data.

Subnational structures and regions, including local governments, require specific support and some coordination. This support must be focused on economic development, including decommissioning and repurposing, and SMME (small, micro and medium enterprises) support funds, or similar.

Philanthropies already play and should continue to play a role in supporting community and civil society actors in their engagements in and responses to the JETP, and the overall just transition plan. This includes support to workers' organisations.

Data and modelling are critical to building the empirical basis for decision-making and investments. Significantly more work is required here, including the establishment of 'proof points' for new ownership models, approaches, technologies, benefit-sharing and implementation programmes.

Given the scale of the funding gap and the difficulty in accessing highly concessional finance, philanthropies could play a role in de-risking certain parts of just transitions through financial instruments, guarantees or in other ways.

Philanthropies should consider how best to organise and coordinate their responses to JETPs both within regions and more generally.

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1. INTRODUCTION

At COP26 in November 2021 in Glasgow, an international Just Energy Transition Partnership (JETP) was announced between South Africa, and the European Union, France, Germany, the UK and the USA (collectively referred to as the International Partners Group, or the IPG). This committed US$8.5 billion to fund 'a just transition to a low carbon, climate-resilient society that promotes employment and livelihoods'.[1] Hailed as one of the highlights of the conference and an important development to drive climate action linked to justice, the announcement set the scene for other countries to follow suit and structure their own just transition partnerships. Several countries have since announced their own processes. They include Indonesia, India, Senegal, Nigeria and Vietnam.

JETPs are a new approach to linking concessional finance from the Global North to support country transitions in the Global South. Strongly associated with coal phase-out, and the expansion of renewable energy, they also include support for affected workers and communities. In South Africa's case, funding will be provided on the basis of a country JET Investment Plan (IP) which will guide the allocation of the finance.

As different JETPs are happening concurrently, and so too are the negotiations with international partners, lessons need to be shared to support these country-led processes. In order to assist with this knowledge exchange, a closed-door conference, hosted by the African Climate Foundation (ACF) together with South Africa's Presidential Climate Commission (PCC) and Presidential Climate Finance Task Team (PCFTT), was held on 27 and 28 September 2022 in Cape Town. It brought together close to 100 representatives from 12 countries and 17 philanthropies.

While much of the focus was on South Africa's experience, other countries currently negotiating JETPs provided inputs and shared their ambitions and challenges. Panels included representatives from Indonesia, India, Senegal, the UK, the Philippines and Nigeria. Delegates were also drawn from Vietnam, the USA, Brazil and other countries. Topics ranged from the nature of just transitions in the Global South and how to enable them; to financing and technical aspects of JETPs; strengthening governance and operationalising JETPs; how to support the enabling socio-economic investments in coal-mining areas, as well as lessons from South Africa's case for the international community.

This report captures several key learnings from the event to support further knowledge-sharing. It also indicates areas where more engagement is required, and gaps and opportunities exist.

The report is structured in the following way: after setting the global scene to explain the recent emergence of JETPs, the concept of a just transition is considered, as is the role of country contexts in determining this. Specific issues are then explored: the country architecture (including policy and institutional context) to support JETPs; funding gaps and opportunities for JETPs; and the specific design of, and challenges to, South Africa's IP for the JETP. As the IP has since been released, details of this are also included (at a high level). The capabilities necessary for a JETP are then considered, particularly in terms of implementation requirements, and a number of areas are identified for the possible involvement of philanthropic investments to support JETPs. The conclusion highlights several strategic issues and opportunities.

1 European Commission, 2021, https://ec.europa.eu/commission/presscorner/detail/en/IP_21_5768

2. CONTEXT

Different countries around the world have differing energy ambitions: some are looking to decarbonise, while others are focused on rapidly expanding their energy infrastructure to increase access. The technology choices made by countries that seek to expand energy generation to create access will depend on the global context, energy security considerations and the financial flows available to them. For these countries, this will in turn determine the design, support and buy-in for their JETPs, as well as if JETPs ultimately achieve the impacts they seek to.

Senegal's JETP context

In Senegal, country priorities are energy access and resilience to climate change. Currently, only 42% of rural residents have access to energy and energy sources are dominated by biomass, particularly firewood and charcoal.

Senegal has many solar and wind plants (and 30% of the grid-supported energy is currently renewable): they had already achieved their 2030 ambitions by 2020. The current focus is on clean cooking stoves for households and plans are to distribute more than eight million cooking stoves in order to try to improve energy efficiency.

There is a major challenge with deforestation and the need to develop other technical approaches to agriculture, as well as to biogas. Currently, most agriculture is rainfed. The price of energy is a barrier and is higher in rural than in urban areas as there is no harmonised pricing. With more affordable energy, pastoralists could use solar pumping for their cattle. An estimated US$30 billion is needed to fund the country's Nationally Determined Contribution (NDC) commitments.

Source: Inputs made at the JETP Learning and Knowledge Exchange Summit, Cape Town, September 2022

The global climate, food, fuel and fiscal crisis

Current efforts are insufficient to limit global temperature rise to 1.5 degrees Celsius by the end of the century. At the same time, in much of the Global South, countries are still recovering from the impacts of COVID-19 on their economies, with high and unsustainable levels of indebtedness. In fact, one-third of African countries are at risk of a debt crisis.[2] The increasing costs of servicing debt, with declining government revenues, also threaten government spending on climate mitigation and adaptation.[3] It is these same countries that disproportionately bear the brunt of the climate crisis. Some estimates show African countries potentially losing 5% to 15% of GDP per annum by 2030 based on an increase in temperature of 2 degrees.[4] This is despite being responsible for only 3.8% of global emissions.

Against this backdrop, Russia's war in Ukraine has driven up global food and fuel prices, further exacerbating the situation in many parts of the Global South. Supply delays and disruptions are also resulting in fuel shortages which threaten energy security. This has seen several countries in the Global North scramble for new gas. Furthermore, the onshoring of manufacturing may increase in response to security risks and supply chain challenges, as well as carbon border adjustments. While this global economic structural transformation could end up simply replicating existing economic asymmetries around the globe, it could also provide an opportunity to redesign the international multilateral system.

Multilateralism and JETPs

JETPs sit outside the existing multilateral structures. They create a separate mechanism between a select group of Global North countries – such as, in South Africa's case, the IPG – and 'recipient' middle- and low-income countries, to drive energy transitions. This special design affords them some flexibility bu t challenges a coordinated approach and response

2 South African Institute of International Affairs, The road to COP 27: Africa's adaptation finance agenda, 11 August 2022, https://saiia.org.za/research/the-road-to-cop-27-africas-adaptation-finance-agenda/

3 UN Environment Programme, Adaptation Gap Report 2021, 1 November 2021, https://www.unep.org/resources/adaptation-gap-report-2021

4 Madeline Diouf Sarr, At COP 27, support poorest for climate loss and damage, Nature, 1 November 2022, https://www.nature.com/articles/d41586-022-03474-1

from the Global South: country-specific JETPs are negotiated independently of one another. They also do not explicitly consider regional contexts or agreements. The implication here is that the JETP approach will vary across countries, as no 'negotiating framework' or similar set of negotiating rules exist which applies across the board. From a development perspective, it will be important that recipient countries are able to negotiate the best terms and conditions to support their country's development path.

Furthermore, China is not yet a party to these agreements although it plays a massive role in infrastructure finance, including energy project finance, in the Global South. For example, between 2007 and 2020, China's two main overseas development banks invested US$23 billion in African infrastructure projects. This was more than the next biggest eight funders combined.[5] Although JETPs may be conceived and launched with an IPG type of relationship, part of their success and sustainability will rely on subsequent 'crowding in' of additional sources of finance, and partners.

Funding needs and gaps

The US$100 billion annual climate finance mobilisation goal for 2020 has not been met and the UN Environment Programme's (UNEP) recent Adaptation Gap report[6] estimates between US$140 billion and US$300 billion is needed each year until 2030 to fund adaptation in the Global South. This will steeply increase from 2030.[7]

Global debate is also focusing on the need for a separate financing facility for the costs of loss and damage. This financing is required from the Global North for it to pay for climate impacts and fund disaster risk management, adaptation and resilience-building in the Global South. After many years of delays, it is hoped that COP27 will result in formal commitments to a loss and damage facility. An estimated US$290 billion to US$580 billion per year will be needed by 2030. Within this global landscape of climate finance, JET finance represents a major opportunity to get the Global North to pay for the cost of energy (and broader development) transitions in the Global South. It has moved the carbon debate to one that also addresses inequality and inclusivity.

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- Dynamics in the global political economy have reconfigured supply chains, geopolitical relationships and driven short-term energy price spikes and a focus on energy security. Concerns about energy security in the Global North have seen both a ramp up in renewables as well as an interest in gas supply from new country partners and, in some instances, a return to certain coal-fired energy plants, albeit likely only in the short term.
- For the Global South, an economic recovery from the downturn resulting from COVID-19 and now exacerbated by the war in Ukraine is challenged by high and unsustainable debt levels. This limits the fiscal resources available for climate action and other development priorities.
- Global climate finance commitments have not been met nor is adaptation finance anywhere near to sufficient. Loss and damage financing is also not yet secured. JETP finance needs to be understood in this broader context of a shifting landscape of insufficient climate finance and reparations. Outside of multilateral structures, JETPs may result in the unlocking of some short-term finance at a country level against a clear plan.

5 Tim McDonnell, China has invested more in Africa than the other top eight lenders combined, Quartz, 10 February 2022, https://qz.com/africa/2125769/china-has-invested-23-billion-in-africas-infrastructure#:~:text=China%20has%20invested%20%2423%20billion%20in%20Africa's%20infrastructure

6 UNEP, Adaptation Gap Report 2022, 1 November 2022, https://www.unep.org/resources/adaptation-gap-report-2022

7 Madeline Diouf Sarr, At COP 27, support poorest for climate loss and damage, Nature, 1 November 2022, https://www.nature.com/articles/d41586-022-03474-1

3. WHERE DOES A JUST TRANSITION BEGIN AND END, AND WHERE DOES THE PARTNERSHIP COME IN?

Introduction

A JETP is a country platform that seeks to coordinate various actors and sources of finance towards a specific goal, in this case, an energy transition that is just. Country platforms, more generally, are designed to facilitate various types of finance being brought together to resolve a country's specific challenge. For JETPs, a recipient country commits to pursuing a particular climate-positive development course in return for concessional finance. This finance is to cover, partly or in full, the cost of this changed path.

The advantage of a country platform is that it can coordinate funders and funding to respond to an investment and development plan, designed and owned by the recipient country. It provides a mechanism to translate NDC ambitions into concrete investment pathways where climate finance plays a catalytic role, and without which the pace of change would be much slower.

By connecting a climate ambition with the investment needs of national economies, a structured, context-specific and resourced approach creates a more manageable process. More importantly, it de-risks economies from stranded asset risks and will ensure the Global South is able to adapt to a world that is rapidly decarbonising.

In South Africa's case, the JETP announced at COP26 commits the IPG to the provision of transition finance to support, amongst other objectives, a coal retirement mechanism. The JETP aims to secure an accelerated, Paris- and NDC-aligned, well-managed, affordable and just energy transition for South Africa's power sector and affected communities. This involves accelerating the phase-down of South Africa's coal fleet and ensuring that adequate support measures are in place through the establishment of a dedicated Just Transition Fund to assist coal-dependent workers and communities through the transition. The signed political declaration sought to enable a partnership based on:

- The accelerated decarbonisation of South Africa's electricity system to achieve the most ambitious target possible within South Africa's NDC;
- A just transition that protected vulnerable workers and communities, especially coal miners, women and youth, affected by the move away from coal;
- South Africa's nationally determined efforts to successfully and sustainably manage Eskom's debt, define the role of the private sector, and create an enabling environment through policy reform in the electricity sector, such as unbundling and improved revenue collection;
- Local value chains (including micro, small and medium enterprises) to benefit from new areas of economic opportunity; and
- Opportunities for technological innovation and private investment to drive the creation of green and quality jobs as part of a prosperous low-emission economy.[8]

If successfully implemented, country platforms in Africa can support just transitions, and deliver and implement ambitious NDCs, through the adoption of financed Paris-aligned decarbonisation pathways.

Reflections

Country-specific contexts

Countries have different approaches in terms of the pact of their transitions, but they are unified around the need to address both climate and development issues in an integrated way. The 'e' in JET stands for 'energy', but how countries own and shape their transition is based on their national vision and context-specific circumstances. These circumstances include but are not limited to fossil fuel production and use in the country as well as its value chains. Other industrial development strategies, the transition risks and requirements for workers and communities are also core to the considerations.

8 Government of South Africa, JET Investment Plan, 2022, https://www.thepresidency.gov.za/content/south-africa's-just-energy-transition-investment-plan-jet-ip-2023-2027

With high energy access gaps, many countries in the Global South will account for much of the *global demand for new energy*. For these countries, their energy transition will be about decarbonising future demand. In a few countries, like South Africa, as is the case in many countries in the Global North, the focus is more on transforming existing energy systems and uses from fossil fuels to renewable sources. In both cases, this requires a massive upscaling of renewables, which in turn relies upon an expansion in the electricity grid and in storage systems.

Within low- and middle-income countries, there are also distinct differences in income levels, endowments, histories and socio-economic characteristics. Adding to broad economic considerations, the political economy of a country will also determine if, how, where and when considerations of justice are included.

For these reasons, there are likely to be *different types of just transitions requiring differently structured JETPs*: ones that phase out fossil fuels; for many emerging countries, finance to leapfrog into decarbonisation; and for some, other forms of JETPs that focus instead on adaptation and resilience.

Indonesia's JETP platform

Indonesia has recently updated its NDC to increase unconditional commitments to 31%, or 917 million tonnes of CO_2. Conditional commitments have also been increased.

The Indonesian country platform for a JETP has also recently been announced and a fund manager appointed under the Ministry of Finance. A new Presidential decree provides political direction to the JET. It includes the energy transition, blended finance, and local content requirements. Indonesia currently has an oversupply of energy.

The country JET platform has three big components:

1. A clean energy facility which involves the early retirement of coal plants. Sixteen coal power plants will be phased out.
2. In line with the 2030 national renewable energy plan, investment in industries powered by renewables (green industries).
3. The opportunity for investment in 'carbon sink' industries – i.e. reforestation.

By 2030, 5.5 gigawatts of coal power plants could be retired at a cost of US$25 billion to US$30 billion. 65% of energy jobs in Indonesia are fossil fuel based and it is expected that 450 000 jobs will be lost in these industries.

Source: Inputs made at the JETP Learning and Knowledge Exchange Summit, Cape Town, September 2022

A just developmental path

In order to be just, the benefits and responsibilities of the transition have to be shared in a fair and equitable manner based on a people-centred approach. The transition should be rooted in the principle of climate justice: this means that for those who have not contributed to climate change, their development prospects should not be impeded, particularly for communities, including future generations, in many countries in the Global South.

To deal with poverty and inequality, just transitions need to be developed as part of a country's long-term development vision, plan and policy. And as each country's context is different, just transitions must be country-led and not determined by international partners' priorities. In South Africa, the context of persistent unemployment and extreme inequality requires a just transition that does not simply reproduce inequality but instead delivers distributional equity.

Different conceptions of justice

'While climate targets are relatively easy to quantify, just transition concerns leave much more room for interpretation. Indeed, although many governments claim to emphasize just transition concerns, each government approaches JETP negotiations with a different conception of justice. These conceptions will affect millions of people in recipient countries and, ultimately, may prove critical to the long-term success of JETP-style agreements.'

Source: Institute for Advanced Sustainability Studies, 2022[9]

Scale of ambition and a long-term roadmap

Given this necessary scale of ambition, a just transition is also likely to require far more than the initial investments allocated by international partners through a JETP. It requires a detailed and thoughtful process to arrive at a transformed economy, and a long-term funding roadmap to get there. In South Africa's case, for example, it is estimated that the initial IPG funding commitments will be allocated in the first five years of the transition, with the IP covering 2023 to 2027. While in reality a just transition is a long-term process, a JETP scenario can kick-start this.

9 Christopher Cassidy, The politics of just transitions: Definitions matter, 1 November 2022, https://www.iass-potsdam.de/en/blog/2022/11/politics-just-transitions-definitions-matter

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4. JETP COUNTRY ARCHITECTURE: INSTITUTIONS, POLICIES, CONSULTATION AND PARTNERSHIPS, RESEARCH AND DATA

Introduction

Although the JETP has emerged from a uniquely South African context, its design principles and investment options will find resonance across the spectrum of emerging economies in Africa as they grapple with how to identify and finance decarbonisation efforts, just energy transition pathways, and mitigate other high-emitting activities.

Reflections

Prior to the announcement of South Africa's JETP, a range of institutional, policy and legislative changes, partnerships, consultation and datasets had already been put in place, which allowed for the JETP to be agreed upon and for the rapid design phase during 2022.

Bespoke institutions, with strong political backing

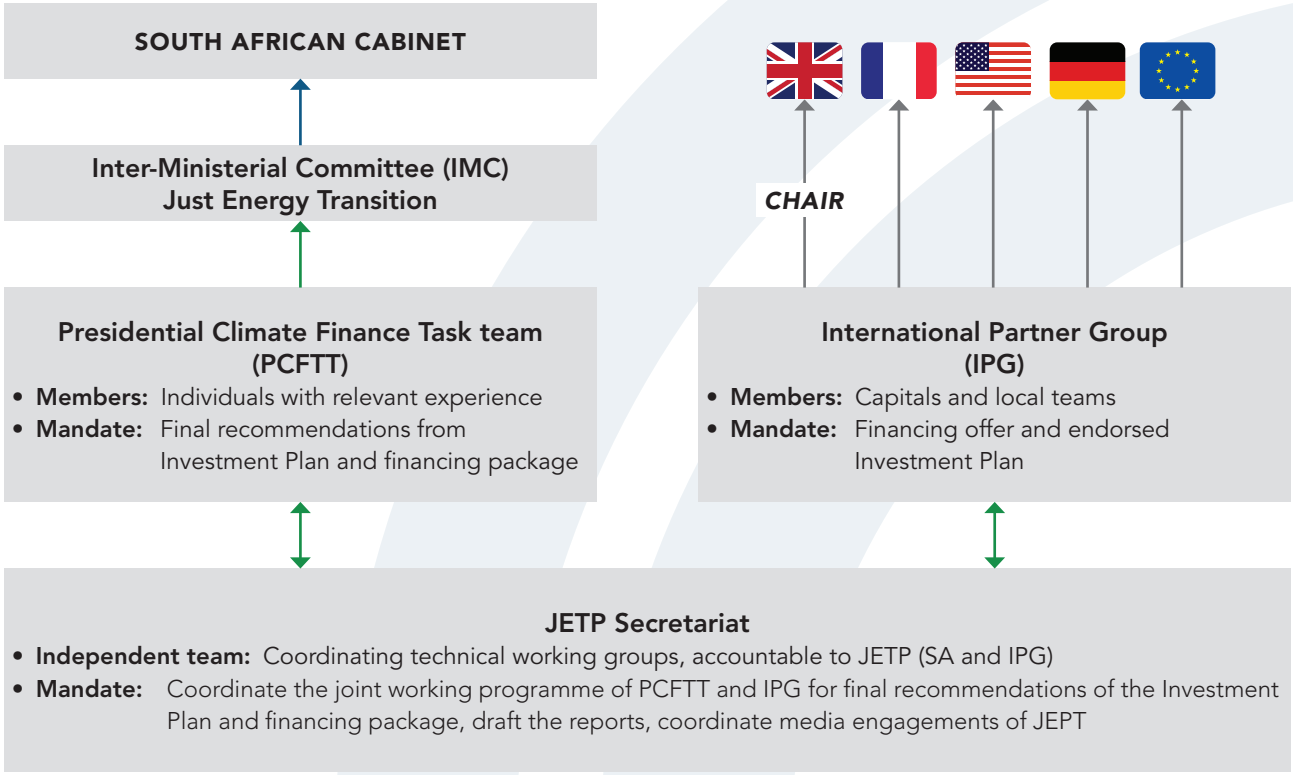
- *Leadership from the top* by the president, who serves as chair of the Presidential Climate Commission (PCC), an independent body set up in late 2020, has been an important factor that underscores the urgency of the just transition.
- *Located within the Presidency, the PCC* can more readily drive cross-departmental coordination and societal stakeholder partnerships – both required to drive the transition.
- *The PCC's composition*, with 31 commissioners, of whom 10 are from the government and 21 from a cross-section of constituencies, including academia, communities, youth and labour representatives, supports multi-stakeholder engagement and planning.
- The PCC has prioritised *extensive consultation across community* and business constituencies[10] to solicit inputs on matters related to climate change and the just transition. All the above have assisted with building coalitions of constituencies in support of a just transition.
- A *Presidential Climate Finance Task Team* (PCFTT) was established for the purposes of, together with the Asset and Liability Division from National Treasury, analysing the IPG's offer in order to advise the South African Cabinet on it. The PCFTT has the mandate to engage with partner countries, coordinate relevant government departments, development finance institutions and the private sector; and oversee the development of relevant financing mechanisms and facilities to enable the flow of international climate finance to support South Africa's just transition in the electricity, electric vehicles and green hydrogen sectors.[11]
- The *JETP Secretariat* was also established[12] to provide technical and convening capabilities for developing the investment framework and plan, under the guidance of the PCFTT and IPG.
- *Partnerships* have been rapidly galvanised between the Presidency, the PCC and the PCFTT, together with many others to develop the IP which will lead to the allocation of international finance in the first phase of the JETP.

10 The business sector has, in principle, mobilised behind the notion of a just transition and adopted a net zero ambition. This has meant that while agreement might not be in place on all the details, there has been momentum from stakeholder groups around some shared principles

11 The Presidency, Daniel Mminele appointed Head of the Presidential Climate Finance Task Team, 8 February 2022, https://www.thepresidency.gov.za/press-statements/daniel-mminele-appointed-head-presidential-climate-finance-task-team

12 Supported by Climate Investment Funds

Figure 1: JET IP Governance structures



Source: Government of South Africa, 2022[13]

Policy and legislation

A number of pieces of legislation set the scene for the JETP and have laid the groundwork for it. These include:

- South Africa's updated NDC of September 2021, which extended the country's ambitions and was a catalyst for the JETP deal;
- A number of years of development and consultation on a Climate Bill (forthcoming);
- Existing carbon tax legislation;
- Earlier consultation and work done by the National Planning Commission on a just transition.

Based on the above and other work, the PCC produced a Just Transition Framework for the country in 2022. It was formally adopted by Cabinet in August 2022. This critical piece of work sets out the definition, principles and approach to South Africa's just transition. It has helped to coalesce expectations and requirements of a just transition across stakeholder groupings. (See **Annexure A** for more detail on the Just Transition Framework, also available **here**.)

Five lessons from South Africa's just transition journey

1. Create a high-level, centralised body with broad stakeholder representation to manage the just transition process.
2. Engage stakeholders early and often.
3. Promote transparency and accessibility.
4. Align policy with climate targets.
5. Build political coalitions and a social compact around the just transition.

Source: World Resources Institute, 2022[14]

13 The Presidency, South Africa's Just Energy Transition Investment Plan (JET IP) 2023–2027, https://www.thepresidency.gov.za/content/south-africa's-just-energy-transition-investment-plan-jet-ip-2023-2027

14 Katie Connolly, 5 lessons from South Africa's just transition journey, World Resources Institute, 1 September 2022, https://www.wri.org/insights/5-lessons-south-africas-just-transition-journey

Research and data

After its establishment, the PCC rapidly undertook a number of research pieces to set the scene for the just transition and build a body of evidence. The business sector, through the National Business Institute, has also been involved in producing research on sustainability transitions in various sectors. So too have the unions in the country, which have engaged in the climate space and discussions on National Employment Vulnerability Assessments and Sector Jobs Resilience plans since 2017 (and before).

The JETP and the JET IP, as the first finite attempt to cost and design the initial transitions, are also based on a number of datasets developed by different researchers and universities. This empirical base has supported decision-making and assumptions about the costs of transition. Technical work can drive ambition and this is evident in South Africa's just transition journey where the similar findings produced by several independent models allowed the country's updated NDC to be delinked from the country's electricity plan – the Integrated Resource Plan.

More technical work is needed:

- To tie a country's NDC pathways to decision points in sectors, with associated funding requirements. This could link directly to a JETP;
- At the local level, where little is available to inform just transition and investment planning.

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- A cross-cutting and widely representative institution, with high-level political support, can coordinate the many actors and inputs required to determine the design of a country-wide just transition approach or framework. In South Africa's case, the Just Transition Framework is a specific piece of policy designed to support discussions and broad-based consultation. It assists the JETP process by distilling the requirement, concepts and areas of action for a just transition.
- While a national just transition should also link together a country's NDC with sector, skills and infrastructure plans, it is not a policymaking process. It needs to be built upon existing policies, legislation and plans.
- Research and data can deliver an empirical body of evidence to drive ambitions and build, in principle, shared carbon and justice ambitions among diverse stakeholder groups. Data and models are critical to building an understanding of where investments are required, including at the sectoral and local levels, where this level of detail seldom exists.

5. FINANCE FOR JETPS

Introduction

Geopolitical risks have affected the Global South with outflows from developing markets increasing in 2022, largely in response to the stronger US dollar, higher inflation and tighter financial conditions. As JETPs seek to mobilise finance, this raises complex questions, particularly regarding the quantum and quality of finance.

South Africa has demonstrated that the JETP is a negotiated investment. Overall, the transformative nature of a JETP must incentivise accelerated climate ambition, and this requires innovative financing mechanisms. It also requires finance on terms that are better than a country could otherwise have sourced elsewhere.

Furthermore, just transitions ideally need to be based on a sense of the totality of finance that is required for a country's new development path. Here, the scale required for just transition financing is enormous. Given that the US$100 billion promised in Copenhagen in 2009 has still not been realised, big shifts are required in the international financial system to unlock funding at scale for just transitions in countries of the Global South. In practice, this is likely to require changes to the structure and requirement of multilateral funds and other major funding sources to increase accessibility and address the cost of capital and other financial requirements. Furthermore, there may also be elements of a JETP that cannot be readily financed by existing sources, and new sources will need to be identified and mobilised. Grant financing is required that does not further indebt countries of the Global South.

The South African experience highlights a number of considerations that need to be addressed. These will likely be faced by other countries seeking to raise appropriate, suitable and fair finance.

Reflections

Cost of capital

Bringing down the cost of capital for green infrastructure is critical. Investors want simple, stable environments and business cases, and require that the cost of capital be reflective of the risk they are taking on. Investors look for certainty and predictability but this is often not in place in new sectors and is not always in place in parts of the Global South (or the Global North for that matter).

Access to finance can be onerous and costly. For example, relatively high costs of finance result from risk-sharing arrangements such as sovereign guarantee requirements. Furthermore, the business case to access the finance (the evidentiary case) is sometimes not seen as adequately attractive.[15]

- Many of the just transition assets and sectors are *capital intensive* – such as electric vehicles and green hydrogen. The macro environment is not currently favourable to these investments, with high costs of capital which, ironically, is often more for these new green sectors than the weighted cost of capital for traditional carbon-intensive infrastructure sectors such as chemicals, steel and cement. Most climate finance – around 50% – currently goes towards renewable energy generation. The business cases and risk appetites for other sectors need to be addressed, to support project development capital to rapidly move into these areas.
- *Sovereign risks* (and/or the perceptions thereof) mean that in many parts of the Global South, sovereign borrowing interest rates are very high. (Tied to this, debt servicing restricts productive investments by the state.) In terms of sovereign risks, a lack of certainty in the political and administrative contexts drives up the risk for investors. Governments should endeavour to communicate a coherent vision as a 'standard line' to attract and reassure private funds.[16]

15 South African Institute of International Affairs, The road to COP 27: Africa's adaptation finance agenda, 11 August 2022, https://saiia.org.za/research/the-road-to-cop-27-africas-adaptation-finance-agenda/

16 For example, in South Africa, more clarity is needed on the links between the just transition and the country's infrastructure plans as well as plans for gas

- *Currency risk* is also a major factor in much of the Global South and needs to be addressed. Few developing countries can borrow in their own currencies. Countries are open to risks from large currency value swings.[17]
- In time, *investment allocation risks* may also arise as more investors move into JET assets, reducing the diversification of their portfolios. There need to be strategic discussions about managing this asset allocation risk in portfolios.

Furthermore, if just transition finance is simply to flow through existing financial intermediaries based on existing methodologies, such as those employed by MDBs, and where a premium is attached, the requisite scale and justice elements will not be realised. JET finance could end up being lent out at close to commercial rates.

Domestic resources

While there is certainly a role for domestic resources in a JETP, a country's ability to leverage these resources will vary.

- Critically, the just transition needs to be incorporated into fiscal frameworks. In South Africa, this work is under way with the carbon tax which will start generating revenue streams.
- Green bonds are an option to raise more finance. For example, the South African government could extend a green bond curve to attract far more finance into just transition areas.
- Worker investment funds and retirement funds could also be a source of some finance. This could ensure that workers, particularly mining and metalworkers (the most directly affected employees), have an active stake in the future low-carbon economy.

Private capital

The private sector has already demonstrated its important role in financing the renewable energy sector. Further private capital must be leveraged for the just transition given the scale of the need: it is estimated that private finance will need to fund about 80% of the transition.

- There is significant pent-up financial innovation which needs to be supported by governments through the provision of policy certainty in new sectors and areas so that it trialed and then rapidly scaled.
- While project finance is beginning to innovate in the just transition space, asset managers need to be actively engaged and more involved in developing innovative financial structures to fund the JET for passive investors. Passive investors are not currently well structured to play a role.

India's energy transition

In India, there is a strong federal system but energy is controlled nationally. While a national ambition is set, this has not trickled down to the different states. There is also currently a shortage of electricity supply at critical times of the day and concern exists about decommissioning coal assets prematurely given these supply-side difficulties. It also appears that poorer districts and areas will be more affected by coal phase out.

India has already experienced considerable developments in renewable energy and energy efficiency: 100 GW of solar has already been installed. Research shows that the transition could increase GDP by 2050. It will also avoid air pollution and further climate damage. Furthermore, 30 to 40 million net additional jobs could be created, counting direct, indirect and induced jobs.

At present, several JET commitments are notional targets and not linked clearly to modelling. More evidence is required in the following areas:

1. Timing: whether net zero is at 2050 or 2070, India has ten years to plan the transition. When do we start and what are the implications?
2. Spatial dimensions: the fossil fuel industry is concentrated in 100 to 120 districts of over 700 and the phase out will have particular spatial implications.
3. Which jobs will be affected. It is estimated 20 million people directly depend on the fossil fuel industries – including coal and automobile sectors (two to three million jobs alone are located in coal mining).
4. Revenues: the Indian government earns about 20% of its taxes on fossil fuels, and the states about 10% in taxes on fossil fuels.

17 One proposal, made elsewhere, is to establish a new multilateral institution that makes longer-duration two-way markets in currencies. It is estimated this could cut currency risk by half by 2030. See Sony Kapoor, Why a global fund is needed to cut currency risk for developing nations, Financial Times, 13 July 2021, https://www.ft.com/content/2b570cac-a6f7-4908-b68e-47ad0803486c

Whether India has a JETP or some other arrangements will depend on the finance and conditions attached to it. India needs de-risking capital for technologies like hydrogen, and New Energy Vehicles. This will be more important than concessional finance.

In India, the domestic private sector has financed much renewable energy, but this will need to expand to international markets. The government can incentivise the transition as there are production incentives for industries in India which can guarantee demand till the market grows. One way could also be to mandate steel and fertiliser industries to use green hydrogen.

The categories of vulnerability currently being researched include:

1. The different categories of vulnerability – for example, for coal miners and informal workers;
2. Migrant and gender preferences in reskilling and how perceived or real these needs are;
3. How just a green job really is.

The role of subnational governments will also be important in India.

Source: Inputs made at the JETP Learning and Knowledge Exchange Summit, Cape Town, September 2022

Development finance

Large public investments in JETs will require layers of development finance from multilateral, bilateral and local sources. Currently, multilateral financing and development finance institutions are not taking enough risk. The World Bank, Global Environment Fund, Green Climate Fund and Adaptation Fund need to be better aligned with the just transition imperative. Global climate finance architecture should be restructured to create confidence and unlock funding fast, and at scale. In addition to addressing the cost of capital, two areas where rapid unlocking needs to occur are:

- *Project preparation funds.* These remain difficult to access and do not provide sufficient support to pipeline development in new green sectors, including through the building of proof points for new models and approaches. The standardisation of just transition financial models is needed to get to scale and to stimulate the crowding in of private finance.
- Risk funding for *small projects in affected regions.* Research shows that the more socially ambitious projects are often the hardest to fund. Several difficulties face small businesses or emerging businesses trying to access finance. Place-based financing facilities might be able to assist as they can link business development support to finance in a particular geographic context.

Justice and concessionality

The just transition warrants concessional financial support: the international community must share the burden of the transition in the Global South, including where this requires an early exit from coal. This finance should be new finance (not repurposed from other areas), and on significantly better terms than is currently available.

- Social support mechanisms will require concessional finance and the current level of concessional finance is nowhere near adequate. While the JET IP in South Africa does not include a significant share of grant funding, it is required for:
  - Developing a skills pipeline for new sectors, reskilling and upskilling, and the changes to production processes and technologies;
  - Social policy interventions like basic income support mechanisms and early retirement provisions.
- More highly concessional funding should be provided to support a variety of approaches and innovations around social ownership of just transition assets. Experimentation is required. Where successful global practices exist which demonstrate community and social ownership of clean energy, these need to be highlighted.[18] Urgency and momentum must be built into nascent conversations about community and social financing and ownership. New kinds of development bonds could play a role here.

Furthermore, there needs to be a focus on how to invest in transition assets. Increasing weight is being placed on the carbon intensity of assets with the European Union dictating carbon disclosures and developing exclusion lists. Eskom in South Africa, for example, needs to introduce innovative structures into the markets.

18 In South Africa, there are already many lessons from community trusts participating as shareholders in the Renewable Energy Independent Power Producers Procurement Programme, but there has yet to be much innovation in these community ownership structures

Additional sources of climate finance for JETPs

These could include:

- *Loss and damage funding*. While not yet in place, pressure is increasing on the Global North to put in place a separate facility for loss and damages. How this explicitly relates to just transitions needs to be determined.
- The *voluntary carbon markets*, while controversial, can provide finance that is debt free. Emerging markets can own their own carbon credit financing – that is, the methodology and structure of carbon credit schemes, their governance and where these funds are allocated. Indonesia is already moving ahead on this.
- *Philanthropic funding* is an important source of finance for JETPs: this capital is agile, flexible and well equipped to support work on skills, capabilities and bottom-up, community-led initiatives and advocacy.

Timing, sequencing and prioritisation

Given the quantum of finance required for a just transition, IPG funding is unlikely to address the full transition requirements of any country. For this reason, how these funds are allocated needs to be considered upfront, and linked to the timing of the funding and its sequencing. This requires that the financing landscape is clearly delineated into pockets of which kinds of finance are used, and where it is deployed. In particular, grant financing elements or highly concessional elements must go to the areas where private capital will not immediately flow, such as for skills, social grants and business development services. This finance can be catalytic for more 'difficult' projects. Blended finance can play a role in bringing down the cost of capital overall.

Finance and accountability

An accountability framework is required for just finance. This should be used to monitor the funders, project implementers and government counterparts.[19] Elements that require tracking include what kinds of projects are funded, on what financial terms and the impacts that result.

Overall, metrics need to be developed to manage the *categories* of just transition projects that are included, and establish exclusions, in order to avoid greenwashing. For each country's transition, the right nomenclature should indicate what is considered to form part of the just transition, and what is not.

A set of donor principles for the climate finance commitments in South Africa's JETP have recently been proposed by the Blended Finance Taskforce.[20]

Donor principles to ensure climate finance commitments are fit-for-purpose

- Embed transparency and accountability into climate pledges, specifying the source and type of funds and establishing disclosure and reporting requirements
- Establish donor coordination and standardisation mechanisms to reduce transaction costs and streamline deployment, avoiding unnecessary burdens on South African counterparts
- Make greater use of catalytic instruments to ensure pledges are fit for purpose to solve the challenges at hand, which include just transition funding, debt sustainability, capacity building to strengthen the enabling environment, and mobilisation of private capital
- Deploy donor funding in a way that is complementary and coordinated with other catalytic capital, including philanthropic funds, to deliver scale and accelerate just transition outcomes
- Ensure funding allocation is demand-driven, responding to domestic market and political structures. Take a whole-of-society approach, fostering multi-sectoral engagement, prioritising local partnerships and capital mobilisation, and engaging communities as engines for lasting social impact
- Shift decision-making power in the development finance system, establishing robust and inclusive principles of cooperation and capital deployment
- Integrate environmental and social objectives, acknowledging that both are necessary to achieve a sustainable and inclusive transition

Source: Blended Finance Taskforce, 2022[20]

19 The PPC [PCC?] is currently recruiting a service provider to design and develop a Just Transition Finance Mechanism.

20 Making climate capital work: Unlocking $8.5 bn for South Africa's Just Energy Transition, 2022, https://www.blendedfinance.earth/making-climate-capital-work

Nigeria's JETP platform

Nigeria's climate change goal and the country pledge at COP26 (i.e. net zero by 2060) provide the context for national ambitions. In order to enable the 2060 pathways, it has been estimated that there will need to be US$10 billion per year to fund the annual financing gap, which includes infrastructure upgrades.

Nigeria has a country energy plan that aims for universal energy access by 2030 and an approved IP and a transition plan. The country's energy transition plan envisages the massive deployment of solar energy and identifies gas as a transition baseload source of energy for the grid. At the project portfolio level, sectoral goals are distilled into tangible projects. Existing pipeline projects amount to US$23 billion across the energy value chain, including clean cooking, powering health care and investments in gas.

Investment principles include: 1) clear stable sectoral goals; 2) data intelligence, and resources to fund feasibilities to expand the pool of bankable projects; 3) risk issues to be addressed, including cost-reflective tariffs; and 4) leveraging concessional finance.

Some of the identified challenges include data; coordination and alignment between the plans (climate, energy, etc.); policy coherence amongst multiple actors as well as the institutional capacity to ensure country ownership; and investor confidence.

Data for pathways for the different sectors are critical, together with prioritisation of these and clear milestones. The freedom of information law in 2011 has driven more openly accessible data but there remain challenges in the uptake of a data-driven culture. It is important to ensure that decisions and ambitions are based on evidence and that trust is built in the institutions doing the work.

Nigeria has established a new country financing platform, off-balance sheet.

Source: Inputs made at the JETP Learning and Knowledge Exchange Summit, Cape Town, September 2022

LEARNINGS

- The cost of capital must be significantly reduced.
- Fiscal frameworks need to price in the cost of carbon.
- The private sector will need to provide much of the JETP funding: this requires that different pockets of private finance are unlocked, including the passive investor community.
- Financial innovation exists but requires more policy coherence and models for bankability to be scaled.
- The architecture of multilateral finance and MDBs must be reformed. In addition to addressing the cost of capital, project preparation funds must become far more accessible.
- Conceptual clarity is required on the location of just transition funding in the global context of green and climate finance.
- It is important to be clear on inclusions and exclusions in a JETP, as well as monitoring and evaluation metrics, in order to ensure that funds are used in the manner for which they are intended and that greenwashing is avoided.

6. SOUTH AFRICA'S JET INVESTMENT PLAN

Introduction

As a country's JETP evolves from pathways to costing, having a credible IP is critical. This IP allows for the allocation of funds to provide the foundation for implementation. South Africa, through the development of an IP, seeks to take the pledges from a project-by-project basis towards financing against a coherent plan at scale. This can unlock more impacts in a shorter time. Simultaneous funding of different elements can create positive linkages between the various components in just transition plans. JET IPs provide an opportunity to do this.

South Africa's IP was released for public comment just prior to COP27, on 4 November 2022. While this was after the learning exchange upon which this report and its reflections are based, several elements of the IP are shared below.

Reflections

Investment principles and conditions

The development of the IP is based on a number of key assumptions regarding the JETP and IPG relationship, notably that it:

- Supports the need for innovation in finance and risk-sharing, including in terms of investment horizons and financial return expectations;
- Acknowledges the industrialised world's commitment to just transition financing;
- Is additional to and more advantageous than the funding that is currently in place;
- Recognises South Africa's fiscal reality;
- Is allocated to those institutions best placed to house it;
- Provides finance from the IPG that is predictable and certain;
- o Is catalytic – to drive the next round of investment; and
- o Underscores the critical role of governance in the investment arrangement.

The four investment prioritisation principles to guide the selection of projects and programmes for the initial five-year IP are that they: 1) are catalytic and complementary; 2) set the foundations for the NDC's greenhouse gas reduction targets; 3) deliver just transition outcomes; and 4) are ready to implement.

The cost of South Africa's just transition

Different estimates exist, based on various modelling exercises, of the total costs of South Africa's just transition. According to the recent World Bank Country Climate and Development Report, a low-carbon, climate-resilient and just transition will cost around R8.5 trillion (or US$500 billion in net present value) between 2022 and 2050, of which R2.4 trillion (or US$140 billion) would be needed before 2030.[21] The World Bank divides the transition into three categories for the purpose of estimating funding needs – low-carbon, resilient and just transitions.

21 World Bank, South Africa: Integrating development and climate goals requires a transition that is low-carbon, climate-resilient, and just, 1 November 2022, https://www.worldbank.org/en/news/press-release/2022/11/01/south-africa-development-and-climate-goals-can-be-achieved-by-adopting-a-low-carbon-climate-resilient--just-transition

Table 1: World Bank estimates of the cost of SA's transitions

	2022–2023			2022–2050		
	Cumulative needs R'billion		Average per year	Cumulative needs R'billion		Average per year
	Undiscounted	Net present value	% of GDP	Undiscounted	Net present value	% of GDP
Low-carbon transition	1 348	940	1.6	14 386	4 169	2.1
Resilient transition	1 164	866	1.4	6 228	2 431	1.3
Just transition	776	574	1	5 309	1 937	1
Total	3 288	2 380	4	25 923	8 537	4.4

Source: World Bank Group, 2022[22]

Focus of the IP

The IP provides more granularity than the World Bank's estimates of investment needs to 2030. It is also linked to a shorter time horizon as it runs to 2027.

The IP funding will broadly support the decarbonisation of the electricity sector and the development of New Energy Vehicles (NEVs) and green hydrogen. The scale of the overall investment need is estimated at R1.48 trillion between 2023 and 2027. Much of this is for infrastructure investments in the electricity sector, at R637.7 billion. Municipal capacity building and green hydrogen are each estimated to require R319 billion in investments by 2027, with NEV sector investments estimated at R128 billion for the same period.

R200 billion of the 'Municipal capacity' investment need, estimated at R319 billion in total to 2027, is to fund municipal distribution maintenance and capability enhancements. [23]

Table 2: JET IP Financing requirements, 2023–2027

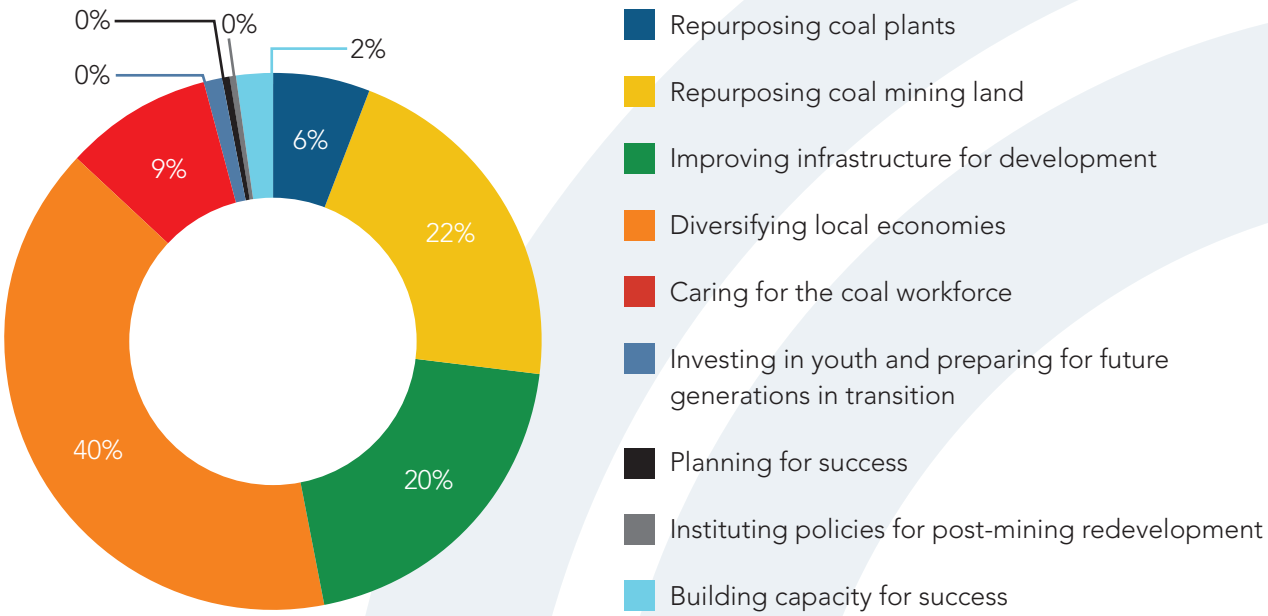
	ZAR billion
Electricity sector	711.4
Infrastructure investments	647.7
Just transition investments in Mpumalanga's coal communities	60.4
Just transition investments in the electricity sector	3.25
NEV sector	128.1
Green hydrogen	319
Skills development	2.7
Municipal capacity	319
TOTAL	1 480

Source: Government of South Africa, 2022[23]

22 World Bank Group, South Africa: Country Climate and Development Report, October 2022, https://openknowledge.worldbank.org/bitstream/handle/10986/38216/SA_CCDR_MainReport.pdf?sequence=1&isAllowed=y

23 The Presidency, South Africa's Just Energy Transition Investment Plan (JET IP) 2023–2027, https://www.thepresidency.gov.za/content/south-africa's-just-energy-transition-investment-plan-jet-ip-2023-2027

Figure 2: Investments In Mpumalanga's Coal Communities



Source: Government of South Africa, 2022[24]

The R60 billion required for the 'Just transition investments in Mpumalanga's coal communities' is comprised mainly of 'diversifying local economies', at R24 billion, followed by 'repurposing coal mining land' and 'improving infrastructure [for] development' in the province. The breakdown of this category of investment need is shown in Figure 2.

Development approach for the IP

The JETP Secretariat was responsible for the development of the IP, under the oversight of the PCFTT. The draft IP was approved by Cabinet in October 2022 and then released for public consultation in early November 2022. It is expected that more details will now be developed on each of the individual programmes, with consultation processes to support this. The PCFTT has indicated that the IP development process will remain iterative to accommodate and incorporate the many more inputs that are needed from different stakeholders as well as in terms of the granularity of technologies, methodologies and costs.

While core elements in the first draft of the plan were shared with working groups and a range of stakeholder consultation meetings were convened, the full plan was not disclosed to the public prior to its release by Cabinet.

The PCFTT indicated the following lessons have been learned in developing the IP:

- More clarity should be in place at the outset on funding from international partners;
- The private sector and philanthropy should be involved earlier on;
- It is important to be resolute that the JETP and IP is country-owned and country-led;
- Negotiating with five different partner countries is time consuming and complicated;
- Information gaps exist for sectors and projects;
- Coordination of inputs has been difficult with short lead-times.

Sources and financing instruments in the IPG offer

Of the US$8.5 billion from the IPG, only US$330 million comprises grant financing. This is just under 4% of the total. The bulk of the funding, at US$5.3 billion, is to be in concessional loans. Commercial loans are an additional US$1.5 billion, with guarantees making up the remaining US$1.3 billion.

The Climate Investment Funds Accelerating Coal Transition Investment programme is the largest funding source, at US$2.65 billion. These funds are to be channelled through the World Bank Group and the African Development Bank. The United Kingdom is providing US$1.8 billion, most of which is in the form of guarantees and commercial loans. The US, Germany, France and the European Union are each providing approximately US$1 billion.

Discussions are ongoing on where the various forms of funding will be allocated within the IP.

24 Ibid.

Consultation, engagement and ownership of South Africa's IP

On 31 August 2022, South Africa's Cabinet adopted the Just Transition Framework. This provides a shared vision for shifting to an equitable, zero-carbon economy and identifies key policy areas and principles to achieve this. The development of this framework helped to bring the voices of different stakeholder groups together to articulate what is required. Its development was highly consultative.

The South African JETP places emphasis on the need for distributive justice, which recognises that the risks and responsibilities of the just transition must be equitably shared; restorative justice, which recognises that historical damages must be addressed; and procedural justice, which ensures that workers, communities and small businesses are empowered and supported in the transition. (Annexure A has more information on the elements of South Africa's Just Transition framework.)

While the Framework sets the scene for the country's just development path, the development process of the IP for the allocation of the initial US$8.5 billion raised concerns, and highlights the importance, about public participation in the process. As the South Africa JETP evolves and other countries take the JETP path, spaces for participation, socialisation and comment should be built into the different stages of JETPs and their implementation, including:

- Ensuring adequate and timely procedural justice by providing opportunities for consultation on the details and rationale for decisions.
- Ensuring public transparency in the process of arriving at investment choices, amounts, modalities and the prioritisation thereof.
- Engaging with how the just elements will be achieved; for example, will the JETP incorporate new forms of ownership and economic models, like social ownership of energy assets by communities?
- Ensuring that mechanisms, and the necessary flow of information, are in place to ensure accountability, including information on the scale, source and conditions of the funding.

Source: Inputs made at the JETP Learning and Knowledge Exchange Summit, Cape Town, September 2022

LEARNINGS

- Managing the IPG, public consultation and achieving the correct level of detail within ten months has been a challenging task. Detailed consultation on the IP did not take place prior to its release, which was criticised.
- Prioritisation within the current draft IP has been partly determined by projects that are better scoped and costed at design stage. The project pipeline needs to be developed.
- Research and data are critically important and funding should be made available to scope all the elements of a just transition.
- The cost of the IP to 2027 is ten times more than the IPG commitments, and this is not the full cost of the transition to 2050. This indicates the enormous scale and investment needed.
- The IPG's offer of funding is largely concessional finance and risk mechanisms, with grants only a small share. This raises questions about how advantageous the terms of the funding are overall.

7. PROBLEMATISING CAPABILITIES

Introduction

The concept of capability focuses attention on political issues and governance, as well as skills, resources and mandates. If capability is the ability of the state to get things done, the capability gap can be conceptualised as the difference between what is being done and what is needed. In the context of the JETP and the rollout of a broader just transition in South Africa and elsewhere, a focus area will need to be dealing with capability deficits.

United Kingdom – policy alignment and implementation

In the UK, the climate law sets the scene and a climate change committee exists, similar to South Africa's PCC. The UK's Climate Change Committee (CCC) provides independent advice and the climate law indicates that this must be consistent with global commitments, economics and strategies to address fuel poverty, among other development priorities. Carbon budgets exist in the UK and match the NDC, which requires a 68% reduction from 2030. The CCC has linked targets to costs, technologies and the pathway to get there. For the CCC, it has been important to include the 'how' for the credibility of the process and the confidence of investors. The plan has been largely welcomed by businesses that see the investment opportunity and can be part of the transition.

In the UK, the coordination challenge is more around implementation than ambitions. The milestones for the different sectors to decarbonise – which they have – do not always match to policies that back them up. There are also many other factors at play. For example, they currently have an increase in offshore wind targets because of the war in Ukraine, and high gas prices. Hydrogen targets are also higher. But ambitions have not been increased in terms of targets on the demand side – to address energy efficiency, or leading to a reduction in energy costs.

Many choices on the net zero pathway relate to energy security and resilience. The lagging policy indicates that there are sometimes difficult decisions and time constraints that factor into policy design. The cost of borrowing for energy efficiency is also a factor.

Source: Inputs made at the JETP Learning and Knowledge Exchange Summit, Cape Town, September 2022

Reflections

While much focus is on the design of a JETP, its **implementation** will require a range of enabling circumstances. Fundamentally, successful implementation of the JETP assumes a capable state and partners.

In South Africa (as with many other countries), implementation capability gaps exist. For example:

- Institutionally, while the PCC has driven the process of development of a just transition framework and the PCFTT and JETP Secretariat have led the IP work, little political and implementation power lies with these institutions. At present, in South Africa, the national departments that will have to implement justice transition are not the ones that have a social justice mandate. Linked to this, the mandate of the Department of Mineral Resources and Energy is not designed to implement a just transition, as that department's mandate does not relate to workers or affected communities.
- Provinces and local governments are meant to lead local development but they typically have neither the budget nor roles and responsibilities to mobilise a development strategy.
- Government's procurement framework is cumbersome, and might not provide sufficient governance and oversight to ensure funding is applied in the most effective manner.

In terms of **project design and delivery**, a range of factors need to be considered, including whether 'business-as-usual', investment and project design approaches will result in justice.

- In planning for a just economy, the role of energy in development, and how it contributes to or alleviates poverty, needs to be better understood, in order to maximise the development dividend of the shift to renewables. For example, in South Africa, the country's free basic electricity model does not currently benefit from clear governance oversight in terms of its development impacts.
- South Africa has several examples of unsuccessful infrastructural investments, where demand and people's ability to pay have been overestimated and the cost underestimated. Corruption and poor technical design have also impacted delivery. There are important learnings, both good and bad, which should be drawn on.
- Furthermore, in South Africa, much of the local government's electricity distribution infrastructure is about to collapse, with a R200 billion backlog in maintenance. Introducing renewable energy generation is not going to fix this, which is critical to ensure that people get access to electricity.

[The IP released on 4 November makes a provision for certain municipal investment needs. Much of the R320 billion is earmarked for distribution maintenance (at R200 billion), distribution modernisation for NEVs, at R73 billion, and electrification backlog, at R45 billion.]

More needs to be done to ensure that the way in which **communities are consulted** is fair to them. Often, consultation processes raise expectations but cannot result in much change in community circumstances. Consultations need to be more sophisticated to allow for communities to make inputs based on their conditions but also acknowledge where mandates for change exist.

None of these challenges are unique to South Africa.

LEARNINGS

- The country institutions that lead, negotiate and structure finance for JETPs are not necessarily the right structures for implementation, which needs to be separately geared up. The structure of the state needs to be 'fit for purpose' to implement the JETP.
- Subnational levels of government are going to be critical to the just transition but need mandates, funding and capabilities to play this role in a coordinated manner.
- Lessons should be learned from historical challenges to infrastructure project design and delivery.
- Community engagement methods and processes need to be fair to communities and not create expectations for change where no power or mandate exists to enable these changes.

8. WHAT ROLE FOR PHILANTHROPIES?

Introduction

Philanthropies are ideally placed for experimentation in projects, processes and partnerships. Critically, they also are committed to the longer, bigger project and the imperative of a just transition, beyond the JETPs. Philanthropic capital has already played an important role in South Africa's JETP through support to the PCC and PCFTT and funding of research processes and civil society organisations.

Reflections

The just transition requires more support in a number of areas. Philanthropies have a critical role to play in supporting the enabling 'soft infrastructure' of institutional capacity, social inclusion and research and data.

Regional economic development and diversification, and the repurposing of existing assets

- There is a spatial aspect to the just transition. Philanthropies can focus some of their efforts on support to communities in these areas. In South Africa, Mpumalanga province is the location of many coal and Eskom power plants. There is more work to be done in support of a regional economic diversification strategy that could include jobs in tourism, agriculture and renewable energy. Elements of this are identified and costed in the IP.
- Critical, too, is the coordination and governance of development. In South Africa, there are already many organisations working on the JET in Mpumalanga and, in some instances, their efforts are not well coordinated. Channelling funds to well-positioned subnational institutions already in the area which work with and fund SMMEs can help streamline resource allocation and assist with coordination. This can also support and scale up efforts to stimulate employment and economic diversification.
- Building capabilities in weak and fragile local organisations and government, in regions where change will be felt most, can also assist with achieving just outcomes, through capacitating local organisations in order to better equip them to fulfil this role.
- For localisation, industrial development planning support is needed for new energy sectors and their value chains.
- More work and funding are also needed on the reuse and repurposing of derelict mines and power plants.

Social inclusivity, community voices and civil society organisations

- Philanthropies can support the social inclusivity of processes and the building of community voices and capabilities for meaningful, substantive participation.
- Philanthropic capital needs to stand behind the transition and ensure that the 'just' bit continues to receive focus and funding. Here, continued and expanded support to civil society organisations can be considered so they can play an important role in critiquing but also in solution-building.
- Philanthropies can support campaigning and advocacy at the local level.

The financial system and risk-taking

Philanthropies can fund work on the design of the financial ecosystem.

- This could include how to maximise domestic revenues (like through a carbon tax), budget tagging and private-sector involvement in order to restructure the financial architecture.

While philanthropies have not traditionally been involved in providing financial instruments, there is the potential to explore this role for the just transition.

- Philanthropies could take on risk by providing guarantees and/or credit lines to address market failure.
- Philanthropies can unlock other funding by establishing 'proof points', and with the provision of support to areas that are harder to fund commercially or through the government.
- The potential could also be explored to aggregate funds through an institutional aggregation mechanism to help with de-risking just transition projects for capital that seeks a financial return.

Data and modelling

Significantly more work is needed to build the datasets and models to support decision-making and investment decisions. Philanthropies are well positioned to continue to support this.

Philanthropic coordination

There is an opportunity to coordinate the work of philanthropies involved in the JETP and the IP and, beyond this, the just transition. One suggestion is the development of a philanthropy IP that works alongside a country's IP. This could drive coordination and help allocate philanthropic funds, much in the same way that the IP hopes to allocate funding to different parts of the JETP from the IPG.

A second consideration relates to philanthropies collaborating to support a just transition through formal or informal structures and processes for communication and alignment, where so desired.

LEARNINGS

- Philanthropies have a critical role to play in supporting the enabling 'soft infrastructure' of institutional capacity, social inclusion and research and data.
- Subnational structures and regions, including local governments, require specific support and some coordination. This support should be focused on economic development, including decommissioning and repurposing, and SMME support funds, or similar.
- Philanthropies already play and should continue to play a role in supporting community and civil society actors in their engagements in and responses to the JETP, and the overall just transition plan. This includes workers' organisations.
- Data and modelling are critical to building the empirical basis for decision-making and investments. Significantly more work is required here, including the establishment of 'proof points' for new ownership models, approaches, technologies, benefit-sharing and programmes.
- Given the scale of the funding gap and the difficulty in accessing highly concessional finance, philanthropies could play a role in de-risking certain parts of just transitions through financial instruments or in other ways.
- Philanthropies should consider how best to organise and coordinate their responses to JETPs, both in regions and more generally.

9. CONCLUSION: KEEP THE FOCUS ON JUSTICE, WHILE LEARNING BY DOING

It is critical that lower-income countries do not bear the cost of the change required to address the climate crisis they did not produce. A JETP can play a role in galvanising action and focusing choices to get the just transition investments moving and funded by international partners. This recognises that the cost of inaction will be far greater than imperfect just transitions and JETPs. JETPs should not, however, be seen as an adequate or sufficient response or the 'end of the just transition road'. Nor is it likely that IPG funding will be as concessional as desired. IPG partners must be held to account for their commitments to ensure JETPs deliver on their stated purpose.

While JETPs are country-by-country approaches, they have the potential to be part of a global green deal. The Global South needs to work together on JETP learnings and tactics. South Africa's experiences need to be located globally, given the speed at which JETPs are being considered. Rather than leading to competition for partnerships and funds, the Global South needs to build a shared alliance for procedural discussions, or at least in terms of sharing lessons. The Global South should also stand together to ensure that these partnerships do not divert attention away from existing commitments and demands, and that JETPs do not sanction funding and projects that do not deal with the heart of injustice.

A long-term just transition is about more than energy – it requires a new development path. While energy is the emphasis in JETPs, more focus is going to be needed in other areas. Agriculture and food, and adaptation finance to address vulnerabilities and build resilience will also be important focus areas. Each country needs to lead with the most appropriate just transition plan and partnership arrangements for its context.

Just transitions, including planning for just transitions, are highly complex and imperfect and require experimental governance. These processes and plans are multidimensional and require a careful balancing act of various issues and competing priorities. Action is critical given the urgency of the paired climate and development crises. JETPs require a level of flexibility, agility and preparedness to break away from traditional processes and experimentation. There is much opportunity to use JETPs to attract and locate the right kinds of investment for redistributive and path-changing growth and development in recipient countries. Putting in place institutional and other capabilities to do this will be important to the success of JETPs. Scoping out and costing important JET projects in advance of an IPG partnership can assist countries to be better prepared for negotiations.

Philanthropies are well suited to supporting JETPs and just transitions more broadly. Many capabilities, data, finance, advocacy and community voice gaps exist in JETPs, particularly at the subnational level. While the JETPs are both under way and being negotiated, philanthropies can play an immediate and ongoing role by building the knowledge base and sharing important lessons across countries and contexts.

ANNEXURE A: SOUTH AFRICA'S JUST TRANSITION FRAMEWORK

The framework brings coordination and coherence to just transition planning in South Africa. It sets out a shared vision, principles, policies and governance arrangements.

The process of developing the framework was highly consultative and included:

- the development of several policy briefs to deepen the evidence base;
- publicly broadcast workshops and events;
- expert essays and inputs;
- consultation with communities, small businesses and labour, which included discussions on development pathways and livelihoods; and
- in-person community consultations in areas where the transition is likely to have the largest impact.

South Africa's vision for a just transition is:

> *'A just transition aims to achieve a quality life for all South Africa, in the context of increasing the ability to adapt to the adverse impacts of climate, fostering climate resilience, and reaching net-zero greenhouse gas emissions by 2050, in line with best available science.*
>
> *A just transition contributes to the goals of decent work for all, social inclusion, and the eradication of poverty.*
>
> *A just transition puts people at the centre of decision-making, especially those most impacted, the poor, women, people with disabilities, and the youth – empowering and equipping them for new opportunities of the future.*
>
> *A just transition builds the resilience of the economy and people through affordable, decentralised, diversely owned renewable energy systems; conservation of natural resources; equitable access of water resources; an environment that is not harmful to one's health and well-being, and sustainable, equitable, inclusive land-use for all, especially the most vulnerable.'*

A basic framework to address the challenges of the just transition includes:

- reskilling/upskilling of affected adult workers;
- building skills for green jobs;
- improving foundational skills to support the adaptative capacity of the workforce;
- economic diversification and innovation;
- comprehensive social security nets for displaced workers and communities, to possibly include a shock-responsive social relief grant; and
- putting resilience measures in place.

ABBREVIATIONS AND ACRONYMS

ACF	African Climate Foundation
CDC	Climate Change Committee (UK)
IDP	International Partners Group
IMC	Inter-Ministerial Committee
IP	Investment Plan
IPG	International Partners Group
JETP	Just Energy Transition Partnership
MDB	Multilateral development bank
NDC	Nationally Determined Contribution
NEV	New Energy Vehicles
PCC	Presidential Climate Commission (South Africa)
PCFTT	Presidential Climate Finance Task Team (South Africa)
SMME	small, micro and medium enterprises
UN	United Nations
UNEP	United Nations Environment Programme

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