

INPUT TO THE PRESIDENTIAL CLIMATE COMMISSION

MOBILISING APPROPRIATE JUST TRANSITION FINANCE IN SOUTH AFRICA

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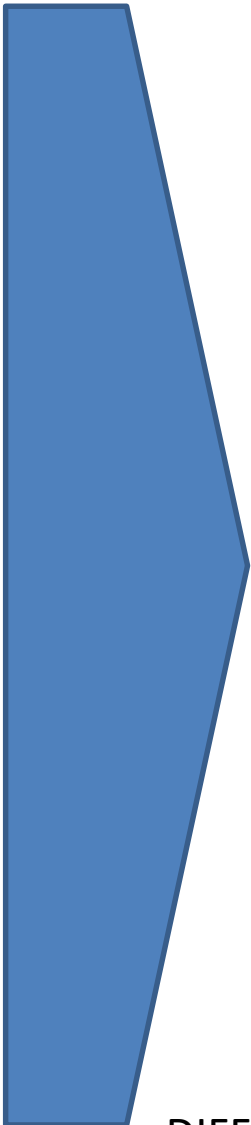
Point of Departure

CLIMATE FINANCE

- Climate finance is designed to mobilise and deploy funding for decarbonisation activities (mitigation and adaptation).
- Climate finance will chase investments that deliver impacts and goals related to reduced GHG's
- Climate finance is technology focused

JUST TRANSITION FINANCE

- Just transition finance is designed to mobilise and deploy funding for actions that manage the consequences of climate decarbonisation actions
- Just transition finance should chase investments that deliver impacts related to the improved socio economic situation of workers and communities impacted by climate action
- Just Transition finance is people focused

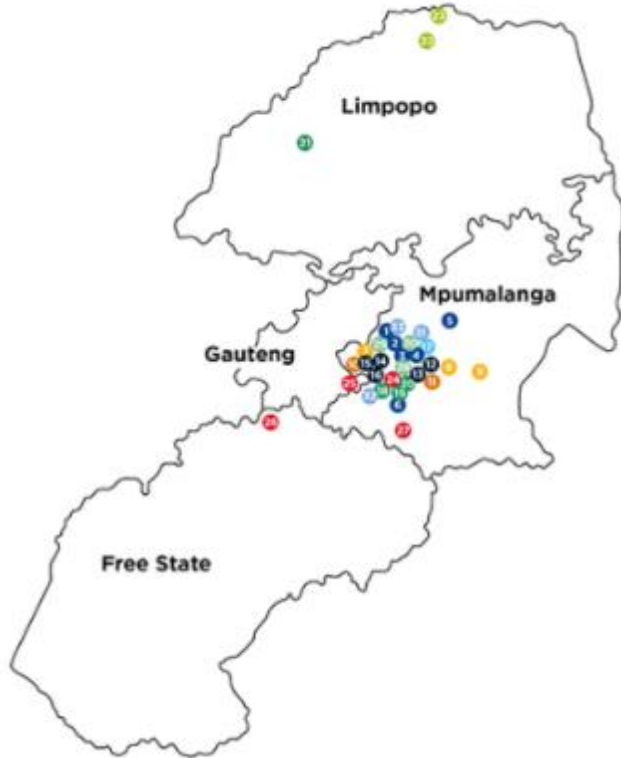
- 
- Different Investment Opportunities
 - Different measurement metrics
 - Different disclosure requirements
 - Different Scale
 - Different funding challenges
 - Different financing instruments, mechanisms, innovations and players

DIFFERENT POTS OF MONEY
DIFFERENT SYSTEM CHANGES

From Theory to Creating an Evidence Base

- Conceptual and theoretical research is not moving the needle on JT in SA
- Need to create traction for the idea of JT on the ground, put a marker down as a basis for framing the issues and looking for concrete solutions
- **Approach:**
 - Place based research
 - Collect a sample of self identified JT projects
 - Look for JT project trends: ticket size and just transition ambition
 - Understand the financing demands of those projects
 - Identify where the current finance eco system can meet those demands and where finance eco system level change is required
 - How do we effect required changes so that the right quantity and quality of finance is available for a just transition to be implemented on the ground.

Financing a Just Transition: Spectrum of Opportunities



This Project is focused on the transition out of coal in Mpumalanga; but findings can be extrapolated for different regions and sectors

Scope: Projects that contribute to the diversification of the Mpumalanga economy and offer employment and livelihood opportunities for workers, SME's and communities impacted by the movement out of coal

Source: Mines, Power Utility, big corporates in the province, local authorities, provincial authorities, national government, CSIR, academics , SPV 's such as Investment Catalyst, Mine Water Coordinating Body and *GreenCape*

Project Type: Green, non brown, mainly mitigation, some adaptation, resilience

Minimum requirement: Some element of commercial viability (risk adjusted return); formal project champion; initial project development resources

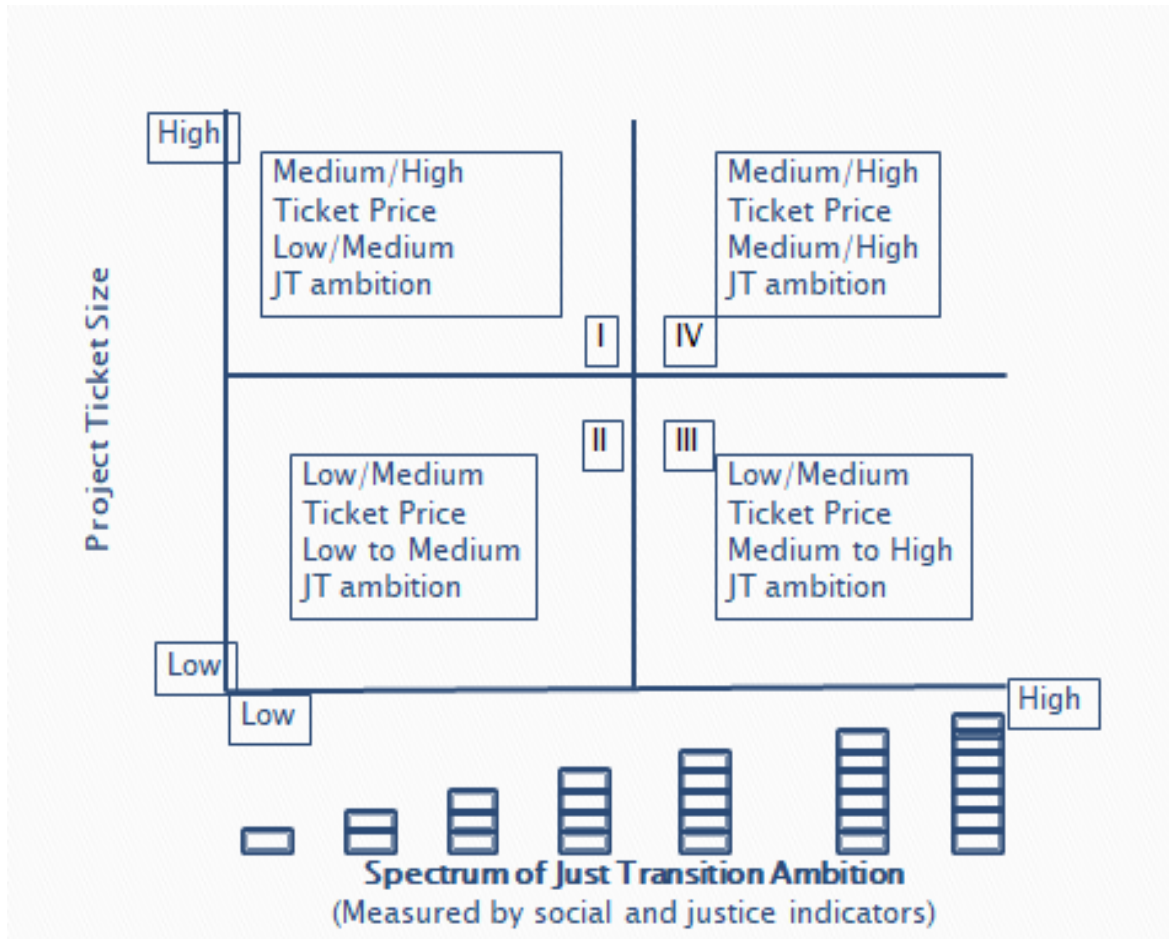
Spectrum of Ambition:

Low: Alternative employment for workers directly impacted; decent work as per ILO

High: Transformative increase in quantity and quality of social indicators:

- Decent alternative employment with improved salaries and working conditions
- New and sustainable livelihoods for communities
- New asset ownership by communities
- Reskilling and up-skilling of communities
- Empowering meaningful participation in decision making
- Restoration and rehabilitation of land, waterways
- Increased access to services

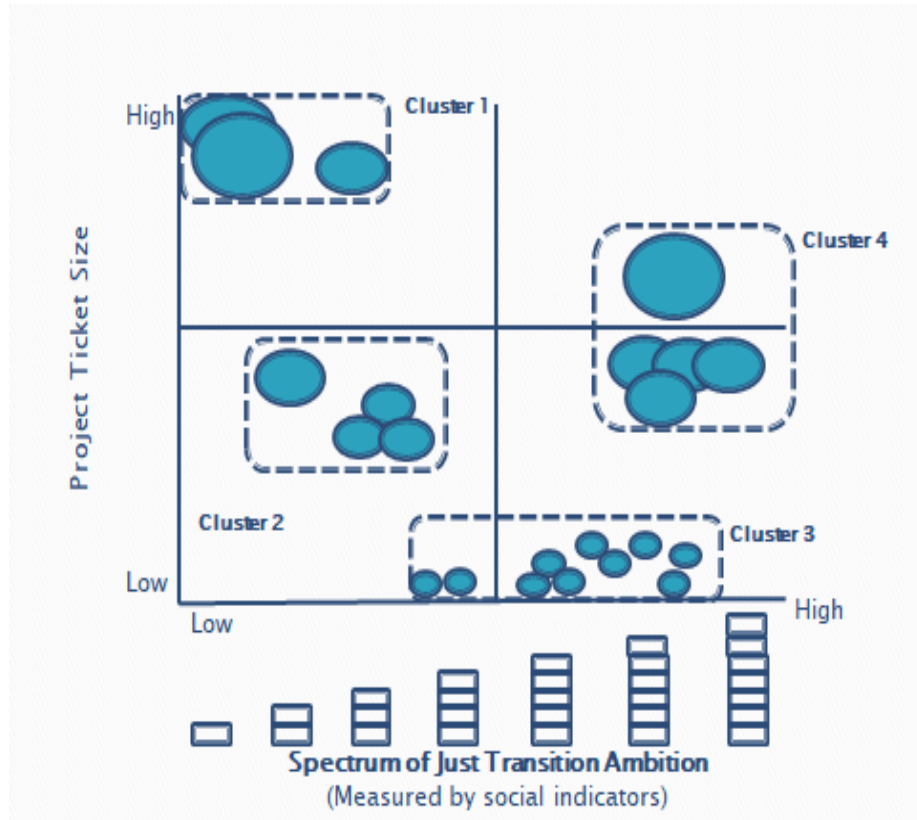
A Framework to think about a universe of place based projects



Ticket Price: identified as the most basic variable that a financial institution initially considers when presented with an investment opportunity (*crucial impact on transaction cost*)

Spectrum of Ambition: identifies a project's aspirations in terms of procedural, distributive and restorative justice. *Aspirations will be measured in terms of social indicators and possibly justice indicators. Indicator work is forthcoming*

Financing a Just Transition: 4 clusters identified

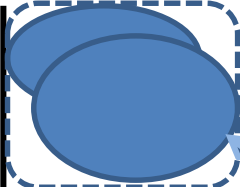


- **All** projects are important and have a role to play to achieving a just transition not just high ambition projects
- Some project which *in themselves* have low just transition ambitions characteristics **may lead to important future downstream activities** which have meaningful social and economic impacts for workers and communities in the area and for the environment. *Model weakness that this is not captured. This is not JT washing.*
- **Highest** project incidence is Cluster 3; **Lowest** incidence Cluster 4 (*a single suite of projects*)

Financing Challenges

Project Ticket Size

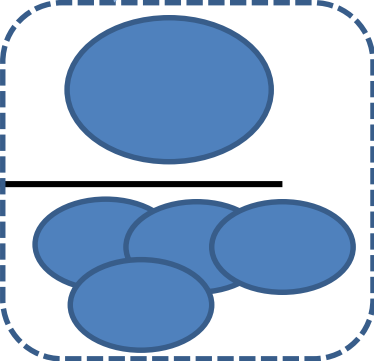
High



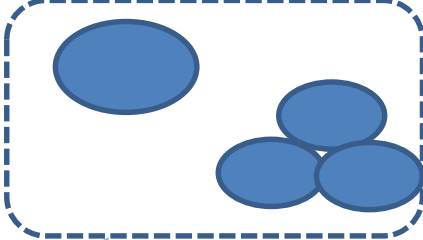
Cluster 1

- Next generation tech
- Environmental progress not social justice driven
- Global finance
- State intervention

Cluster 4



- High JT ambition
- Attractive ticket price
- Highly novel
- Financial innovation necessary
- Market interest but barriers



Cluster 2

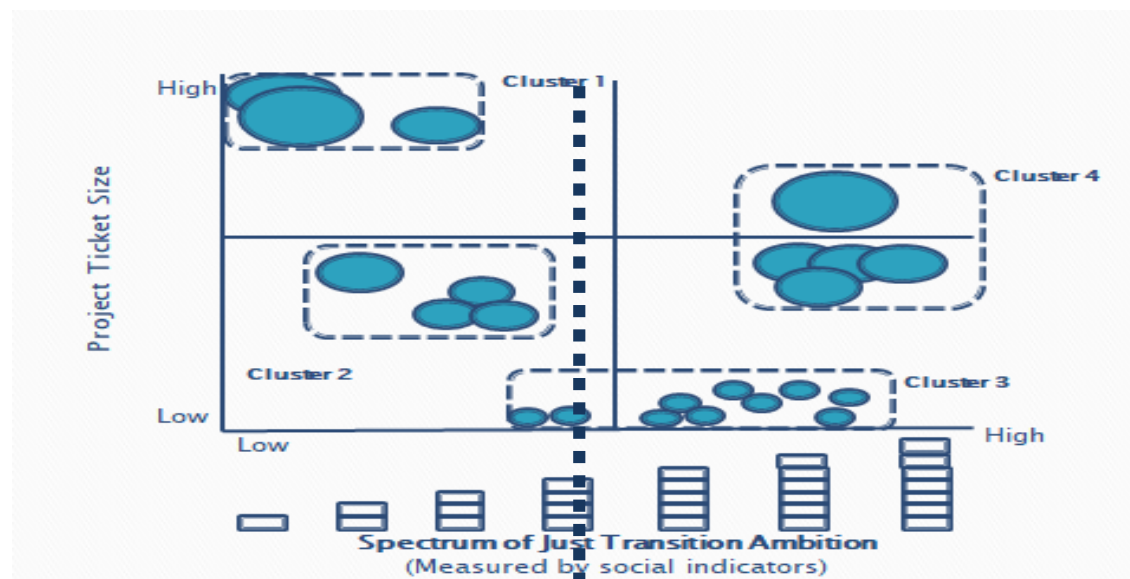
- Low level of JT ambition
- Attractive ticket price to private finance sector
- Attractive to international finance: DFI de-risking and patient capital

Cluster 3



- Medium to high JT ambition
- Unattractive ticket price (high TC + DD costs)
- Piloting, pioneering ,impact funding required
- Limited market interest locally or abroad
- Rethinking scale, aggregation and replicability

Dual Action Agenda for the Financial Eco System



**LOW TO MEDIUM JT PROJECTS
CAN BE FUNDED BY THE
EXISTING FINANCE ECO SYSTEM
WITH INCREASED DE-RISKING
AND PRODUCT INNOVATION**

**MEDIUM TO HIGH JT PROJECTS
PRESENT DEMAND CHALLENGES
WHICH WILL REQUIRE A SYSTEM
LEVEL SHIFT IN THE FINANCE ECO
SYSTEM**

SOUTH AFRICAN JUST TRANSITION FINANCE ROADMAP

JT Financing Challenges we need to solve for

The South African financial ecosystem will need to:

- Become involved in project development processes earlier than the current system i.e. **making rather than buying deals** (party to pipeline development)
- Facilitate (or directly provide) increased **financial education and capacity building** for non-traditional parties to transactions or those with limited capacity
- Develop **new approaches** to projects that are inclusive of multiple traditional and non-traditional partners, some of which will have limited (or no) commercial track record
- Provide **more layered or blended solutions**: marrying grant funding, impact investing and commercial investing
- Providing **de-risking** (FINANCIAL: guarantees, first loss positions etc. and POLICY: certainty , regulatory process, contract pricing, permissions etc.; INDIRECT SUPPORT: demand support localisation, subsidy schemes etc)
- **Innovate** in terms of instruments, mechanisms, facilities and processes including:
 - Increase tenors and extend the role of patient capital
 - Increased allocation of funding to pre-commercial and SMME-scale activities
 - Develop approaches to deal with funding suites of projects with mixed ticket prices
 - Accommodating novel business and ownership models
 - Increased use of fund of funds and new deployment approaches
- **New avenues and methods for collaboration , partnering and co-ordination** (public/private; local/international)
- **Eco system need** new set of KPI, incentive structures and decision making frameworks; need metrics and disclosures to measure; new capacities and capabilities.
- Need to **learn by doing and experiment at scale**

Toolkit options to explore

The Basics:

1. Funding the JT is beyond the capacity of the SA public sector alone.
2. Funding the JT in SA requires private + public domestic funding; each actor in the eco system has a role to play.
3. Funding the JT in SA must leverage the resources of other international public sectors (MDB's, NDFI's, IFI's).

**Direct Public Finance
Measures**

**Indirect Public Finance
Measures**

**Leveraging International
Finance Institutions**

**Public and Private sector
collaboration to create an
enabling environment**

Market led developments

Trade & Industrial Policy Strategies

Supporting policy development
through research and dialogue

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