



PRESIDENTIAL
CLIMATE COMMISSION
TOWARDS A JUST TRANSITION

Climate Finance & Innovation:

Just Transition

Financing Mechanism

June 2024

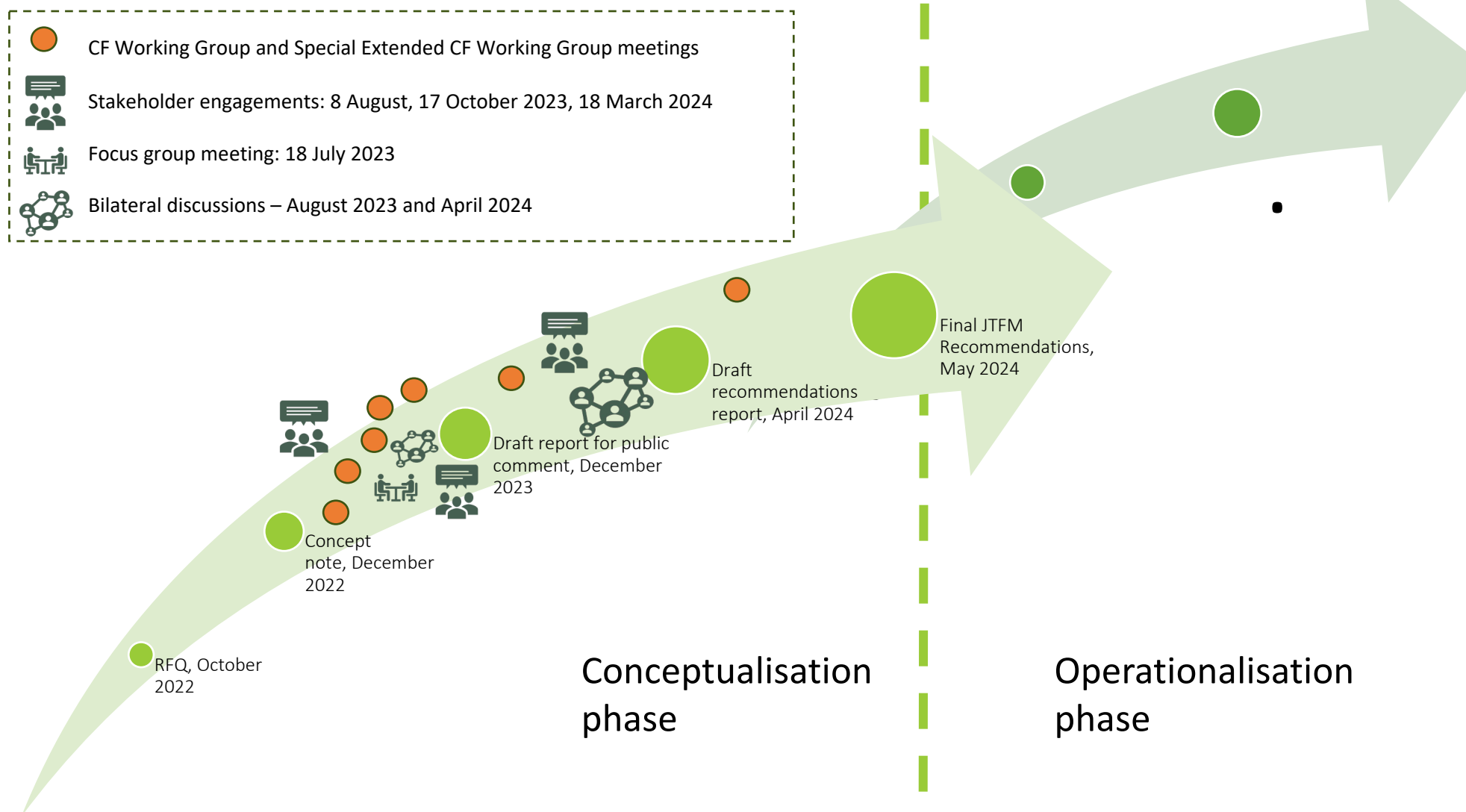
Outline

- Process: how did we get here?
- What's the problem we are solving for?
- Proposed functions to address these barriers
- Stakeholder comments on draft report: type, form, function
- Final recommendations



How did we get here?

Process, research, stakeholder engagement and evolution



Findings: Barriers in the mobilisation and allocation of just transition finance

Conceptual challenges

- Under-recognition of JT objectives in financial ecosystem
- Lack of standardised metrics undermine JT considerations in project development and investment strategies (need for assessment framework)

Financial and economic

- Complex risk profiles
- Small ticket size increases transaction costs
- Limited funding sources
- Mismatch in investment horizons
- JT projects require patient, long term capital

Information and coordination

- Information gap in identifying projects
- Lack of quality data for just transition projects
- Fragmented efforts, unclear role of diverse actors (DFIs, MDBs etc)
- Fear of 'just transition washing'

Market and structural

- Externalities:
 - Traditional economic models do not account for environmental and social costs
- Algebraic approach at odds with multidimensional focus of just transition
- Finance sector unresponsive to making the transition just



Proposed functions of the JTfM

Funding mobilisation and aggregation

- Helps in raising funds for just transition projects, potentially aggregating smaller projects to create more attractive investment opportunities.

Matchmaking

- Pair projects with suitable funders, guiding them through the various stages of project financing

Project Assessment

- Assess alignment of initiatives with JTF
- Conduct evaluations of projects for alignment, financial viability, risk mitigation, and community involvement

Blending/structuring

- Utilises financial engineering to combine different types of capital to attract a diverse range of investors.

Project preparation

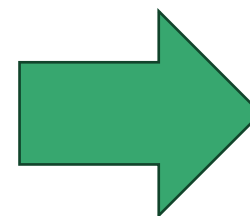
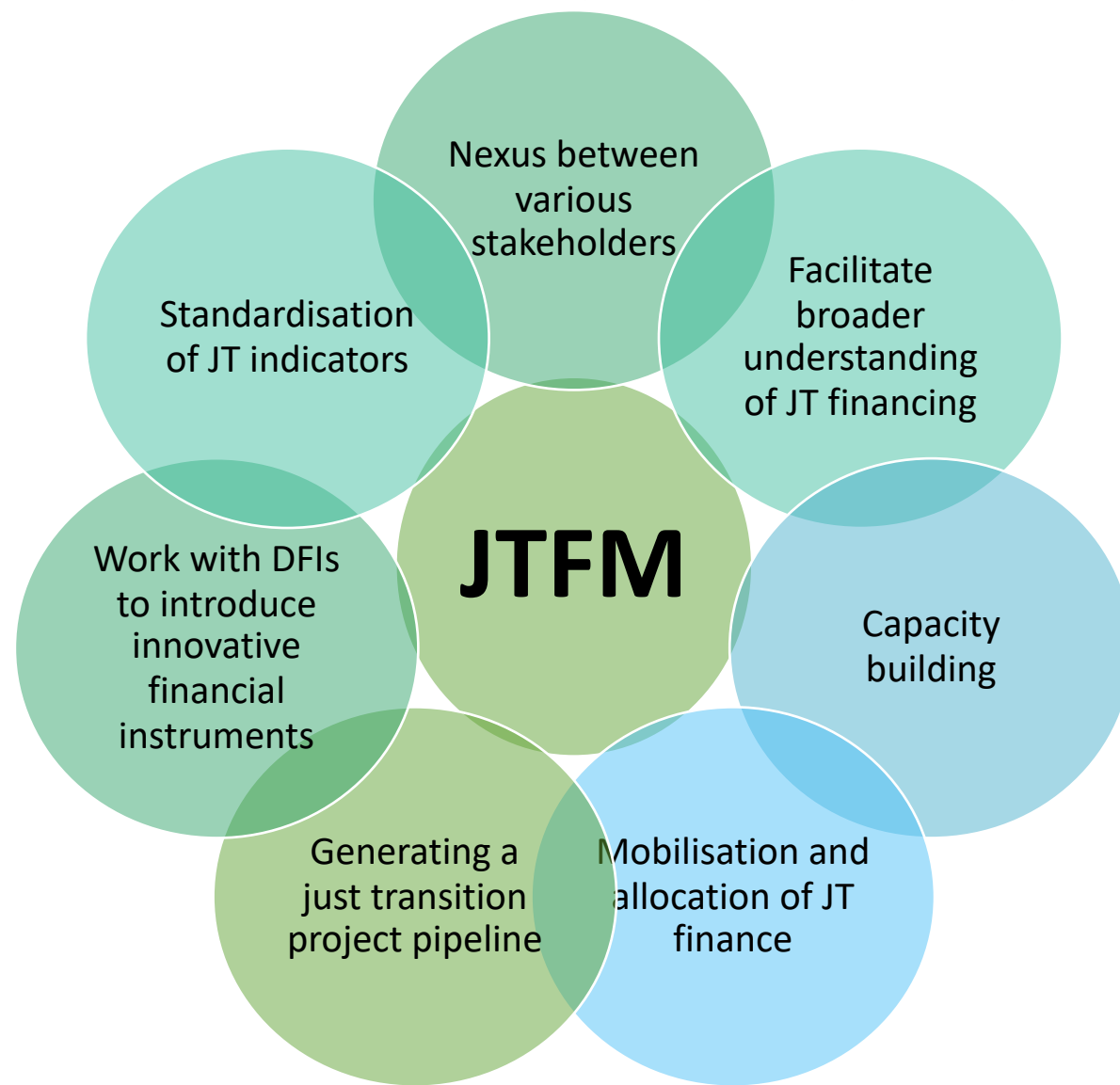
- Support in the ideation, technical assessment, and implementation phases, including regulatory guidance and stakeholder engagement.
- Provide support to bottom up originators of projects e.g. through Community Just Transition Fund and Partnership Implementation Model, corporates/project developers to scale

Collaboration, reflection, learning

- Serve as the nexus for various stakeholders.



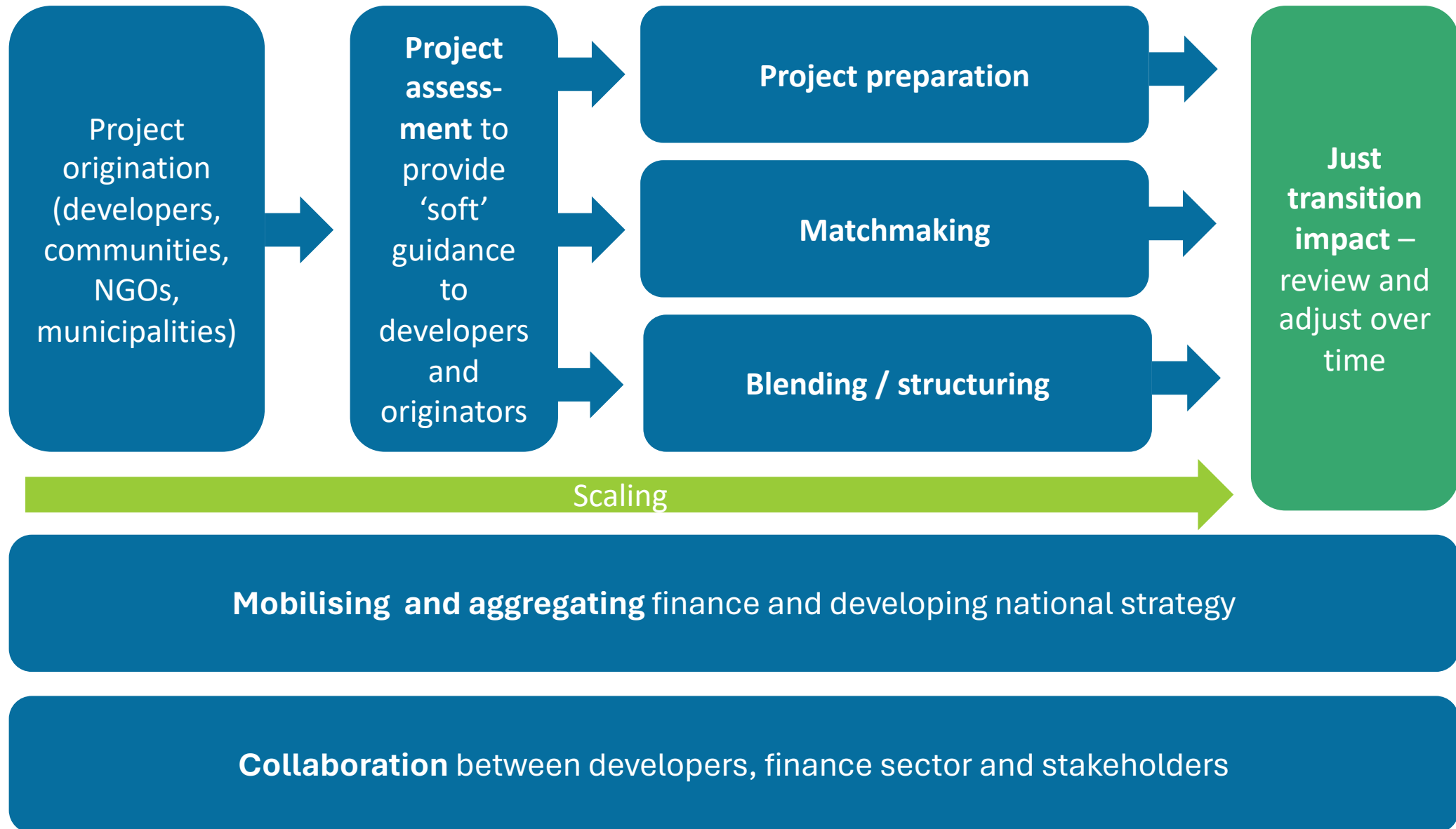
JTFM as key node in broader just transition landscape



Catalyse broader system-level change in financial ecosystem to cater to the needs and challenges of the just transition

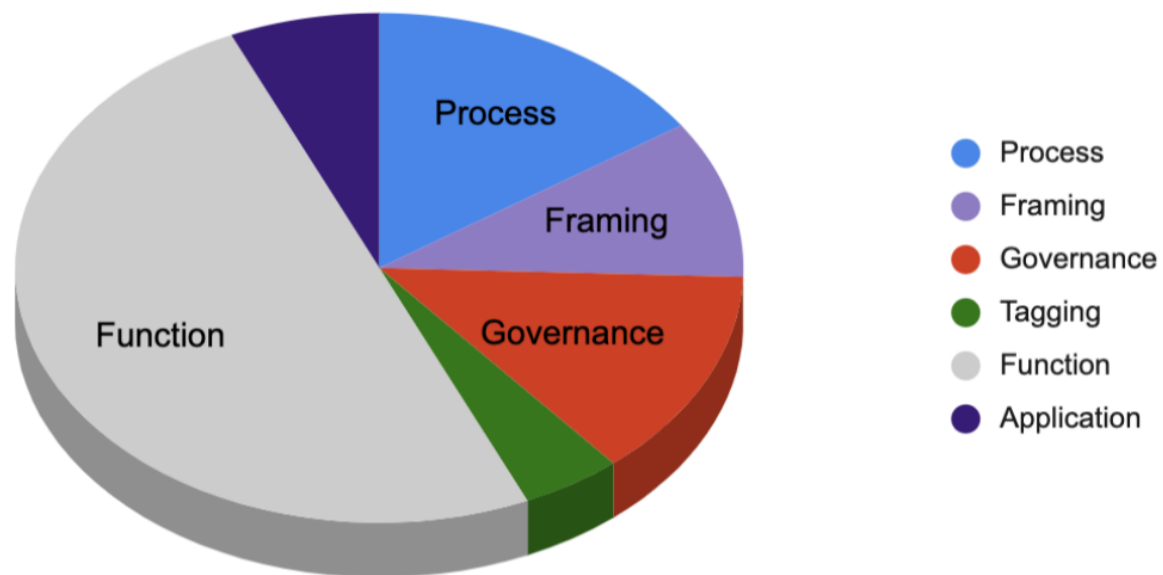


JTF mechanisms to support scaling of projects



Stakeholder inputs showed consensus on the need for the JTFM and constituents felt strongly about the broad scope of functions required

Stakeholder comments by category



Clustered stakeholder inputs

Problem Statement and Framing of the JTFM

- Difficulty in defining the problem statement for the JTFM
- Justice as a central component of the overall transition
- Unsuitability of the existing financial ecosystem
- Need for more quality funds

Stakeholder Engagement Process

- Process of engagement
- Transparency and meaningful engagement
- Need for further codified engagement

Governance of the JTFM

- Lack of background information and engagement on the proposed structures
- Shortfalls of existing institutions
- Broad and inclusive institutional scope

The proposed JT Tagging Framework

- A simplified, consolidated framework aligned with existing efforts
- Focused discussions to understand how the framework will be operationalised

Functions of the JTFM

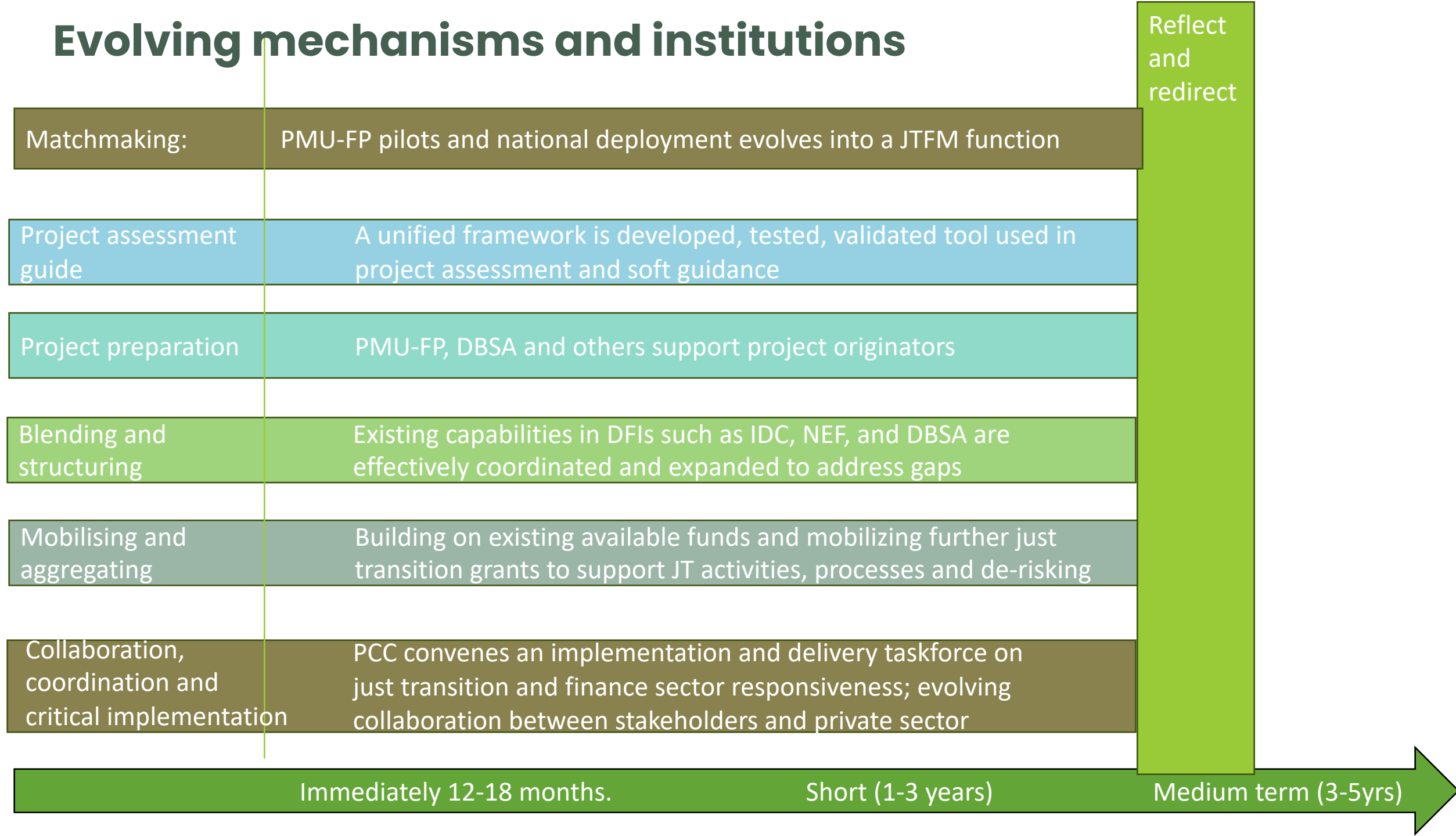
- Alignment with the principles of the JTF
- Systemic and programmatic approach
- Flexible and agile JTFM that responds to market failures

Applications of the JTFM

- Targeted finance mechanisms for specific priority areas
- Need for clarification on the existence and utilisation of funds under the JTFM
- More relevant domestic examples and from the African region



Evolving mechanisms and institutions



“when we talk about the climate transition, we are in fact referring to three interlocking transitions – building long term resilience, decarbonising the economy and ensuring a just transition. For South Africa, this means that the climate transition must be accompanied by economic growth, job creation and poverty reduction, otherwise it will not be a just transition” Deputy Chair: Valli Moosa

PCC JTFM Recommendations

To address fractured, fragmented and low levels of funding flowing to projects and programmes on the ground that support a just transition; and based on consolidated stakeholder inputs, the PCC recommends:

- The **implementation of the JET-IP PMU Funding Platform** to provide critical matchmaking and project preparation services, as the first step in the implementation of a more permanent and institutionalised matchmaking and project preparation mechanism.
- **Target efforts towards SMME support and development.** As the JTFM is implemented through a process of learning and institutional development, the JET Funding Platform must explore avenues through which SMME support and development can be achieved by use of the grants and concessional finance commitments in the JETP package.
- Implementation of a **process within existing DFIs to develop their existing JTFM functions.** Building on and evolving out of the Funding Platform, existing, well-governed and accredited entities (such as the IDC, DBSA, and the NEF) with capacity in areas such as project preparation and development, SMME and municipal support, and experience in blending and structuring finance, will engage in a process to develop a cohesive strategy to take up and enhance JTFM functions in the longer term.
- **Existing development finance entities must also undergo a process of internal alignment and transformation,** as their capabilities in these crucial areas remain siloed and fragmented, both between and within organisations.
- Critical **actions for a decentralised and evolving JTFM** to undertake include:
 - **Develop a strategy** for mobilizing increased funding and aggregating
 - **Collaborate to identify structuring and blending barriers** facing the pipeline of projects that come to the PMU-Funding Platform, and to the entities themselves, through the matchmaking processes;
 - Institute a **review process after 18-24 months** (aligned with mid-way review of JETP), to establish a robust evidence-based framework for financing based on evidence and application, to formalise institutional structures, and identify new and emerging functional gaps and how they can be addressed.



PCC JTFM Recommendations continued

As a more centralised entity emerges, such a mechanism will be firmly grounded in the principles of inclusivity and transparency, with accountability and oversight mechanisms.

- A **co-design process with stakeholders will define appropriate institutional and governance structures** that are fit for purpose and accepted at the level of implementation (community, municipality, provincial and national).
- The **PCC will convene a private finance implementation taskforce**, to socialize just transition concepts and priorities, provide advice and support to private finance champions, to shift the financial sector to be more responsive to the just transition.
- In responding to stakeholder calls for organised and structured processes to ensure procedural justice, the **PCC will also develop and publish a stakeholder engagement charter**.
- The **PCC and the JET-IP PMU will convene an expert group** to analyse findings from current research and to test and validate a consolidated project assessment framework.



PCC JTFM Recommendations continued

Recognising the challenges in developing projects on the ground that contribute to people's needs, support alternative economic futures in areas with spatially or sectorally concentrated risks, and the benefits of inclusive, locally-led economic diversification, the PCC:

- **The PCC supports bottom-up community and labour-led initiatives to conceptualise, develop and originate feasible projects. Examples include the Community Just Transition Fund and the Partnership Implementation Model**, which can be vehicles for catalytic community-owned and locally led projects, that could be scaled up through JTFM matchmaking, project preparation, aggregation, and blending / structuring mechanisms.
- **International partners are encouraged to make new and additional funds available for just transition needs** across the spectrum of required investments, including community- and worker-led initiatives. Partners also need to **explore and deliver innovative and creative approaches to grant financing** to ensure that grant support can be effectively utilised to support, de-risk, and scale just transition projects and programmes; that is, both the quantity and quality of finance is critical.
- Despite the current fiscal constraints, the role of public finance is critical. **National Treasury should:**
 - Undertake a fiscal review to analyse existing programmes and public funding towards the just transition;
 - Evaluate the potential for the re-orientation of existing grants and spending towards addressing just transition needs;
 - Develop a climate budget tagging framework for public expenditure; and
 - Harmonise and integrate just transition aspects into the Green Finance Taxonomy.
- Critically, consideration must also be given to **assessing the potential and role of public finance in derisking just transition projects and for incentives and mechanisms to be developed** in support of a just transition.





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Request for adoption.