PRESIDENTIAL CLIMATE COMMISSION
TOWARDS A JUST TRANSITION

SCALING FINANCE TO SUPPORT A JUST TRANSITION: THE POTENTIAL OF A JUST TRANSITION FINANCING MECHANISM

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Scaling finance to support a Just Transition:

The potential of a Just Transition Financing Mechanism

A PRESIDENTIAL CLIMATE COMMISSION DRAFT PROPOSAL FOR PUBLIC COMMENT

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About the Presidential Climate Commission

The PCC is a multi-stakeholder body established by the President of the Republic of South Africa to advise on the country's climate change response and pathways to a low-carbon, climate-resilient economy and society. In building this society, South Africa needs to ensure decent work for all, social inclusion and the eradication of poverty. Those most vulnerable to climate change, including women, children, people with disabilities, the poor and the unemployed, need to be protected and workers' jobs and livelihoods also need protection. The PCC facilitates dialogue between social partners on these issues – and in particular, defining the type of society we want to achieve and detailed pathways for how to get there.

Acknowledgments

The PCC thanks its Climate Finance Working Group for the valuable input, ideas and feedback, as well as the broader range of stakeholders that the PCC interacts with on an ongoing basis.

This report was prepared by Krutham to assess the challenges related to the financing of just transition projects, the existing financial architecture and ecosystem, and to subsequently provide options for a Just Transition Financing Mechanism. This report has been redrafted through a number of iterations, after two public engagements, a focus group discussion on just transition tagging and several bilateral engagements with institutions which are currently operating in the wider ecosystem of South Africa's development finance sector and the private capital and financial markets. In particular, the PCC has been aware of the need to ensure alignment with the project management unit (PMU)'s mandate as it relates to implementing the Just Energy Transition Investment Plan (JET-IP), ensuring that all recommendations are consistent with the need to implement solutions urgently while envisioning a future system that allows for effective on-going success in developing, funding and implementation of just transition projects. This report is a product of the PCC's considered and consulted view on imperatives for a Just Transition Financing Mechanism.

1. Executive Summary

Purpose of the report

This report investigates how the financial ecosystem can effectively mobilise and allocate resources for South Africa's just transition. It highlights the crucial interventions needing finance, the types of capital required, and the available funding streams. The report also addresses the barriers to directing existing funds towards viable just transition projects and suggests systemic changes to meet these funding needs.

Our analysis identifies a primary obstacle in funding the just transition: current efforts are often fragmented and uncoordinated. This fragmentation, exacerbated by various other barriers, poses a major challenge in efficiently mobilising and allocating finance for the just transition. In response, the report proposes the creation of a Just Transition Financing Mechanism (JTFM). The JTFM aims to provide a cohesive strategy for raising and channelling funds towards the just transition.

Furthermore, the report delves into the practicalities of establishing the JTFM. It examines its intended functions, the regulatory frameworks necessary for its creation, potential institutional hosts, and ways it could synergise with existing entities currently undertaking similar roles. The following sections will detail the key findings from these analyses.

Key findings

1.1. WHAT NEEDS FUNDING?

The financing of South Africa's just transition necessitates a multifaceted approach to support those impacted by decarbonisation and to harness opportunities in the low-carbon economy. Key intervention areas include:

- **Workforce development:** Reskilling initiatives for workers and communities engaged in fossil fuel industries, focusing on equipping workers to participate in emerging low-carbon economic sectors.
- **Economic diversification**: Funding to diversify economies in decarbonising regions, supporting startups and SMEs in local value chains.
- **Sustainable agriculture:** Investment in climate-resilient agriculture and land management for food security and environmental sustainability.
- **Clean energy and infrastructure:** Ensuring equitable access to clean energy and funding for climate resilient infrastructure in water, transportation and urban planning.
- **Social protection:** Transitional support for workers and communities affected by industry shifts, including social security nets, unemployment insurance and education or apprenticeship stipends.
- **Community engagement and environmental stewardship**: Financial support for community involvement in just transition decision-making processes as well as funding for projects in environmental restoration and resource management.
- **Innovation and capacity building**: Support for research, innovation, and capacity building in local institutions and individuals to facilitate transition contributions.

1.2. FINANCING SOUTH AFRICA'S JUST TRANSITION

South Africa needs approximately R574bn by 2030 and R1.9tn by 2050 for its just transition (World Bank Group, 2022). While there is considerable funding available for decarbonisation projects and to some extent for adaptation initiatives, the just transition faces unique funding challenges.

Just transition projects are less commercial by nature, necessitate a higher proportion of grant finance and risk mitigation tools for capital aggregation and blending. Various funding sources are available, including international mechanisms under the Paris Agreement, domestic funds focused on socio-economic objectives, corporate ESG programmes and philanthropic or impact investments.

Grant funding will the most critical source of capital, especially in the immediate term. Despite being limited, just transition projects could be eligible for a portion of the grant funding pledged by the International Partners Group (IPG) to the Just Energy Transition Investment Plan (JET-IP) 2023-2027.

Grant funding should be strategically deployed to serve a catalytic role. Catalytic in this context refers to the strategic use of funding to generate positive outcomes and mobilise third-party investment that would not have been possible in the absence of catalytic funding.

1.3. KEY BARRIERS

As mentioned, the current landscape for just transition financing in South Africa is characterised by fragmentation and inadequacy, stemming from multiple intertwined barriers. The include:

Conceptual challenges, marked by a lack of consensus on defining just transition projects and categorising them. This translates to an under-recognition of just transition objectives within existing funding modalities, including climate finance and social development finance.

Information asymmetries also present significant challenges to mobilising just transition finance. The absence of standardised just transition indicators and metrics, along with poor quality data, complicates impact assessment, investor confidence, resource allocation and integration into financial systems for informed investment decisions.

Just transition projects also face significant financial and economic barriers should they seek to raise capital. For instance, it is difficult to price risk in just transition projects and it is often not clear how commercially available funding can be attracted towards these projects, which are also often smaller in scale (and therefore having higher transaction and arranging costs). There are also insufficient financial instruments that could cater to the needs of just transition projects, such as patient, risk tolerant capital that can be mobilised through incentives and other de-risking instruments.

There are also significant market and structural barriers in raising just transition finance. This entails the failure of existing pricing models to account for project externalities, particularly social benefits and environmental risks.

There are also reputational and regulatory risks, particularly in areas where government policy is less developed.

1.4. FUNCTIONS REQUIRED TO ADDRESS THESE BARRIERS

This study has adopted an ecosystem approach to identify the functions required to address these barriers and open up just transition projects to the market (see **Box 1** for an overview of what an ecosystem approach entails). These functions include:

- **Matchmaking** – linking projects to potential sources of finance throughout the project development lifecycle, from project conceptualisation to development and packaging for bankability.
- **Funding mobilisation and aggregation** – mobilising funds from different sources, creating appropriate blending arrangements, aggregating projects into larger fundable transactions.
- **Blending/structuring** – combining grants, equity and debt to finance projects in a manner that maximises outcomes while minimising risk.
- **Project assessment and tagging** – both in terms of just transition impact and longer-term sustainability.
- **Project preparation** – supporting projects through each stage of the development process, including conceptualisation, technical assistance, capacity development, regulatory and compliance guidance, stakeholder engagement, environmental and social impact assessment and project execution.
- **Facilitating collaboration** and building the capacity of communities and municipalities.
- **A framework or methodology to assess projects** as being relevant to the just transition, in the short term to prevent ambiguity and possible "just washing".

1.5. CONSIDERATIONS FOR ESTABLISHING A JTFM

Some development finance institutions (DFIs) are already performing some of the functions identified above, such as the Development Bank of Southern Africa (DBSA) and Industrial Development Corporation (IDC). The JET-IP PMU in the Presidency is programming some of the available funds through the $8,5bn JETP facility. There are also NGOs that are doing excellent work at conceptual level and preparing for community level proofs of concepts (for instance, Trade & Industrial Policy Strategies, National Business Initiative).

The PCC has reviewed various international mechanisms for supporting just transition projects and there are developing and developed country examples that we can learn from. **While bottom-up approaches have proven to be particularly well suited to smaller community development projects, there does need to be a level of central coordination to address persistent market failure.**

This report explores the potential legal structures for establishing the JTFM:

Public Finance Management Act (PFMA) and the Public Service Act (PSA) entities: Establishing a new entity comes with significant challenges, primarily due to the extended time frame required to establish public entities.

JTFM as a public-private partnership: This option offers a blend of private sector efficiency and public sector oversight, but present challenges such as potential conflicts of interests, accountability issues as well as a longer time to market.

Incubating the JTFM within an existing PFMA entity emerges as the strongest institutional option. DFIs such as the DBSA and IDC have significant experience and expertise related to the just transition. Leveraging these established infrastructures and networks can reduce the time to set up the JTFM and provide a robust platform for immediate operationalisation.

In determining the institutional arrangement of the JTFM, a key consideration is ensuring that the chosen structure aligns with and prioritises the core functions of the JTFM. This is crucial to guarantee the agility and adaptability of the JTFM as it evolves, ensuring that it remains responsive to the dynamic needs of the just transition finance landscape.

Way forward

Recognising the inability of the current financial ecosystem to channel funding toward South Africa's just transition, **the PCC proposes that existing initiatives be complemented by the establishment of a JTFM.**

Given the urgency of this challenge, the JTFM should ideally be located within an existing PFMA entity, such as the DBSA. The JTFM would initially focus on matchmaking and tagging, but over time would evolve into project development, capacity building and finance structuring functions.

Despite some of the key co-ordinating and catalytic functions residing within an existing entity like the DBSA, it is imperative that the conditions are created (including, but not confined to, governance and financial accountability issues) **for other providers of capital to be able to participate for effective blended finance solutions.**

Over the long term, there is a need to shift the overall financial ecosystem to support just transition projects. Just transition portfolios should be reimagined; they are not only a social or environmental responsibility but a strategic imperative to reduce multifaceted risks. Just transition indicators should be integrated into climate finance and incentives created such as tax breaks, preferential market access and community set-asides.

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2. Introduction

South Africa faces a critical juncture in its transition to a low-carbon economy. The devastating consequences of climate change, including intensified floods, droughts and extreme weather events, are threatening livelihoods and ecosystems, as well as the economy in various sectors. At the same time, a shift from large-scale employment sectors such as like coal mining and auto manufacturing can lead to job losses and economic hardship for many people. These factors highlight the urgency of a **just transition** in South Africa.

> *The risks of not proactively financing just transition interventions include substantial job and livelihood losses, lack of job creation … and the erosion of development gains. In other words, the exacerbation of existing injustices and inequalities.*

A just transition aims to ensure that the burdens and benefits of the low-carbon transition are equitably shared and that human development outcomes are maximised, whilst providing opportunities for local communities and workers who are most vulnerable to climate change and the negative impacts of the transition. This typically entails interventions in areas such as skills and capacity building, enterprise development and SMME support, job placement schemes, community development projects, the rehabilitation of land and ecosystems as well as social and income support.

The just transition framework (JTF) envisions a resilient economy powered by renewable energy, equitable access to resources and sustainable land use, all while upholding social justice, creating decent employment opportunities and eradicating poverty (PCC, 2022a). This vision is informed by an understanding of a just transition whereby social justice is intricately linked to addressing climate, energy and environmental justice with a view to achieving an equitable, holistic societal transition.

Realising the vision of a just transition necessitates substantial financial resources. A recent World Bank study "South Africa Country Climate and Development Report", done with inputs from the PCC, estimates that R574bn will be required for just transition investments by 2030 and R1.9tn by 2050 (World Bank Group, 2022). Although these figures are lower than those projected for adaptation and resilience (about R1.9tn by 2050) and decarbonisation (R2.4tn by 2050), the mobilisation and allocation of funds for the just transition face distinct challenges.

A key challenge is that just transition financing is still in a nascent stage, which translates into significant conceptual ambiguities, especially in relation to climate finance. Climate finance works to deliver climate action, such as mitigation and adaptation, the objectives of which have dominated discussions about the low-carbon transition. While just transition finance indeed aligns with the objectives of climate finance, it adds emphasis on addressing the social, economic and environmental justice questions that underpin the transition to a low-carbon economy (Lowitt, 2021; PCC, 2022a).

Just transition interventions entail measures that provide support to workers and communities whose livelihoods are threatened by decarbonisation efforts. This includes strengthening skills, enabling active labour market interventions, promoting localisation, fostering enterprise development and championing support for small, medium and micro enterprises (SMME). Additionally, there is an emphasis on social ownership models and community development, with a particular focus on gender and youth empowerment. Indeed, the just transition presents an opportunity to address inequalities that exist at the social and spatial levels, linked in many ways to the country's colonial and apartheid legacy.

The Just Transition Framework (JTF) advances the principles of distributive, procedural *and* restorative justice to underpin the just transition towards an environmentally sustainable economy and society in South Africa.

Restorative justice seeks to address the historical economic, environmental and social losses that have incurred against individuals and communities under extractive industries and aims to provide redress for these harms. Montmasson-Clair (2021) aligns restorative justice with the discourse of transitional justice, which underscores the need to be cognisant of historical instances of widespread and normalised human rights violations. This translates to interventions that ensure equitable access to environmental resources and land, advancing land redistribution and reinforcing strategies such as B-BBEE (Montmasson-Clair, 2021; PCC, 2022a). In other words, restorative justice seeks to use the transition to address historical harms and ensure that decarbonisation efforts do not perpetuate the structural injustices inflicted by the past.

Distributive justice demands that the risks and opportunities presented by the low-carbon economic transition be shared equitably. It requires interventions and policies that equip citizens and various spheres of government with the support and capacity to participate in the economy that we are transitioning into.

Procedural justice emphases that just transition interventions should be developed in bottom-up ways whereby those most vulnerable and affected define their own needs and futures. Partnerships should seek to unlock the various capabilities of community, private sector and government institutions and build long-term networks between communities and resource organisations.

The risks of not proactively financing just transition interventions include substantial job and livelihood losses, lack of job creation in new sectors of the economy, failure to proactively manage decline and the erosion of development gains. In other words, the exacerbation of existing injustices and inequalities.

Yet, there are various barriers that prevent the mobilisation and allocation of just transition financing (for a detailed discussion, see *Mobilising just transition finance: barriers and gaps in the financial ecosystem*). Broadly, these include conceptual ambiguities around the just transition's definition and objectives, coupled with a lack of standardised metrics and quality data. Financial and economic barriers, stemming from the novel nature of just transition projects, complicate risk assessment and commercial return calculations, with projects often facing high transaction costs. Furthermore, information and coordination gaps, evidenced by insufficient data and a lack of cohesive strategies, hinder efficient fund mobilisation and allocation. There are also market and structural issues that fail to account for environmental and social externalities.

The PCC recognises the urgency of addressing these barriers to catalyse funding for just transition projects. Drawing on international and local examples, there is a great need for matchmaking entities to link projects with appropriate funding sources throughout their lifecycle. Central to this is building a database that maps out potential projects with potential sources of finance. In addition to matching, a coordinated and target effort is required to mobilise and aggregate funding. This entails pooling resources from varied sources, forming blended finance arrangements, and amalgamating projects into larger, fundable transactions. To integrate just transition projects within financial infrastructures, standardised project assessment frameworks are required to ensure, on the one hand, that projects are aligned with the JTF and sustainable in the long-term. There is also a well-known need for project preparation assistance to address the lack of a viable project pipeline. This type of support is required through various development stages, including conceptualisation, technical assistance, and stakeholder engagement. Finally, coordination is paramount, facilitating collaboration amongst funders, project sponsors, and implementing bodies such as municipalities and NGOs, to streamline efforts towards the just transition (for a more detailed discussion, see

What functions are needed to address gaps and challenges?).

Some DFIs already perform some of these functions, such as the DBSA and IDC. Both are involved in project preparation, funding mobilisation and the development of innovative financing tools for social and sustainable development. In terms of the just transition, the Just Energy Transition Investment Plan Project Management Unit (JET-IP PMU) in the Presidency is programming some of the grant funding availed through the $8.5bn JETP facility toward just transition initiatives. Likewise, NGOs such as TIPS and GreenCape are involved in interventions at the community level.

Despite these initiatives, there remains a significant gap in coordinating just transition efforts and a comprehensive approach is needed to address the complex barriers associated with just transition financing. The PCC has reviewed various international approaches to address the just transition. Countries in the global South and global North have developed financing mechanisms that offer vital lessons for South Africa. The mechanisms are broadly categorised as centralised and decentralised entities.

Centralised models, typically managed by a national government department or central entity, ensure unified planning, concreted efforts and decision-making. This can be particularly effective for broad-scale initiatives that align with national objectives. On the other hand, decentralised models offer greater flexibility and are often more responsive to local needs. As such, they are particularly suitable for more local and community scale interventions.

The need for a dedicated JTFM emerges from the recognition that existing efforts, although valuable, are fragmented and not entirely adequate to meet the extensive and specific requirements of just transition financing. While current efforts led by DFIs and NGOs are contributing in significant ways, there is no centralised platform that brings together these disparate efforts, addresses the range of financing needs and ensures that projects align with the overarching objectives of the just transition.

To this end, the PCC proposes the establishment of the JTFM to address these barriers by providing a coordinated, centralised approach towards the mobilisation and allocation of just transition finance in South Africa. The JTFM would serve as a hub that aligns, streamlines and amplifies the efforts of various stakeholders in the financial ecosystem to ensure a cohesive approach to financing South Africa’s just transition.

3. Problem statement

The current just transition financial landscape in South Africa grapples with three overarching challenges: 1) the absence of a cohesive and universally accepted definition of the just transition, resulting in varied interpretations and understanding; 2) the lack of a viable project pipeline, coupled with insufficient project preparation support that hinders the development of potential interventions; and 3) a discernible mismatch between available funding sources and the specific requirements of just transition projects.

To navigate these issues, this report delves into some of the underlying causes that create these bottlenecks in the mobilisation and allocation of just transition finance. We begin by identifying the kinds of projects seeking funds and the available financing, followed by an examination of why this funding is not channelled to just transition projects. The report then highlights the necessary functions to rectify these financial flow challenges, pinpointing entities currently performing some of these functions. Subsequently, we consider how the establishment of a dedicated financing facility such as the JTFM could advance a more coordinated approach to addressing these functions, followed by a set of institutional proposals.

4. Methodology

This analysis has been informed by an ecosystem approach that emphases the relations and interdependencies among various actors, instruments, and infrastructures in the just transition financing landscape (see **Box 1**). We drew on primary and secondary research methodologies to analyse and comprehend the complexities of financing South Africa's just transition. Primary research entailed targeted stakeholder interviews with PFMA entities, including DFIs, commercial banks and regulatory authorities. These were complemented with a literature review to shed light on the challenges and gaps in South Africa and more broadly in the global South (AfDB, 2022; Calland, 2023; ILO, 2022; Impact Taskforce, 2023; Lowitt, 2021, 2022). Where specific literature covering the barriers to just transition financing was limited, we leveraged research on climate finance – adaptation and mitigation – in South Africa and emerging markets in general (Ivankovic & Essa, n.d.; Mtombeni et al., 2019; NBI, 2013; Steyn et al., 2021; Tippmann et al., 2013; UNTT, 2013; Winkler et al., n.d.).

We also conducted a literature review of global funding mechanisms relevant to just transitions (detailed in *Addendum B: Literature review* of) that provided insights into the strengths and weaknesses of centralised and decentralised models as well as best practices for consideration in the design of South Africa's JTFM.

Box 1: Ecosystem approach

An **ecosystem approach** considers the interconnected nature of various actors, instruments, infrastructures and regulatory frameworks within the financial sector. Rather than examining components in isolation, this approach emphasises the relationships and interdependencies among them. Key elements include financial institutions (like banks, microfinance institutions and investment firms), products and services, market infrastructures, regulatory and oversight bodies and end-users. By understanding the dynamics within this ecosystem, stakeholders can identify opportunities and challenges, promote innovation, ensure stability and foster an environment that meets the diverse financial needs of individuals, businesses and communities. This approach is particularly important in evolving financial landscapes, ensuring resilience, sustainability and inclusiveness in the face of rapid technological advancements and changing global economic conditions.

Additionally, in line with its social compacting function, the PCC actively works to forge consensus on issues related to the just transition. This approach is central to the design of the JTFM to ensure that it is shaped by a broad range of perspectives and aligned with the social realities of diverse stakeholders. To achieve this, the PCC has conducted several stakeholder engagements, gathering insights and inputs that have significantly influenced the recommendations and content of this report. These engagements included:

1. Two public stakeholder engagements that addressed the tagging framework (criteria of a just transition project) as well as the potential institutional structure of the JTFM.
2. A dedicated focus group discussion centred on the criteria for a just transition tagging framework (see Addendum A: Just transition tagging framework of this report).
3. Targeted stakeholder engagements on the potential institutional host of the JTFM.

Finally, the guiding objectives and purpose of this research have primarily been informed by the vision of a just transition laid out in the JTF. The JTF outlines the aspiration of ensuring that the transition to a more sustainable future does not leave any community or individual behind. It emphasises the importance of a transition that is equitable, inclusive and mindful of the socioeconomic implications on various stakeholders. This means not only a focus on environmental sustainability, but also on socioeconomic justice, ensuring that the opportunities and risks of the transition are shared equitably across society. Furthermore, we also aimed to align the recommendations with the strategic objectives outlined in the JET-IP.

5. What needs funding?

Financing South Africa's just transition requires a comprehensive approach that integrates environmental, economic and social dimensions to ensure that investments are made urgently and at scale to mitigate social risks arising from the transition. To simplify our understanding of the types of activities that require funding, we adopt a framework outlined in **Box 2** that categorise these activities into "transitioning in" and "transitioning out" (Van Deventer and Schultz, 2023). In short, transitioning in activities entail proactive measures that enable, in particular, marginalised groups and vulnerable communities to seize the opportunities presented by the low-carbon economy. Transitioning out activities entail proactive measures to safeguard and support workers and communities reliant on the fossil fuel industry during the shift away from coal-based activities.

Most just transition projects will integrate both transitioning in and out elements, that is, the financing of transitioning in and transitioning out activities are not mutually exclusive. Nevertheless, this conceptual framework enables us to categorise and better comprehend and plan for the various activities involved in a just transition. These include (Intellidex, 2022; Lowitt, 2021; PCC, 2022a):

Reskilling and upskilling: Directing financial resources towards skills development programmes is pivotal for the future workforce, especially for those in fossil fuel sectors facing potential job layoffs. This is arguably one of the highest priority areas in the just transition process and should take place long before decommissioning processes are underway (see **Box 3**).

Skills development for a just transition could entail sector-specific training and job creation initiatives in emerging low-carbon or green economic industries. This approach involves implementing customised training programmes across both formal and informal sectors. These programmes should be designed to acknowledge and build upon prior learning and adapted to meet varying education and skills levels, including workplace-based learning opportunities and strategies to assist those with lower foundational skills.

Simultaneously, skills development should entail a focus on generating new job opportunities in areas that are pivotal to climate resilience and sustainable energy systems. These sectors include renewable energy, battery manufacturing and electric vehicle production.

The success of skills development programmes will be contingent upon active labour market policies that aid workers in navigating career transitions, effective job searching and relocation support in response to shifting industry demands.

Economic diversification is crucial for a just transition in South Africa. This involves creating new economic clusters designed to meet local needs and produce goods and services like food, construction materials, healthcare services or cater to regional/global markets. The focus also extends to the biodiversity economy, which includes activities directly relying on or contributing to biodiversity conservation. This sector is significant for rural development and poverty alleviation, offering jobs in areas such as biodiversity restoration and tourism.

Diversification strategies include supporting small and medium enterprises, both formal and informal, and facilitating resources for new businesses to promote local economic diversity. Addressing challenges such as limited financing, infrastructure issues, market access, and skill gaps is essential. Diversification strategies will have to identify viable new economic clusters based on community strengths and disadvantages and develop measures to support local content and value chains.

Sustainable agriculture and land use is a critical just transition area, given the agriculture, forestry and land use (AFOLU) sector's pivotal role in ensuring food security. Additionally, agriculture is a significant formal and informal employer. However, this sector is highly vulnerable to climate risk, specifically droughts. Investments should therefore focus not only on enhancing food security but also reducing the environmental impact of the AFOLU sector. This involves promoting climate-resilient crop cultivation to adapt to changing climatic conditions and ensure consistent food production. Additionally, agroforestry practices need to be developed and encouraged, integrating tree farming with agricultural practices to create more sustainable land use systems .(NBI, 2023a). Importantly, just transition interventions should focus on empowering small-scale producers by enhancing their productivity and equipping them with both agricultural and entrepreneurial skills. This entails strengthening extension services and climate monitoring systems, providing better access to financial resources, and offering incentives for adopting sustainable practices. Additionally, reforms in land tenure may be necessary. Farmworkers should be presented with new job prospects, and communities reliant on agriculture need to be recognised, with strategies developed to broaden their economic opportunities.

Affordable and accessible clean energy: The transition to renewable energy brings the issue of energy poverty into focus, defined not just by the physical lack of access to electricity bit also affordability and reliability (Ledger, 2022). Despite significant progress in electrification post-1994, when considering factors such as affordability and reliability, over half of South African households face energy poverty (Ye & Koch, 2021). This situation is worsened by electricity prices rising over 120% from 2008 to 2018.

In this context, ensuring equitable access to clean and affordable energy for all South Africans becomes a cornerstone of the country's just transition. This requires a multifaceted approach, including funding projects that introduce renewable energy solutions to underserved communities. The transition must go beyond mere physical access to electricity and address the broader aspects of energy poverty, ensuring that the benefits of renewable energy reach all segments of society, including those in rural and economically disadvantaged areas.

Climate resilient infrastructure: Investing in climate-resilient infrastructure is key to helping communities adapt to changing climate conditions while maintaining essential services. This involves enhancing water supply systems, transportation networks and urban planning. Alongside this, support is needed for individuals and communities to boost their climate resilience against both immediate impacts like floods, droughts, and extreme storms, and long-term challenges affecting water availability and food security.

"Climate-proofing" physical infrastructure is also crucial. This means not only reinforcing roads and stormwater systems but also ensuring proper planning and leveraging these efforts as local job creators. In urban areas, following the Integrated Urban Development Framework, cities should be designed to be more compact and connected, addressing housing, job proximity, and improving public services like transport, electricity, and water. This strategy should also encompass densification to reduce commutes and land use, enhancing public transport, greening urban spaces, and adopting more climate-resilient building practices.

Social protection and inclusive policies: Financing for a just transition must include comprehensive social protection measures to safeguard vulnerable populations, encompassing basic income grants, healthcare, education, housing, and other forms of support.

Social security reforms are needed to address gaps in current systems and provide transitional or long-term support tailored to specific needs. A national social security fund could integrate basic income support, mandatory retirement and disability provisions.

Comprehensive social protection nets, including social grants, unemployment insurance, and education stipends, should target vulnerable groups and integrate with education, training, and labour market policies.

Shock-responsive social protection, such as a permanent Social Relief of Distress grant, is crucial to support those affected by climate-induced shocks. This can be complemented by direct (microinsurance) or indirect (insurance taken out by governments as an added credit line to support disaster relief) climate risk insurance schemes.

Box 2: Framing just transition financing activities

To simplify the understanding of what types of activities would require funding, we categorise these activities as transitioning in and transitioning out (Van Deventer and Schultz 2023).

Transitioning out entails the protective measures designed to ensure that workers and communities that significantly rely on the fossil fuel value chain are not adversely affected by decarbonisation efforts. This includes targeted initiatives to promote social justice while transitioning from coal. The transitioning out process represents a transition from fossil-fuel-dependent activities and jobs but also a larger shift towards sustainable and socially just practices;

Transitioning in embodies the proactive measures to foster social justice within the emerging low-carbon economic sectors, including activities related to the planning and development of a new low-carbon economy. It entails the development of sustainable and renewable energy sources but also considers the broader social, economic and labour market adjustments required to support this transformation. Critical to this process is a focus on social justice, specifically ensuring that opportunities arising from the low-carbon economy are equitably distributed.

By adopting this lens, we hope that equal attention can be given to both ends of the transition. This helps prevent an overemphasis on one aspect of the transition at the expense of the other, leading to a more balanced approach. In particular, this lens helps highlight the social justice elements of the transition, helping to ensure that the needs and interests of all stakeholders, particularly the most vulnerable are considered and addressed.

Community engagement and participation: Funding is required to facilitate community engagement and participation in decision-making processes related to just transition projects. Community involvement ensures that projects align with local needs and priorities.

Environmental restoration and conservation: Financing is essential for environmental restoration and conservation projects that protect biodiversity, restore ecosystems and promote sustainable resource management.

Innovation and research: Investing in research and innovation is crucial for developing new technologies, methodologies and solutions that accelerate the transition to a low-carbon economy while addressing social challenges.

Capacity building and training: Financing capacity-building initiatives empowers local institutions, organisations and individuals to actively participate in just transition efforts and contribute effectively.

Spatial considerations for a just transition

The journey towards a low-carbon economy will present varying implications for different regions across South Africa. This sems from the country's historical dependence on fossil fuel-driven industries with economic activity concentrated in specific regions. For instance, coal mining is predominant in Mpumalanga, whereas the petroleum-based transport sector has significant footprints in the Eastern Cape, KwaZulu-Natal and Gauteng.

South Africa's dependence on fossil fuels is rooted in the heavy energy needs of the historic core of the country's economy, known as the mineral energy complex (MEC), which is centred on mining, metal and mineral refining and processing, petro-chemicals and general manufacturing (Nel et al., 2023). The MEC has not only rendered South Africa's economy extremely dependent on fossil fuel industries, but these industries have also become deeply embedded in the local livelihoods, workforce skills and social fabric of the communities and broader regions in which they are located. As a result, communities in these regions have become acutely vulnerable to the social and economic disruptions that may follow decarbonisation policies and practices.

In Mpumalanga, for example, an estimated 85,000 jobs in coal mining and power generation contribute to approximately 19% of the provincial gross value added (GVA) and almost half of Emalahleni's local economy (Marais et al., 2021). Coal mining in Mpumalanga is also a source of livelihood income for the surrounding communities, where businesses and informal sector work support the mines' labour force. As such, it is estimated that mine closures will affect directly or indirectly more than 400,000 people in that region. This number can be significantly higher, considering that earnings from coal mining typically support numerous dependants through remittances to labour-sending areas (PCC, 2022a).

Similarly, the transport value chain employs over 1.2-million people nationwide and is a major part of the Eastern Cape's economy (TIPS, 2020). Efforts to reduce GHG emissions from transport entail a shift from internal combustion engine (ICE) vehicles to electric and hybrid vehicles. This will substantively change the technology used in road transport and as such, employment in manufacturing, petrol stations, maintenance and repairs. The auto industry in the Eastern Cape accounts for 44.6% of total local vehicle production and around 40% of the country's component manufacturers, which is more than any other province (NMBBC, 2023). However, the production of electric vehicles requires far fewer inputs and jobs than petroleum-based vehicles. An electric vehicle has approximately 20 moving parts compared with 2,000 in an ICE vehicle. Electric vehicles also require much less maintenance, which is one of the largest sources of employment in this value chain (Dane et al., 2019).

Emphasising the spatial aspects of the just transition highlights the urgency for targeted interventions in certain areas based on their unique challenges and potential. Such interventions can encompass tailored reskilling programmes, safety nets, support mechanisms and investments in sustainable industries that resonate with regional strengths and vulnerabilities.

In the broader context of fostering sustainable industries, green hydrogen (GH_2) has become a focal point in South Africa's JET planning as an alternative to fossil fuels in several sectors, from transportation to industrial processes (Presidency of South Africa, 2022).

5.1. Spatial aspects of GH_2 in South Africa

Mpumalanga: Historically known for its fossil fuel industries, Mpumalanga houses facilities like Sasol's Coal-To-Liquids (CTL) plant in Secunda. This infrastructure can potentially be repurposed for GH_2 development. The CTL plant, with its existing technology and equipment, provides a solid foundation that can be adapted for hydrogen production. Moreover, GH_2 can be a significant employer for mining-related jobs in Mpumalanga, as the production of GH_2 extensively involves materials like iron and steel, which the region, with its mining expertise, can supply (IASS et al., 2022).

Eastern Cape: In the Eastern Cape, GH_2 offers an alternative pathway that could safeguard automotive jobs and potentially create new ones. Hydrogen fuel cell vehicles (FCVs) are emerging as a viable alternative to electric and ICE vehicles, especially for applications where long range and quick refuelling are important. The production and maintenance of FCVs are more labour-intensive than EVs, making it an avenue for employment. Additionally, GH_2

has promising export potential. South Africa's strategic geographical location, coupled with its existing shipping and port infrastructure, positions the Eastern Cape as a potential hub for exporting GH_2 and its derivatives.

5.2. Just transition aspects of GH_2

Employment and reskilling: GH_2 offers the promise of employment, especially in regions like Mpumalanga and Eastern Cape. However, the challenge lies in the skill set required for these new jobs. The majority of GH_2-related roles demand technical expertise in mechanical and electrical engineering and process management. Given that a significant proportion of coal mining workers lack a matriculation certification, there is a clear gap between existing skills and those required in the GH_2 sector. Transitioning workers from traditional industries to GH_2 would thus necessitate comprehensive reskilling initiatives.

Export potential vs infrastructure challenges: The optimism surrounding GH_2's export potential requires caution. While the potential for a new and competitive industrial sector is substantial, the infrastructure for the safe and efficient transport of GH_2 to ports is not yet in place. Furthermore, transporting GH_2 presents significant safety concerns. For instance, because it is a much lighter gas than petrol and diesel, storage and transportation is extremely difficult, as it is significantly more combustible (Symons, 2022).

Environmental concerns: There are also concerns about the "green" claims of hydrogen, as some studies have pointed out that the GHG footprint is more than 20% greater than natural gas (Vargas, 2022).

These considerations draw attention to the need to ensure that justice is considered at all stages of a project. It is necessary to recognise that focusing on one area might lead to unintended injustices in another area (Garvey et al., 2022). As such, focus needs to be on considerations of justice across the supply chain for a given product or activity, recognising the potential for injustices across different areas. A consequence might be trade-offs between one element of justice (for example environmental justice) for another (like social justice).

The just transition therefore necessitates a well-coordinated approach that includes rigorous risk assessments, extensive research and a deep understanding of spatial considerations to ascertain what the potential trade-offs might be and to develop appropriate mitigating strategies where possible. One of the building blocks that can be used in this process is active engagement with communities and stakeholders at every decision-making stage. The importance of active engagement was underscored by the PCC's recent visit to Komati power station, which revealed significant lapses in procedural justice during its decommissioning process (see **Box 3**). The PCC's findings highlight the need for clear, transparent communication and genuine stakeholder engagement to avoid confusion and false hopes among local communities. Additionally, addressing job and livelihood losses in the surrounding communities that depend on mining is a crucial to ensure that the benefits and burden of the low-carbon economy is equitably distributed. These insights from Komati serve as vital lessons for upcoming projects, emphasising the need for comprehensive strategies that consider the unique challenges and opportunities of different regions, ensuring a just and inclusive transition.

Box 3: Spotlight on Komati

The PCC visited the Komati power station on 7 July 2023 and 27 October 2023 to assess the decommissioning, repurposing and repowering of the facility, with a particular focus on justice issues. The Commission met with Eskom, workers, labour unions, community members and other relevant stakeholders. The visit revealed critical lapses in how the principles of justice and community engagement were inadequately integrated into the decommissioning processes of Komati. The key findings from the PCC's visit are:

Mixed signals and false hopes: Stakeholders perceived the closure of Komati as a result of international pressure on Eskom to decarbonise its operations. This perception has been fuelled by statements from government officials which suggest that external funding played a role in the decision and others stating that coal will remain a large part of the country's energy mix for years to come. These mixed signals have led to confusion and false hope among local communities and workers, undermining their ability to prepare for low-carbon transitions.

Transparency and inadequate community engagement: The lack of awareness and transparency throughout the decommissioning process has also undermined the social acceptability of the just transition. The engagement process around the decommissioning of Komati was also widely considered inadequate by workers and community members. They criticised the lack of early, frequent and inclusive consultations and post-engagement follow-ups. Furthermore, community members and workers at Komati feel uninformed about the projects under way, their timelines and the jobs to be created. They also distrust Eskom's representation of the impact of the shutdown, as it did not capture job losses in the preceding years of those of contractors, or in the broader community.

Economic and social consequences: The urgency surrounding Komati's decommissioning extends beyond job losses at the power station. The shutdown of the Komati Power Station has far-reaching impacts on the community, affecting not just power station jobs but also secondary employment sectors like transportation and domestic work. Concerns extend to rising crime, drug abuse and gender-based violence due to unemployment. Komati workers also questioned the sectors where new jobs would be created and whether they would offer comparable wages to the power station. Additionally, there was a call for more specific information on training opportunities.

The PCC has presented its report on the "Early Lessons and Recommendations from Komati's Decommissioning and Repurposing Project" to the President. This report critically appraises the historical record of decisions and processes, as well as the current realities in Komati, following on the decision to decommission and repurpose the Komati power station. The report aims to assist in rectifying weaknesses in the process at Komati, whilst providing a set of guidelines for future decommissioning of coal fired power stations. The findings provide valuable lessons, insights and perspectives for the JTFM:

Community engagement, awareness and access:

- Actively create awareness about the JTFM and the opportunities it entails for communities to access project financing; and
- To avoid a top-down approach in its implementation, the JTFM needs to prioritise strong community engagement. The mechanism should be presented to communities as a supportive tool for their just transition journeys. For effective results, a proactive and collaborative approach is essential, especially for place-based impact investors. This will help ensure that community projects meet the criteria for JTFM funding.

Timing and opportunities

- Leverage the lead time before decommissioning to develop a robust project pipeline for JTFM funding; and
- Align decommissioning schedules and community engagement processes to ensure project success and timely execution.

Role of government

- Clarify the government's role in facilitating transitions, particularly in financial aspects; and
- Utilise JTFM as a channel for governmental financing to meet community needs.

Finance and sovereignty

- The financing process should be led by South Africa to ensure alignment with local needs, even if the capital comes from international sources.

6. Funding the just transition

Estimating the precise financing needs for a just transition is challenging as most estimations focus mainly on mitigation efforts and to a lesser extent, adaptation and resilience (NBI, 2023b; Presidency of South Africa, 2022). However, a recent World Bank report provides a comprehensive estimate that breaks down the financing needs for the low-carbon transition, resilient transition and the broader just transition until 2050 (World Bank Group, 2022).

Table 1: Financial needs of the transition (source: World Bank Group, 2022)

	2022-2030			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	886	1.4	6,228	2,431	1.3
Just transition	776	574	1.0	5,309	1,937	1.0
Total	3,288	2.380	4.0	25,923	8,537	4.4

See table 1 for a detailed breakdown.

Although the financial needs for a just transition appear to be smaller when compared with those of the low-carbon and resilient aspects of the transition, mobilising these funds will likely present a more significant challenge. Established financial pathways for low-carbon and resilient transitions are already in place, coupled with standardised metrics and indicators. In contrast, the emergent nature of just transition finance is unfamiliar terrain to conventional financiers, rendering it more challenging to secure funds. This extends to the investment opportunities the just transition presents, demanding tailored financing instruments and mechanisms and stakeholder engagement. In the ensuing discussion on potential financing sources, we highlight the pivotal role of grants serving as catalytic capital in the short term to stimulate other financing avenues.

Grant element

In our research, it became evident that many initiatives crucial to the just transition, specifically social protection measures, skill development programmes and community-based renewable energy projects lack bankability. As such, they will struggle to attract conventional investment. To address this gap, we propose the incorporation of a grant window as a key financing instrument of the just transition (PCC, 2022b).

A grant window in the context of the just transition refers to the mobilisation of grant capital to provide non-repayable financial support to projects that are deemed critical for achieving the objectives of the just transition. Examples of critical projects include community climate adaptation measures, the restoration of degraded land, upskilling programmes, piloting novel technologies, and supporting the development of community and worker ownership models in a decentralised electricity system. These activities will catalyse new economic activity creation and facilitate economic diversification. The key aspect of the grant window is its focus on addressing market failures. Market failures stem from the lack of proper price signals that recognise the societal value of sustainable and equitable projects as well as barriers that prevent necessary funding from reaching high-impact areas.

6.1. Sources of grant funding

6.1.1.JET-IP:

For the 2023-2027 period, financing the social and environmental justice components of the transition will likely depend significantly on grant funding. Of the $8.5bn pledged by the International Partners Group (IPG) to the JET-IP 2023-2027, $324.7m is in the form of grants. The remainder is concessional and commercial locals. With further grants since pledged by Denmark, Netherlands and Spain, the total is now $513.9m. The JTFM will collaborate with the JET-IP PMU to channel portions of the JETP grant funding to just transition interventions, leveraging the PMU's operational framework to maximise the impact of investments in high-priority environmental and social projects (see **Box 4** for a detailed overview of the envisaged collaboration between the JTFM and PMU). The JET-IP PMU has identified following priority areas for grant funding:

- Social and economic support to communities and workers whose livelihoods are affected by coal power plant and coal mine closures and by the transition to new energy vehicles (NEVs);
- Economic diversification planning and new investment promotion in Mpumalanga;
- Start-up capital (combined with debt and equity) for new enterprises in transitioning coal regions and in the new green hydrogen (GH2) and NEV value chains;
- Credit enhancement/first loss funding for SMME loan funds in Mpumalanga;
- Re-skilling and up-skilling for new work opportunities in renewable energy, GH2 and NEVs;
- Piloting renewable energy ownership models and other nascent green industry models;
- Technical assistance for project preparation;
- Research and innovation;
- Capacity building for state institutions mandated to drive JET outcomes;
- Capacity building for community-based organisations and trade unions in Mpumalanga; and
- Stakeholder consultations and inclusive decision-making.

Grant funding should be strategically deployed to serve a catalytic role. Catalytic in this context refers to the strategic use of funding to generate positive outcomes and mobilise third-party investment that would not have been possible in the absence of catalytic funding.

Catalytic capital takes on disproportionate risk or offers concessionary returns compared with conventional investments. Its primary aim is to enhance social or environmental outcomes and to mobilise additional third-party investments that wouldn't be accessible without such catalytic intervention (Impact Investing Institute, 2023a). Catalytic capital can unlock conventional investment in several ways (MacArthur Foundation, n.d.). It can:

- Help prove new and innovative products and business models;

- Demonstrate the financial viability of high-need geographies and populations;
- Establish a track record for new and diverse managers; and
- Grow small-scale efforts so they can attract conventional investment.

In collaboration with the JET-IP PMU, the JTFM could address the JET-IP grant-making challenges by deploying grants in a catalytic way to leverage or "crowd in" third-party funding, such as debt or equity instruments. As a nexus between funders and project developers, the JTFM could accelerate the deployment of JETP grant funding by first, mapping appropriate projects that are ready to get funding and, second, by identifying key priority areas that require financial assistance.

6.1.2. International climate finance

Although climate finance focuses mainly on mitigation and adaptation outcomes, international climate finance represents a potential avenue for advancing the objectives of the just transition. Below we discuss some of the potential frameworks that can be leveraged for just transition financing.

The **Paris Agreement**, through its system of Nationally Determined Contributions (NDCs), mandates countries to contribute domestically to the global climate change response. Article 6 of this agreement, currently under negotiation, seeks to broaden opportunities for international collaboration through international carbon markets.

Market strategies outlined in Articles 6.2 and 6.4 pave the way for potential global carbon markets and internal carbon pricing/taxation mechanisms. These articles empower governments to garner international climate funds linked to mitigation results, which can be channelled towards adaptation and social risk alleviation programmes. However, it is crucial that these funds are ring-fenced to ensure that they are allocated and managed for targeted just transition objectives. Ring-fencing facilitated targeted redistribution, supporting sustainable international development for global social justice and bolstering domestic mitigation efforts. This is particularly significant for initiatives related to adaptation and social risk, which are often in the nascent stages of commercial development and require dedicated support to achieve their full potential and impact (PCC, 2022b).

One of the most significant shifts from the Kyoto Protocol's Clean Development Mechanism (CDM) is the flexibility granted to local governments in overseeing their carbon markets. The CDM, which allowed countries to fund emissions-reducing projects in developing nations and claim these emissions reductions, played a critical role in the initial stages of international carbon markets. However, the CDM faced challenges, including low demand for carbon offsets and fluctuating prices, leading to a revaluation of its effectiveness and the need for more adaptable and inclusive approaches.

Under the Paris Agreement, Articles 6.2 and 6.4 enable governments to garner international climate funds linked to mitigation results, channelling them towards broader goals, including adaptation and social risk alleviation programmes. This approach opens up opportunities for redistribution and harnessing global markets to support domestic initiatives, especially for adaptation and social risk projects that are still developing commercial viability. Unlike the CDM, the Paris Agreement grants more autonomy to local governments in overseeing their carbon markets, potentially directing private sector-led mitigation projects towards just transition goals.

Such autonomy might incentivise governments to direct and control private sector-led mitigation projects. Revenue streams could stem from levies on emission reductions (ERs) or mandatory conversion of a fraction of ERs into Internationally Transferred Mitigation Outcomes (ITMOs) for government-led initiatives.

While South Africa has previously engaged in the CDM, domestic mitigation action under the Paris Agreement provisions has not yet been fully leveraged, presenting an opportunity to channel future revenues towards just transition purposes in a politically viable manner, akin to the Adaptation Fund model under the Kyoto Protocol.

Non-market approaches (NMA) under Article 6.8 of the Paris Agreement present a way for countries to cooperate on climate action without using market mechanisms. NMAs can be used to support mitigation and adaptation, as well as sustainable development. The COP26 decision on Article 6.8 provides some examples of NMAs, including:

- Social inclusivity
- Financial policies and measures
- Circular economy
- Blue carbon
- The transition of the workforce
- An adaptation benefit mechanism

The decision also notes that NMAs should involve more than one party. However, NMAs are not transactions and would not be regulated under the rules of 6.2 or the 6.4 mechanism. This means that NMAs are flexible and can be used to support a wide range of activities. For example, an NMA could support a project that provides training and support to workers who are displaced by the transition to a low-carbon economy. Alternatively, an NMA could be used to support a project that develops new sustainable technologies.

NMAs are still under development, and it is not yet clear how they will be implemented. However, they have the potential to play a significant role in helping countries to achieve their NDCs and to reduce global greenhouse gas emissions.

Adaptation Fund: Set up in 2010 under the UN Framework Convention on Climate Change, the Adaptation Fund supports vulnerable communities in developing countries to adapt to climate change. Funded through governments, private donors and a levy on certified emission reductions (CER), it has committed roughly $850m across various projects. Although the fund's financing from CER sales has dwindled, donations still form its significant revenue source.

South Africa, being among the eligible countries, can access this fund. The criteria for funding encompass policy alignment, replicability and governance. With an established framework for application and a focus on nation-centric priorities, the Adaptation Fund represents a viable source for grant funding in the realm of climate adaptation.

6.1.3. Other potential sources of just transition finance:

The Green climate Fund (GCF) is the world's largest dedicated climate fund, with over $10bn in resources committed. It was established by the United Nations Framework Convention on Climate Change (UNFCCC) in 2010 as part of the Paris Agreement, with the aim of helping developing countries transition to a low-carbon and climate-resilient future.

The GCF funds a wide range of and programmes in the areas of renewable energy, energy efficiency, climate-smart agriculture and forest protection. It also supports adaptation projects that help communities cope with the impacts of climate change, such as sea level rise, droughts and floods, among others. The GCF provides funding in the form of grants, loans and equity investments. It also provides technical assistance and capacity building support to help project developers and implementers.

The **UNDP Small Grants Programme** (SGP) is a global initiative that provides funding and technical support to community-based projects that address global environmental issues. The SGP is funded by the Global Environment Facility (GEF) and implemented by UNDP. The SGP provides grants of up to $50,000 to community-based organisations, including non-governmental organisations, civil society organisations, women's groups, indigenous peoples' organisations and youth groups. The SGP also provides technical assistance and training to help communities to develop and implement their projects.

The **African Climate Change Fund** (ACCF) is a multi-donor trust fund managed by the African Development Bank (AfDB). It provides funding to support African countries in their efforts to adapt to climate change and mitigate its impacts. The ACCF supports a wide range of projects in areas such as renewable energy, energy efficiency, climate-smart agriculture and disaster risk reduction.

The **European Union Global Development Instrument (GDI)** is a development cooperation instrument that will provide €17.5bn in funding for the period 2021-2027. The GDI is designed to support the EU's development partners in achieving the sustainable development goals (SDGs) and the Paris Agreement on climate change.

The GDI focuses on four key areas:

- Green transition: The GDI will support developing countries in their transition to a low-carbon and climate-resilient future. This will include investments in renewable energy, energy efficiency and sustainable agriculture.
- Digital transformation: The GDI will support developing countries to harness the power of digital technologies to promote sustainable development. This will include investments in digital infrastructure, digital skills and digital entrepreneurship.
- Sustainable growth and jobs: The GDI will support developing countries to create jobs and promote sustainable economic growth. This will include investments in education, healthcare and social protection.
- Good governance and human rights: The GDI will support developing countries to strengthen their democratic institutions and protect human rights. This will include investments in civil society, the media and the rule of law.

The GDI is a flexible instrument that can be used to support a wide range of projects and programmes. It is also a results-oriented instrument, with a focus on delivering measurable outcomes.

6.1.4. Philanthropic funding

Philanthropic organisations, including endowed foundations and other entities, are becoming pivotal actors in the realm of catalytic capital provision, which represents a crucial source of just transition finance (Impact Investing Institute, 2023a). These organisations are typically driven by strong impact objectives that are now aligning with the objectives of the just transition. Recognising their unique position to support the social justice aspects of the broader climate transition, many philanthropies have embraced the just transition approach. This is evident in the growing commitment of global philanthropies to leverage grant funding as catalytic capital, a strategy aimed at attracting additional private investments into impact-driven initiatives. Notable examples include the efforts of the John D. and Catherine T. MacArthur Foundation, the Rockefeller Foundation, and the Omidyar Network, which have collectively established the Catalytic Capital Consortium. This consortium not only funds learning and market development for development funding practitioners but also commits significant investments to demonstrate the effectiveness of catalytic capital in various sectors and regions.

Although historically a small fraction of philanthropic funding has been directed towards climate change (with only $320 million of the $64 billion in US-based grants in 2020 dedicated to climate change interventions), the escalating urgency of climate issues has positioned the climate agenda at the forefront of philanthropic endeavours (Intellidex, 2022). The growing focus on climate interventions signals a potential increase in available funding for such initiatives. Given the systemic significance of the just transition within climate action frameworks, there is a substantial opportunity for philanthropists to utilise their capital in ways that create meaningful, long-term impacts, especially by acting as catalysts to draw institutional investors into the just transition. This approach is particularly crucial considering the substantial funding gap in transitioning efforts, where traditional development finance alone is insufficient. Collaborative, cross-sector co-funding is essential to bridge this gap, making the role of philanthropic funding in just transition not only strategic but also indispensable."

Box 4: JTFM and JET-IP PMU

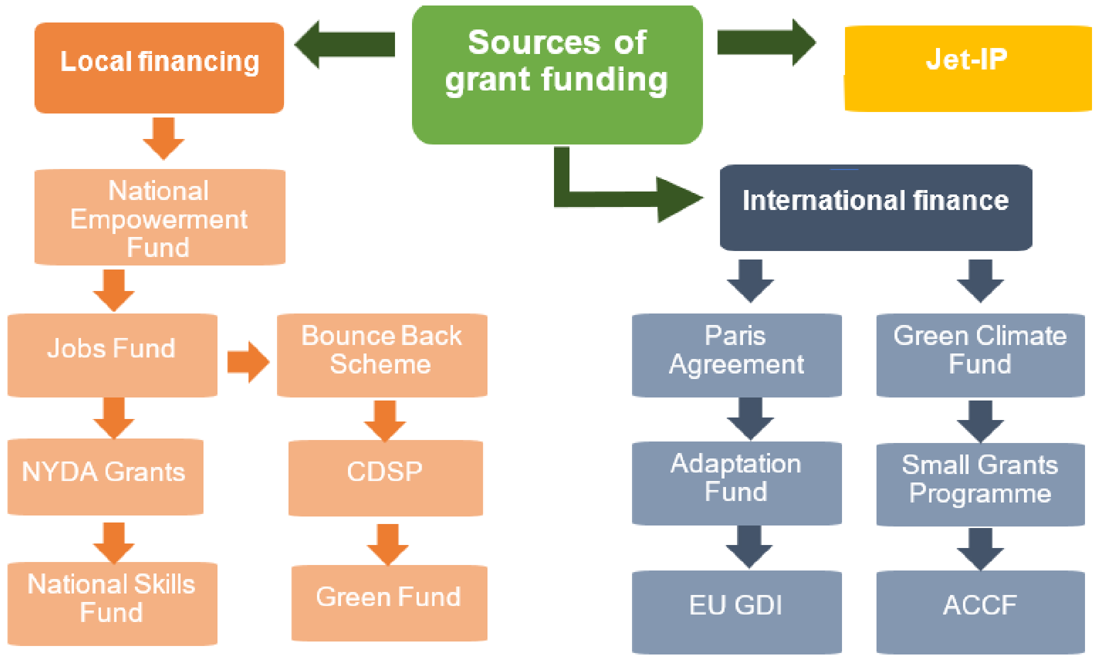
This work on a Just Transition Financing Mechanism, driven by the Presidential Climate Commission and undertaken by a project team from local consultancy Krutham (formerly Intellidex), fits into a broader ecosystem of discussions and policy design work on how to finance the just transition at scale over an extended period. Most important within this has been the important work of the Just Energy Transition Investment Plan (JET-IP) Project Management Unit (PMU), which in its JET-IP Implementation Plan (now approved by cabinet and released) has made specific suggestions on the need for a “financing mechanism” for the transition. Specifically intended to ensure that the grant component of the JETP package is utilised with maximum relevance and impact for the just energy transition, the JET-IP Implementation Plan recommendations provide an immediate point of departure, based around a realistic assessment of what funding is available and what projects are feasible, for this longer-term PCC Recommendation for a JTFM. There is consensus between the PMU and PCC that scarce grant funding and concessional funding must be blended appropriately with other sources of finance, to provide an effective mechanism to scale up investments in the justice components of our transition. The PMU and PCC have had extensive engagements to ensure there is close alignment between the two mechanisms. The PMU’s emerging thinking is of a centrally coordinated structure, focusing on Mpumalanga and a smaller number of projects. The PCC’s conception in this report is more expansive and a permanent institutional-style ecosystem that will undertake key functions over a long period of the transition.

Of key importance is that there is functional alignment between the two entities. Both are meant to scale finance, to crowd in both projects and funding and then match them or unblock blockages.

The PCC views the PMU work as exceptionally valuable and important and will provide both the seeds of the JTFM but also important experimentation and a forum for lessons to be learnt in mobilising and leveraging financing. The PCC and PMU will maintain close contact as operationalisation occurs and as one process is likely to eventually pass to the other. Both will work with a broad range of institutions and be focused especially on addressing market failures related to the funding of the social justice elements of the transition. Both will have forms of addressing tagging or project classification.

Similarly, the PCC has had extensive workstreams involving the projects and funding requirements around Mpumalanga including close collaboration with the provincial government and its transition structures. Separately the PCC has been leading a process with municipalities and mayors around the country. Both these streams of work have yielded rich lessons, included in this report and will continue to drive important points that, while reflected in this report, must also be continually fed into the setting up of a financial mechanism (from the PMU and then from the JTFM).

Figure 1: Sources of grant funding



Local funds

To support the just transition initiatives, local financing can also be tapped into, following international models like that of Canada. The Canadian government strategically utilised existing funds, programmes and budgets to underpin its just transition aspirations. Below we list several potential sources of grant financing for just transition initiatives (see also **Box 5**).

- **National Empowerment Fund** (NEF): The NEF envisions itself as the frontrunner in delivering innovative transformation solutions to ensure an economically inclusive South Africa. Its commitment to promoting black economic participation is evident through its financial and non-financial backing to black-empowered businesses. This support is channelled via five funds: the uMnotho, iMbewu, Rural and Community Development, Strategic Projects and Women Empowerment Funds. Additionally, NEF extends non-financial services such as pre- and post-investment support, turnarounds, restructures and socioeconomic development and asset management.
- **Co-Operative Development Support Programme (CDSP):** Operated under the Department of Small Business Development, the CDSP is dedicated to supporting co-operative enterprises both financially and non-financially in collaboration with other strategic partners. Their blended financing model combines both grant and loan structures, where grants primarily target machinery, equipment, infrastructure, commercial vehicles and business development.
- **National Youth Development Agency (NYDA)** Grants: This initiative is geared towards supporting youth-owned businesses. It offers grants up to R100,000, complemented by a workshop to inculcate business fundamentals in entrepreneurs. These grants, especially the ones exceeding R10,000, necessitate business registration. Moreover, for grants between R50,000 and R100,000, the NYDA often directly pays the suppliers after seeking quotations, underlining its commitment to ensuring the proper utilisation of the funds and its focus on young entrepreneurs' upliftment.

Blended element

The blended finance element will be used for designated projects which are high priority interventions due to their alignment with economic transition policies and strategies (PCC, 2022b). Blended financing is a strategic approach that will combine private commercial capital with other types of capital willing to accept different terms to enable investment in impactful, just transition projects (Impact Taskforce, 2023).

Here, the JTFM can deploy grant financing to de-risk certain just transition projects to attract commercial capital. For instance, JETP grants can be used to cover the upfront costs of a training programme in sustainable agriculture practices for workers who are being displaced by the closure of coal mines in Mpumalanga. A private sector company, such as a food processor or retailer, could invest in the training programme, with the expectation of generating a return on its investment by having access to a pool of skilled workers who can produce sustainable agricultural products. The workers who complete the training programme would then be able to find new jobs in the sustainable agriculture sector in Mpumalanga.

Alternatively, grant funding can be used as first-loss capital to absorb the first losses if the project underperforms. This can make the project more attractive to private investors, who would be less exposed to risk. The South African Green Energy Fund (SAGEF) for instance, is a blended finance fund that invests in renewable energy projects in South Africa. The SAGEF was established in 2011 with R2.3bn in funding from the South African government, the Global Environment Facility and the European Union. The SAGEF provided first-loss capital to the Redstone Solar Power Plant, a 100MW solar power plant in the Northern Cape. The Redstone Solar Power Plant was the first renewable energy project in South Africa to receive a loan from a commercial bank. This use of grant funding as first-loss capital has helped to attract private investment into the renewable energy sector in South Africa.

Designated projects are vital just transition projects but typically face difficulties in securing financing. This may be because they present higher risks at the outset and/or their business case, while strategically important, may not be compelling in the more immediate term. This funding window will mobilise de-risking strategies to support designated projects, such as concessional loans, grants, risk guarantees and first-loss facilities, technical assistance and equity, among others.

Private element

This element will focus on just transition projects that can access private capital as their environmental and social focus and also present an opportunity for financial return. As such, they align with just transition objectives and can function within market parameters, attracting private investors seeking both financial and social and environmental returns. These will likely typically be bankable **transition-in** projects that appeal to banks, private equity, venture capital and private debt. Additionally, private capital projects that meet just transition criteria, but require support to improve their bankability, could also access technical assistance facilities, albeit through a different element. We expect to see certain projects mature from blended finance to private finance projects.

Private financing instruments include commercial funding from banks, corporations or venture capital and private equity firms, impact investing and convertible debt.

Box 5: Local funds related to the just transition

There are several existing funding mechanisms that can be deployed for just transition projects. These include:

Jobs Fund - The South African Jobs Fund is an initiative launched by the South African government to address the issue of unemployment and stimulate job creation across the country. Established to counteract the persistent challenges posed by high unemployment rates and economic disparities, the Jobs Fund aims to promote sustainable economic growth by providing financial support to innovative projects and initiatives that generate employment opportunities.

Bounce back Scheme - The Bounce Back Support Scheme, introduced following the Minister of Finance's February 2022 Budget Speech, has been launched to provide crucial financial assistance to eligible businesses in order to stimulate economic growth and foster job creation within the country. Designed to aid businesses in recovering from the impact of the Covid-19 pandemic and subsequent lockdowns, as well as other challenges like civil unrest and floods, the scheme aims to facilitate a resilient rebound for enterprises.

Green Fund - The Green Fund is a government-established financial mechanism aimed at promoting sustainable development, addressing environmental challenges and transitioning to a low-carbon, climate-resilient economy. Launched in 2012, it supports projects with positive environmental, social and economic impacts, focusing on renewable energy, biodiversity conservation, waste management and sustainable agriculture. The fund partners with stakeholders to accelerate green technologies adoption, create jobs and enhance environmental well-being. It contributes to a more resilient and sustainable future for South Africa.

National Skills Fund - The National Skills Fund (NSF) is a government-initiated financial institution that supports the development and enhancement of skills and vocational training in South Africa. Established in 1999, it aims to address the skills gap, foster economic growth and reduce unemployment by investing in education and skills development initiatives. Funding is collected through employer levies and collaborations with various stakeholders to ensure the workforce is equipped for the rapidly evolving job market.

7. Mobilising just transition finance: barriers and gaps in the financial ecosystem

The just transition framework (JTF) developed by the PCC outlines the urgency of a just transition in the South African context. On the one hand, climate change poses significant risks to its people and environment. Already, the country is frequently subjected to droughts, floods and extreme weather events and data indicates that climate change is increasing both the frequency and severity of these phenomena (IPCC, 2022a). This underlines the need for adaptation measures and climate resilient development alongside mitigation efforts. The country's revised its Nationally Determined Contributions (NDC) set clear targets for carbon emission reductions by 2025 and 2030, reinforcing its commitment to both mitigate climate change and adapt to its unavoidable consequences (PCC, 2021).

Figure 2: Barriers in just transition financing

On the other hand, traditional fossil-fuel industries like coal mining and the auto value chain are significant sources of employment in a nation already dealing with extreme inequality, income poverty and structural unemployment. Transitioning away from these carbon-intensive sectors carries significant social risks, affecting not only workers but also their surrounding communities and extended families who rely on remittances from these activities.

A comprehensive just transition approach is crucial for South Africa, one that acknowledges both the societal consequences of decarbonisation efforts as well as the immediate risks posed by climate change. This approach should encompass both mitigation strategies to lower greenhouse gas emissions and adaptation measures to increase resilience against climate impacts like floods and droughts. Central to the success of such a holistic just transition is the mobilisation and allocation of dedicated financing that can support a range of interventions—from climate-resilient infrastructure and livelihood diversification to emissions reduction and workforce retraining.

As financial commitments for a just transition are gaining traction, we delve into the existing obstacles that hinder the mobilisation and deployment of these funds. Subsequently, we explore the potential of a dedicated financing entity like the JTFM in adapting the financial ecosystem to the specific needs of a just transition.

Barriers to financing the just transition

This analysis is informed by existing literature that looks at the key obstacles preventing the flow of finance to the just transition in South Africa and the global South in general (AfDB, 2022; Calland, 2023; ILO, 2022; Impact Taskforce, 2023; Lowitt, 2021, 2022). Given the nascent stage of just transition financing, literature on the barriers that project sponsors and communities in South Africa, specifically, face in raising funding for initiatives is limited. To this end, we draw on research exploring sustainable finance in the country, which includes barriers to raising mitigation and adaptation finance in South Africa and emerging markets in general to inform our analysis (Ivankovic & Essa, n.d.; Mtombeni et al., 2019; NBI, 2013; Steyn et al., 2021; Tippmann et al., 2013; UNTT, 2013; Winkler et al., n.d.).

We explore the barriers that exist on the demand side for just transition finance as well as key supply side barriers. Drawing on NBI's (2013) analysis of the barriers to climate finance in South Africa, we group the barriers to just transition financing into five categories: conceptual challenges, financial and economic barriers, information and coordination gaps, reputational and regulatory risks and market and structural issues. This categorisation serves to bring structure and coherence to the analysis rather than imposing a fixed interpretation. Several linkages exist both between and within these categories. Furthermore, the number of barriers in any given category should not be viewed as a measure of their significance, as some may exert a disproportionately strong or weak effect (NBI, 2013).

7.1. Conceptual challenges

One of the key barriers that undermine the mobilisation of just transition finance is conceptual ambiguities, especially its relation to climate finance. Climate finance works to deliver climate action, such as mitigation and adaptation. To date, these objectives have dominated discussions about the just transition in financial circles. Although just transition finance undoubtedly has a climate action objective, it entails a targeted focus on addressing the social and environmental justice concerns associated with the transition to a low-carbon economy. This entails support for workers and communities whose livelihoods are at risk due to mitigation strategies as well as strengthening the resilience of both people and the environment against the effects of climate change. Yet, conceptual ambiguities mean that these just transition objectives often get neglected.

The imperative of addressing the challenges posed by decarbonisation goes beyond mere environmental considerations. A pressing danger lies in the socio-economic implications of neglecting a just transition. Failing to proactively build out new areas of the economy could result in massive job losses and an unmanaged decline of certain sectors. This not only puts individuals and communities at risk but also threatens to reverse our country's hard-won development gains. Such a scenario, where a significant portion of the population feels left behind, can amplify social strife and lead to political instability (Lowitt, 2021). Furthermore, given the distinct focus of just transition finance, the unique financing needs, instruments, measurement metrics and investment approaches require urgent attention to start mobilising funding toward these purposes (ILO, 2022; Lowitt, 2021). The importance of just transition financing in the context of decarbonisation efforts has been recognised in, for instance, the EU. The EU has provided additional budgetary allocations ringfenced for just transition projects. This distinction could influence how a funding package, such as the $8.5bn that was announced at COP26 is allocated between decarbonisation efforts and the just transition (Lowitt, 2022). As such, carving a space for just transition financing within the financial ecosystem has the potential for more targeted allocation of resources that address the unique needs of just transition projects.

Related to the previous point, the lack of standardised metrics and indicators for just transition projects poses another barrier to raising just transition finance. Although this gap is being addressed by the emergence of frameworks of social indicators for investments in just transitions (Impact Investing Institute, 2023b; Lowitt et al., 2023; Synergy, 2021; World Benchmarking Alliance, 2021), these frameworks and standards are still a long way from being made mandatory in disclosure reports for the private and public sector. The adoption and formalisation of just transition frameworks with clear indicators and metrics can inform financial investments towards a just transition in key geographies, industries and economic activities along a decarbonisation pathway to net-zero. Furthermore, it could prompt both investors and project sponsors and communities to consider investment and development strategies that aim not only to benefit the greatest number of affected individuals but also to mitigate the risk of investment decisions that could leave vulnerable populations behind or trigger negative social consequences, particularly for those least equipped to adapt to changes.

Addendum A: Just transition tagging framework of this report represents the PCC's approach to address this specific problem through a just transition tagging framework.

7.2. Financial and economic barriers

The complex landscape of just transition projects results in diverse risk and return profiles, making them challenging for the existing financial ecosystem to navigate. Unlike conventional investments that could offer predictable returns, the variable financial outcomes of just transition projects are influenced by a range of factors, including policy shifts, technological advancements and levels of community engagement (Lowitt, 2021; Naidoo, 2021). Just transition projects are often grounded in novel technologies and new business models designed to achieve just transition outcomes. Yet these technologies and approaches lack technical and commercial track records and often include multiple partnerships as well as community-centric ownership and governance structures. The South African financial landscape, in its current form, struggles to adequately price the risks associated with these emerging technologies. Traditional sources of early life-cycle funding, like angel or venture capital, are scarce and when available, they usually come with non-concessionary terms. Philanthropic and donor communities are often the only sources of grant funding, further constraining the liquidity of these projects (Martens, 2021; Naidoo, 2021). Similar challenges exist to financing adaptation projects in South Africa and the rest of the continent (Tippmann et al., 2013).

Another prominent barrier is the small scale and ticket size of the majority of just transition projects (Impact Taskforce, 2023; Lowitt, 2021; Martens, 2021). Given the existing financial ecosystem's due diligence and risk assessment processes, the transaction costs often outweigh the ticket prices of these projects. To mainstream the funding of just transition projects as part of normal business operations would necessitate a system-level shift in the financial ecosystem. Traditional risk-averse financial institutions often seek proven concepts before committing substantial resources. This underscores the need for pilot projects and demonstrative initiatives to build confidence in just transition projects.

There is also an insufficient funding pool to cover the targeted objectives of the just transition. While climate finance has gained traction in recent years, it does not encompass the expansive goals of the just transition. Furthermore, although capital from green and climate funds, such as the GEF, CIF and Adaptation Fund (AF) can be allocated towards the just transition, this is unlikely to address comprehensively the needs of the just transition. In addition to the obstacles in raising just transition finance, accessing multilateral or bilateral finance also poses a unique set of challenges. These include complex application processes, a lack of transparency in selection and appraisal as well as the unpredictability of funding availability (Synergy, 2021; Tippmann et al., 2013).

Investors often seek short-term returns, while transition projects typically require long-term investments and patient capital, creating a mismatch in investment horizons (Lowitt, 2021; Naidoo, 2021; Tippmann et al., 2013). Transitioning to a low-carbon economy often requires substantial upfront investments in new infrastructure, technologies and skills development. However, these investments may have longer payback periods and higher risks compared to traditional investments. Private investors may be hesitant to finance such projects due to uncertainties and the potential for lower short-term returns. In this case, a government institution can provide support to reduce the risk that the private investor faces, for instance through loan guarantees or tax incentives.

7.3. Information and coordination gaps

Information asymmetry complicates informed decision-making and limits awareness about potential just transition projects. While this is a common barrier investors face in the context of investing in emerging and frontier markets, the situation is exacerbated by the lack of standardised just transition indicators, metrics and quality data. As such, investments are priced higher due to real or perceived risks, undermining their accessibility and affordability for recipients. However, information asymmetry is not only a risk assessment problem: potential financiers and beneficiaries lack information about projects and funding opportunities (Impact Taskforce, 2023; Tippmann et al., 2013). For example, foreign philanthropies and large global funders are not aware of the universe of potential projects that are available. Moreover, there is no consistent and reliable way to ensure that potential projects meet the criteria for a just transition. The PCC has been involved in preliminary research, which indicated that different donors may have different funding conditions (for example, that projects should have a gender bias), but that it was difficult to monitor and evaluate these projects on an ongoing basis. The lack of information hinders the funding process; projects that could be funded are not being identified and funders are unable to make informed decisions about where to allocate their resources.

Coordination is required at multiple levels. The lack of coordination in mobilising and allocating just transition finance emerged as a prominent theme in existing literature and during stakeholder consultations. Issues such as duplication and non-aligned funding, the absence of an accessible repository for output documents and ad-hoc strategies for co-investment, co-funding and syndication opportunities drew attention to the urgency of a more coordinated approach to just transition financing.

Research conducted by Lowitt (2021) similarly shows how coordination failures result in fragmented efforts, unclear roles of actors in the financial ecosystem and mismatched financial instruments. Additionally, these coordination failures often translate into inadequate engagement and consultation of marginalised communities, which significantly undermines addressing the justice issues of the transition.

Coordination failures result in fragmented efforts, unclear roles of actors in the financial ecosystem and mismatched financial instruments.

Financial actors like development finance institutions (DFIs) and MDBs, while possessing considerable expertise and influence, often operate with distinct mandates and conditions (Tippmann et al., 2013). Balancing their terms with the specific needs and conditions of individual countries or projects requires meticulous dialogue, trust-building and negotiation to ensure alignment of objectives and optimal support. This will be a critical task, as DFIs and MDBs can offer risk mitigation and concessional finance to incentivise investments. In terms of foreign DFIs and MDBs, it will be vital to align this capital with the specific financial characteristics of South African just transition projects. MDBs could further assist by funding proof-of-concept projects, experimenting with novel financial mechanisms and providing specific types of de-risking and credit enhancement. The state can leverage these resources to improve the capital positions of domestic DFIs, enabling them to provide grant and concessional funding for just transition initiatives. The challenge lies in coordinating these efforts to ensure that foreign funding meets both the quality and quantity requirements set by the Paris Agreement (Lowitt, 2021; Martens, 2021).

Achieving a just transition requires cohesive, cross-sectoral effort that effectively mobilises and allocates financial resources from both local and international sources. While both public and private stakeholders bring unique strengths and resources to the table, the present state of affairs is marked by siloed efforts and a lack of collaborative action. As the PCC, we believe that enhanced cooperation with foreign capital sources such as offshore DFIs, MDBs and state donor programmes is crucial. We suggest that this should follow a pragmatic approach that involves focused, timely and purposeful consultations that maximise stakeholder contributions without delaying actions. This could serve to pool resources more effectively and drive a streamlined strategy for just transition projects.

7.4. Reputational risks

Investors in the South African market express caution about funding just transition projects due to multiple reputational risks. The market's competitive, small and illiquid nature discourages risk-taking and experimentation with innovative ideas (Martens, 2021). Investors fear being perceived as reckless if they back unproven concepts, risking client loss. Additionally, they are wary of accusations of "just washing," akin to "greenwashing," where their commitment to real transition objectives could be publicly questioned or discredited. This has led some to either avoid such investments altogether or to refrain from labelling them as "just transition" projects. However, some stakeholders view these concerns as stalling tactics rather than genuine risks, particularly those with more global market exposure. Here, the standardisation of just transition indicators and/or frameworks could address reputational concerns by defining the minimum standard of what qualifies as a just transition project, addressing uncertainties and other related risks that prevent financial flows to the just transition.

7.5. Market and structural issues

Market power and concentration in certain industries can create barriers to entry and limit competition. This can impede the adoption of innovative technologies and hinder the development of new industries in the transition process. This may raise the cost of new technology. One example is the control that Eskom has over the grid. This allows it market power in the sense that Eskom Generation obtains priority access to the Eskom Transmission Grid. This potentially shuts out other generation companies. This is typical of markets characterised by vertically integrated monopolies such as Eskom.

Externalities – costs or benefits not reflected in market prices – play a critical role in understanding the challenges and imperatives of a just transition to a sustainable economy. Traditional economic models often fail to account for environmental and social externalities, such as the societal costs of fossil fuel consumption, which can result in market failures like overconsumption and underinvestment in sustainable alternatives. Montmasson-Clair (2021) highlights two perspectives that maintain the status quo and ignore these externalities. The first is a reactionary approach, which resists transition to protect existing industries. The second relies solely on market dynamics for change, often overlooking the vulnerabilities of workers and communities. In both scenarios, issues like employment, ownership, income distribution and environmental impact remain largely unaddressed.

By contrast, a just transition demands a transformative shift in our financial systems. It calls for a rethinking of orthodox financial theories that presume market efficiency and rationality while dismissing environmental and social factors as mere externalities. As Naidoo (2019)) suggests, the traditional quantitative and algebraic approaches of finance are at odds with the qualitative, multidimensional focus required for sustainable transitions, which involves not only environmental but also social justice goals.

8. Financial ecosystem change for a just transition

It is evident that the current financial ecosystem needs to adapt to accommodate just transition financing. As Lowitt (2021) points out, there is a great need to accept the investment logic that a just transition portfolio in the South African context is vital for reducing climate, environmental, economic, governance and political risks. This portfolio should be viewed as a mitigation strategy against the risk of stranded assets, higher social protection costs, increased social strife and political instability. In what follows, the PCC considers some of the vital changes required in the financial ecosystem to address needs of the just transition (Lowitt et al., 2023; Naidoo, 2021):

Shift in investment logic: Financial stakeholders need to view just transition portfolios not only as a social or environmental responsibility, but as a strategic imperative to reduce multifaceted risks. These portfolios should be distinct from those directed towards purely decarbonisation efforts. By delineating "climate finance" and "just transition finance," stakeholders can set clearer objectives and implement more effective strategies.

Integration of just transition indicators: Differentiating just transition projects from other environmental and social initiatives is crucial. The PCC sees a just transition project as a multi-dimensional initiative that combines climate action with targeted support to vulnerable workers and communities as well as marginalised groups to share equitably in the benefits and burdens of transitioning to a low carbon economy.

Adopting formal just transition frameworks with clear metrics can guide investments in decarbonisation while ensuring social equity. This approach encourages investors and project sponsors to consider strategies that benefit the majority and mitigate risks to vulnerable populations.

Advocate and establish the need for just transition objectives within existing climate finance channels. To gain momentum in mobilising and allocating just transition finance, it will be crucial to carve a space for this type of finance within the existing climate finance ecosystem. This will require a robust framework that can adequately manage a mix of loans, grants and government guarantees, ensuring that domestic fiscal resources are either preserved or expanded. A part of this process is to harness the full potential of grants and other financial flows, channelling them in a catalytic way to support just transition initiatives.

Additionally, it is imperative to maintain active and strategic engagements with IFIs; these engagements should focus on determining the appropriate quality, quantity and nature of just transition funding. A pivotal step in this regard is tapping into offshore funding, primarily to support the country's DFIs with a clear just transition objective. Alongside these macro-level strategies, innovation at the granular level is crucial. The financial ecosystem should be in a continuous state of evolution, experimenting with groundbreaking financial instruments, approaches and mechanisms. Garnering support from multilateral development banks (MDBs) and other significant institutions for proof-of-concept projects can pave the way for a financial space that is dedicated to just transition finance, ensuring that both economic and social objectives are met.

Collaboration and early engagement: Stakeholders must shift from isolated decision-making to a collaborative model where they engage early in project design. This includes giving access to traditionally marginalised groups like women, youth and SMEs;

- **Inclusive financing tools**: Innovation in financial instruments should be geared towards inclusive engagement. These tools need to facilitate risk spreading across multiple investors and should accommodate complex multi-project initiatives;
- **Time sensitivity and risk assessment**: The ecosystem needs to acknowledge the time-sensitive nature of just transition risk. Traditional due diligence and risk assessment processes must be updated to deal

with the complexity of multi-project initiatives, necessitating a move towards portfolio-based assessments; and

- **Interdependent portfolio management**: Many just transition projects are interlinked. The finance ecosystem must therefore develop mechanisms that pool investments and spread risk, initiating foundational projects first and then building upon them.

South Africa's experience with initiatives like the Renewable Energy Independent Power Producer Programme (REIPPP) provides some precedent for these kinds of changes, but a more systemic approach is required. To achieve the transformation needed, a dynamic blend of evolving behaviours, innovative financial instruments and adaptive structures is imperative. Only through such holistic Changes can the financial ecosystem truly facilitate a just and sustainable transition for all.

Incentivising stakeholder participation: While it's important to identify, manage and spread risks associated with just transition projects, equal attention must be given to creating incentive structures that can attract a broad range of stakeholders. These can include, among others:

- **Tax benefits** to companies that invest in just transition projects, which can be linked to the just transition tag discussed later in the report.
- **Community shares** for local community-based projects, which can provide residents with both a financial stake and a voice in project development.
- **Profit-sharing agreements** for projects that generate revenue can also incentivise participation.
- **Preferential market access** to projects that align with just transition goals. Preferential access can pertain to public procurement contracts, for instance, thereby incentivising more organisations to align their business models with just transition principles.
- **Performance-based incentives** that they are directly tied to meeting certain KPIs related to spatial justice, environmental sustainability and social inclusivity.

The PCC recognises that system level change in the financial ecosystem will likely take a long time. As such, drawing on international examples of just transition finance initiatives, we are of the view that establishing short-term action plans can pave the way for more longer-term systemic changes. To this end, we briefly explore in the following section how the functions required to catalyse these changes in the financial ecosystem and address the barriers discussed.

9. What functions are needed to address gaps and challenges?

Given the barriers and required system-level changes identified earlier, there is a clear need for mechanisms that directly address these challenges, serving a pivotal role within the broader financial ecosystem. Drawing on global examples and recognising the unique needs of the South African context, some of the pivotal functions to be fulfilled include:

9.1. Matchmaking

A vital function in mobilising funding toward the just transition will be matchmaking, which connects suitable projects with potential funders. However, this matchmaking is not just a cataloguing platform. It will be contingent upon several other functions, beginning with an initial screening to identify projects and potential financiers based on preliminary fit. For municipalities and local communities, especially those with limited capacity, there needs to be an emphasis on ensuring these entities meet the criteria set by financiers, a process that may include and technical assistance. Comprehensive project preparation is another vital function, which involves feasibility studies, planning and structuring projects to align with potential financiers' objectives and risk appetites. Negotiation, often a demanding phase, aims to bring all parties to a consensus, considering each stakeholder's unique considerations, risks and expectations.

However, involvement shouldn't necessarily conclude at the negotiation table. It should also span post-deal support, ensuring successful project execution and establishing monitoring and reporting mechanisms to ensure just transition objectives are met. Moreover, a continuous feedback loop is vital, where the outcomes of projects influence and refine processes for future endeavours. This approach aims to facilitate immediate action for a just transition that ensures both environmental sustainability and social equity.

The functions detailed subsequently, like funding mobilisation, blending, project preparation and capacity building, should not be viewed as standalone services. Instead, they are interconnected elements that complement and reinforce the comprehensive matchmaking process.

9.2. Funding mobilisation and aggregation

As mentioned in the previous section, significant barriers currently prevent the challenging of financial flows toward the just transition. To this end, carving a space within existing climate finance typologies and facilitating coordination between the public and private sector and international funding sources will be vital.

Funding mobilisation should be accompanied by the development of innovative financial instruments that are tailored to the needs of just transition projects, like guarantees, insurance and catalytic capital mechanisms to engage traditional investors. This would entail collaboration with financial institutions, NGOs, governments and the private sector to bring together expertise to develop targeted solutions. These instruments can be tested through pilot programmes, which allows for real-world assessment, adjustment and refinement before a wider rollout.

Support for pilot projects can also take the form of aggregating, smaller, similar projects into a more substantial investment portfolio. Aggregation could group projects either based on location or type, such as New Energy Vehicles (NEVs) in the Eastern Cape. Aggregation aims to create investment opportunities that are sizable and robust to attract capital from larger financiers, such as institutional investors, development banks or government funds. As successes become demonstrated, even on a smaller scale, it could attract more investors, it can attract gradually establishing just transition financing as a viable investment opportunity.

9.3. Blending/structuring

Blending and structuring entails financial engineering that combines various types of capital, such as grants, equity and debt to finance projects in a manner that maximises outcomes while minimising risk. This can help attract a wider range of investors and funders, each with different risk tolerances and return expectations. Table 2 lists a few types of capital and their roles within a blended finance approach.

Table 2: Capital instruments and their role in blended finance

Type of capital	Role in blended finance
Grants	Often used as seed funding, grants can support feasibility studies, capacity building and initial costs, thereby reducing risk for other investors.
Equity	Provides ownership stakes, motivating investors to participate actively in project success. Ideal for projects with high long-term growth potential.
Debt	Most commonly loans, this is usually reserved for revenue-generating portions of a project, offering fixed returns to lenders.
Concessional loans	Provided at below-market terms, concessional loans have lower interest rates and longer grace periods. They are often used to fund first loss facilities, as they offer a less costly way to absorb some of the initial project risks, thereby catalysing additional investment.
Impact investing/ catalytic capital	These investments are meant to catalyse additional capital by demonstrating the project's viability and reducing risks for subsequent investors. It can take the form of either grants, equity, or low-interest loans and is usually provided by investors looking for both social and financial returns

9.4. Project assessment and tagging

To fulfil matchmaking and mobilisation functions, comprehensive project assessments should be conducted to evaluate a project's alignment with just transition and longer-term sustainability. The tagging framework enables an assessment of a project's alignment with the JTF. For the assessment of longer-term sustainability, the following criteria can be considered:

- **Potential impact:** Projects should have a high potential for positive social, economic and environmental impact. This could be assessed through projected job creation, emission reductions or other relevant indicators;
- **Financial sustainability:** For projects that are funded through blended or private finance structures, there must be potential for financial sustainability and return on investment. This can be done by looking at business plans, revenue models and financial projections:
- **Risk assessment**: A comprehensive risk analysis will be undertaken, factoring in market risks, technological risks, policy risks and environmental risks. Risk mitigation strategies will be developed to address identified risks.
- **Innovation**: Preference could be given to projects that employ innovative technologies or approaches to address the challenges of the just transition;

- **Scalability**: The potential for a project to be scaled up or replicated in various contexts should be examined. This could facilitate the prioritisation of investments that have the potential for broader impact beyond the initial implementation site.

  Community involvement: A crucial aspect of the project assessment will be measuring the extent and quality of community participation and the benefits derived. Engagements such as local stakeholder interviews and public consultations should be conducted to ensure that projects cater to community needs and have local support. This consideration is important for the long-term success of projects and aligns with a commitment to social justice and equitable resource allocation.

Tagging

The PCC's has developed the JTF, which is a roadmap for South Africa's transition that harmonises a shared vision, guiding principles and governance structures. Importantly, the JTF shares a vision of a just transition that takes into account the unique socio-economic, environmental and historical realities of South Africa. This is embodied in its guiding principles of distributive, restorative and procedural justice, with the primary objectives being to achieve a quality life for all, foster climate resilience and reach net-zero greenhouse gas (GHG) emissions by 2050.

These objectives and principles underpin the proposed just transition tagging framework, presented in Appendix A. The tagging framework is an evaluation tool to assess whether proposed projects align with the principles of the JTF and contribute towards a just transition. The approach encompasses a holistic evaluation of primary factors, including economic, social and environmental aspects. Central to this are the reduction of carbon emissions, the creation of sustainable jobs, dedicated support for transitioning communities and workers and the bolstering of local economic diversification.

Beyond merely identifying projects, the tag could inform the behaviour of market participants. It outlines a clear criterion for project developers to align with, enhancing their project's appeal to investors. Concurrently, it steers investors towards initiatives that are truly aligned to the just transition cause. To this end, the tag has a distinct strategic function in that it addresses the problem of information asymmetry in the financial ecosystem.

Project preparation and development

To develop a viable just transition project pipeline, project preparation will be key. Project preparation helps to transform project ideas into viable actionable outcomes. Project preparation and development should be designed to address the multifaceted challenges and requirements that just transition projects entail. In addition to risk assessments and financial structuring, the services offered through this function could entail:

- **Conceptualisation**: Engaging with project sponsors and communities to refine project ideas into actionable plans, including facilitating ideation sessions and providing preliminary feasibility studies to solidify the project concept.
- **Technical assistance**: Providing guidance across numerous technical facets of projects. This extends from initial feasibility assessments to in-depth technology evaluations, ensuring that projects are not only innovative but also grounded in practical viability.
- **Capacity building**: This can be done by organising tailored training sessions, workshops and seminars. These should be geared towards equipping stakeholders with the latest knowledge and skills essential

for navigating the just transition landscape. Furthermore, an emphasis on peer-to-peer learning fosters a collaborative environment where project teams can share experiences and adopt proven methodologies.

- **Regulatory and compliance guidance**: Here, projects can be assisted in comprehending and complying with regulatory frameworks, ensuring the timely acquisition of necessary permits and leveraging policy incentives.
- **Stakeholder engagement**: Here, connections can be established between diverse actors in the financial ecosystem to help project sponsors manage and executive stakeholder interactions. Engaging everyone, from local communities and government agencies to NGOs and private entities, ensures projects align with the objectives and concerns of all relevant stakeholders.
- **Environmental and social impact assessments**: This not only ensures adherence to global sustainability standards but also fosters projects that are woven into the social fabric of their communities.
- **Implementation**: Supporting project sponsors during project implementation, including performance tracking, technical assistance and problem-solving.

The project preparation and development functions should be structured as a holistic framework, meticulously designed to guide transition projects from ideas to tangible, impactful realities.

Collaboration facilitation

Recognising the diverse actors in the financial ecosystem, this function entails serving as a primary facilitator that initiates collaborations between government entities and corporate stakeholders. The objective is to bridge the gap by aligning untapped financial resources with suitable beneficiaries and fostering an environment of shared learnings derived from collective successes and challenges.

10. Who are already performing these functions?

There are existing institutions that currently perform some of these functions, such as DFIs, research institutions and organisations in the Presidency. These institutions play a pivotal role in supporting projects and programmes that foster sustainable economic development, job creation, infrastructure development and environmental sustainability.

The DBSA, as a DFI, is dedicated to advancing infrastructure development across the African continent and performs several of the key functions outlined in the discussion above, such as project preparation and building partnerships. By using a programmatic approach, the DBSA seeks to address developmental challenges at a scalable level, with a focus on sectors like energy, water, transport and information and communication technologies. The DBSA plays a catalytic role by leveraging its financial resources and capabilities to attract other funders, expedite financial closures on projects and initiate innovation. Collaboration is central to their strategy; they form partnerships with local and international development institutions to mutually reinforce and benefit their development goals.

The IDC plays a key role in the industrial policy execution of South Africa. Focused on promoting economic growth and industrial development, the IDC identifies sectoral development opportunities that resonate with national policy objectives. Their mandate encompasses funding high-impact ventures and leading the creation and evolution of new industries. This is facilitated through diverse financing channels, such as equity investments, loans and borrowing from various financial bodies. Beyond the domestic landscape, the IDC extends its influence by investing in an array of sectors across Africa. As such, the IDC has extensive experience in identifying and funding high-

Table 3: Key functional gaps in existing institutions

Function	Description
Matchmaking	None of these entities has a primary function dedicated to matching available funding with specific just transition projects. While they may guide and oversee the transition landscape, they do not systematically connect financiers with project developers or ensure that financing aligns with the highest impact projects.
Tagging	A dedicated just transition financing facility would ideally incorporate a standardised tagging framework to categorise and prioritise projects based on their alignment with just transition objectives. Such a tagging mechanism provides clarity to investors and facilitates tracking of investments. The existing entities lack a comprehensive, standardised approach to just project classification.
Behavioural change	A dedicated facility would be better positioned to induce behavioural change within the financial ecosystem. By actively promoting early engagements in project design, broadening financial access for marginalised groups and facilitating collaborative interactions, it can reshape how projects are ideated, funded and executed.
Long-term continuity and focus	Existing entities like the JET-IP PMMU have a broad mandate and its focus might evolve over time based on political, economic or environmental shifts. A dedicated financing facility, however, would ensure sustained attention to just transition financing needs, independent of other overarching mandates.

impact ventures, as well as broad influence and investment reach across various sectors that can offer invaluable insights into just transition financing practices.

The NBI has anchored its objectives around the SDGs, envisioning a sustainable and inclusive socio-economic transformation for South Africa. As an independent business movement of nearly 100 South African and multi-national member companies, the NBI emphasises business participation in the development agenda. They highlight the necessity for cross-sectoral partnerships – encompassing the public and private sectors, civil society and diverse economic sectors. With a focus on fostering collaboration at various societal levels, the NBI has significant experience guiding businesses in strategising their alignment with SDGs and provide a roadmap for ensuring investments and initiatives that drive sustainable impact.

Finally, the JET-IP PMU is tasked with overseeing and actualising South Africa's Just Energy Transition Investment Plan (JET-IP). The JET-IP was launched in November 2022 giving historic effect to the JETP. The JET-IP for 2023 provides a roadmap for South Africa's transition to a low-carbon economy, aligning with its decarbonisation commitments under the Nationally Determined Contributions (NDCs) of the Paris Agreement. This transition promises enhanced economic growth, job creation in sectors like renewable energy and electric vehicles, heightened energy security with the introduction of sustainable energy sources and positioning South Africa as a key figure in the future green economy. The plan also envisions a substantial economic boost, aiming for more than R1tn of new investments into the nation's economy.

The tasks of the PMU include overseeing the implementation of the JET-IP, which includes development project plans, managing budgets and monitoring progress. It is also tasked with building the capacity in South Africa to support the implementation of the JET-IP and mobilising funding from international sources and national treasury. The JET-IP PMU has made specific suggestions on the need for a financial mechanism for the just transition within the context of and the need to mobilise the JET-IP grant pledges, blended with and leveraging wider pools of money, including the private sector.

Box 6: Reflection of Green Finance Initiatives in South Africa

In evaluating the potential for a project-driven approach to just transition financing, there are several lessons that past initiatives can teach us. There have been a number of dedicated green finance facilities which, despite their promise, have struggled to deliver on their objectives. These include the IDC's Low-Emissions Development (LED) guarantee, the Sustainable Use of Natural Resources and Energy Finance (SUNREF) as well as the IFC's First Facility. Some of the recurring shortcomings include:

- **Scalability issues**: Many facilities started with promise but struggled to reach a scale where they could make a significant impact. This points to a lack of a clear path for scaling up the operations and capital inflow.
- **Bureaucratic hurdles**: Onerous paperwork and complicated application processes have undermined participation. These bureaucratic barriers dissuade potential beneficiaries, particularly those with fewer resources to navigate the complexities of the application process.
- **Lack of project preparation support**: Most facilities did not offer sufficient help for stakeholders in terms of project preparation. As a result, many potential beneficiaries found it challenging to meet the criteria for securing finance.
- **Passive project sourcing**: Several facilities operate as repositories for applications, instead of actively identifying and developing promising projects.

To discern from earlier green finance initiatives, there should be a focus on scalability, streamlining administrative processes, offering robust project preparation support and being proactive in project sourcing. These approaches offer a greater chance of facilitating a just and equitable transition to a greener economy.

However, while these entities play pivotal roles in steering South Africa's just transition pathway, none is directly undertaking the role of matching funds with just transition projects. They do, however, play important roles in the financial ecosystem, especially in terms of coordination, capacity building and mobilising finance. Moreover, the skills and networks these entities have cultivated are invaluable to the just transition financial ecosystem. It is essential that these assets aren't dissipated post-JET-IP. As such, a dedicated financing facility for the just transition could provide sustained momentum, ensuring that South Africa stays on course to realise the country's just transition objectives, offering a robust, long-term institutional framework. The table below outlines the key attributes and functions that are currently not being performed by existing entities.

Given the identified gaps in the current financial ecosystem, the challenges in overcoming these barriers, and the pressing need for coordinated efforts in mobilising just transition finance, the PCC advocates in this report for the establishment of the JTFM. This mechanism is envisaged to not only complement existing initiatives but also bridge critical gaps, streamline processes and enhance the effectiveness of just transition funding strategies. The establishment of the JTFM needs to consider various institutional options that are able to support its functions in the broader financial ecosystem. Key considerations include the speed to market, suitable institutional arrangements that would enhance public trust and acceptability as well as the supporting infrastructures that would enable the JTFM to catalyse a coordinated effort towards the mobilisation of just transition finance. These analyses are detailed in subsequent sections of this report (see section 0 and section0) and aims to identify the most viable hosting entity or structure that aligns with the requirements of just transition financing.

Drawing lessons from past green finance initiatives, such as the IDC's Low-Emissions Development guarantee, the SUNREF program, and the IFC's First Facility, the JTFM aims to overcome common challenges that have hindered the success of these models. Key learnings highlight the importance of scalability, reducing bureaucratic hurdles, providing robust project preparation support, and adopting a proactive stance in project sourcing. These insights are instrumental in shaping the JTFM's approach, ensuring it avoids past pitfalls and is better equipped to facilitate a just and equitable transition to a low-carbon economy (see **Box 6**)

Initially, the function of the JTFM could be centred around **matchmaking –** identifying and aligning suitable projects with appropriate funding or resources and **tagging**, which entails identifying projects that align with the principles of the JTF. As the mechanism matures and gains traction, its functions could expand. The JTFM could gradually immerse itself in the intricacies of project development, ensuring that projects are viable, sustainable and in alignment with broader just transition goals. Beyond this, capacity building would become a focal area, where the mechanism would invest in equipping stakeholders with the skills, knowledge and resources required for the transition. Finally, finance structuring would be another evolving function of the JTFM. This involves crafting and optimising financial models and strategies that ensure the feasibility and sustainability of projects while maximising their socio-economic and environmental impact.

11. Centralised versus decentralised institutions: Lessons for the JTFM

The financing mechanisms examined in this review provide valuable insights for the development of South Africa's JTFM. Please see Addendum B of this report for a literature review of just transition/social justice financing mechanisms across the globe. Each of these mechanisms, while designed to fit unique socio-political and economic contexts, embodies distinct institutional structures and operational strategies. Their design can broadly be categorised between centralised and decentralised institutional arrangements. Centralised institutions are established by the national government, where planning and decision-making typically falls within a few entities. The key strengths and weaknesses of centralised mechanisms are:

11.1. **Centralised institutional strengths**:

- A high degree of coordination that allows unified, broader scale action;
- Political support that enables integration with dedicated entities that can ensure policy alignment and policy alignment; and
- The ability to use public funding mechanisms for just transition financing. This makes it easier to direct sources to priority areas.

11.2. **Centralised institutional** weaknesses:

- A key weakness is that this approach is layered in bureaucratic regulations; This can make it slow to adapt, with cumbersome administrative features;
- Just transition initiatives may not account for local conditions, which may alienate and disempower local communities, undermining acceptance of the just transition and its objectives; and
- Increased risk of central corruption that can lead to misallocation of funds.

Decentralised models entail that decision-making is distributed across multiple levels and entities. These facilities have the following strengths and weaknesses:

11.3. **Decentralised institutional strengths**:

- Local autonomy: enables decision-making at local levels that can lead to solutions more aligned with community needs;
- Responsiveness: this structure is potentially more agile in responding to local conditions and crises;
- Innovation: encourages experimentation and localised solutions;
- Community participation: facilitates increased citizen involvement in governance, leading to policies that can be more legitimate and accepted in the eyes of the public.

11.4. **Decentralised institutional** weaknesses:

- Limitation in terms of complexity of establishing an independent institution.
- Ensuring effective governance and accountability can be challenging.
- Securing adequate funding may also be challenging; and
- Difficult to orchestrate unified action on national or international issues.

To fully leverage the potential benefits and mitigate potential pitfalls in the design of a just transition facility for South Africa, a deep understanding of the specific strengths and limitations associated with centralised and decentralised institutions is needed. Yet, given the urgency of mobilising just transition financing, it is the PCC's view that a centralised institution, which signals strong political commitment that facilitates partnerships and cross-sectoral collaboration is the optimal approach in the short-term. It is important to acknowledge the complexities associated with setting up new, independent institutions. Effective governance, robust financial management, transparency, public accountability and alignment with national policies are challenges that require careful consideration and strategic planning. At the same time, the objectives of the just transition should be accepted by society at large for any initiative to be successful. As such, the JTFM could pioneer a governance model which combines the advantages of both centralised and decentralised structures, while circumventing their drawbacks.

12. Institutional and legal options for the JTFM

Building on the insights garnered from international models, this section explores the legal considerations for establishing a JTFM in the South African context. Akin to the international models we examined, the PCC envisages that the JTFM will play a key role in the mobilisation and allocation of just transition financing.

In addition to these analyses, the PCC has placed a great emphasis on collaborative efforts that included dialogues and alignment with entities such as the JET-IP PMU, the infrastructure Fund, National Treasury and the DBSA (for an overview of key takeaways from these dialogues, see **Box 7**). . The key functions of the JTFM will be tagging and matchmaking. For this to succeed, the JTFM will also need to assist project sponsors in project preparation and provide relevant risk assessment to potential funders. These functions should be the key inputs in the design institutional design of the JTFM.

Box 7: Stakeholder views on the JTFM's institutional arrangement

The PCC's targeted stakeholder engagements with the JET-IP PMU, the Infrastructure Fund, National Treasury and the DBSA entailed the following considerations on the institutional structure of the JTFM:

- Consensus on the urgency of establishing the JTFM and finding the most pragmatic way forward;
- Avoid duplication and ensure alignment with existing entities, specifically the JET-IP PMU in the short-term;
- Emphasis on collaboration with existing financial channels, both onshore and offshore, to mobilise funding and not rely on fiscal funding alone;
- Take into consideration the complexity of PFMA reporting requirements and the implications of these requirements for the intended functions of the JTFM;
- The objectives of the JTFM should define its institutional structure;
- Establishing the JTFM within an existing PFMA entity emerged as the most pragmatic way forward. While there are disadvantages of associating the JTFM with its "parent" organisation, advantages entail operational ease, speed to market and benefitting from financial and governance structures that are already PFMA compliant.

Coordination with existing entities

The proposed functions of the JTFM overlap with the mandate of key existing entities in the just transition ecosystem, including the PCC. The mandate of the PCC is to guide South Africa towards a just, climate-resilient and low carbon economy. It also plays a crucial role in stakeholder engagements, research and securing funding that is aligned with the Paris Agreement.

The JET-IP-PMU is responsible for implementing South Africa's roadmap to a low-carbon economy as outlined in the JET-IP for 2023-2027 introduced in November 2022. This roadmap aligns with the country's commitments under the Paris Agreement and aims for substantial economic growth, including more than R1tn of fresh investment. The PMU manages the project plans and budgets as well as monitors progress. It is also responsible for building local capacity and securing funding from both international and national sources.

Both entities perform functions related to the proposed just transition financing facility. The PCC focuses on awareness, stakeholder engagement and financial needs, while the JET-IP PMU concentrates on the practical aspects of implementation, including financial resource allocation.

While these entities play pivotal roles in steering South Africa's just transition pathway, neither is directly involved in matchmaking. The PCC and JET-IP PMU play important roles in the financial ecosystem, especially in terms of coordination, capacity building and mobilising finance. Moreover, the skills and networks that the PCC and JET-IP PMU have cultivated are invaluable to the just transition financial ecosystem. It is essential that these assets aren't dissipated post-JETP. As such, a dedicated financing facility for the just transition could provide sustained momentum, ensuring that South Africa stays on course to realise the country's just transition objectives, offering a robust, long-term institutional framework.

Design considerations

Taking into account the functions and responsibilities the JTFM should play, we identified key criteria to consider in determining its institutional arrangement. We divide these considerations into two sets of criteria, namely functional and institutional criteria.

Functional criteria relate to the capacity for effective planning and advice, as well as capital mobilisation and allocation. These criteria include:

- **Planning and advice**: The facility should be resourceful and capable enough to guide potential funders and projects related to just transition investments
- **Mobilisation**: The mechanism should be able to gather capital domestically and internationally for just transition initiatives
- **Allocation**: Funds should be allocated according to policy-aligned priorities
- **Technical assistance**: Support should be provided to local governments, enterprises, NPOs and communities
- **Reporting**: A system should exist for transparent reporting to funders, governments and communities

Institutionally, factors like the speed of establishing the structure, its longevity, political inclusiveness, simplicity and robust governance mechanisms are vital. Institutional criteria include:

- **Speed to market**: The facility should be established quickly to provide certainty to funders
- **Longevity**: It should be designed to last for a reasonable period
- **Political economy**: There should be voice and representation for all stakeholders
- **Simplicity of structure**: The facility should be easy to manage
- **Governance**: Robust governance mechanisms should be in place, especially for transparency in handling public funds
- **Accessibility**: The process for potential beneficiaries to access funds should be streamlined

We applied these criteria to the different institutional forms of the JTFM, which needs to be created within legal and regulatory constraints. For this reason, we considered three legal structures, namely a public-sector entity, a jointly owned entity and a private entity. We particularly focused on public entities, which can be created in terms of two pieces of legislation, either the Public Finance Management Act (PFMA) and the Public Service Act (PSA). Schedule 2 PFMA entities are intended to generate profits and declare dividends. These entities have significant autonomy as they operate in a competitive market and are run in accordance with general business principles. In terms of section 66(3)(a) of the PFMA, schedule 2 public entities may also borrow money through the accounting authority of that entity, which implies that they also have extensive borrowing powers. PSA entities allow for the creation of two types of entities within the public administration in terms of section 7A and 7B. We will focus on government components in this report.

However, there are also schedule 3 entities – government business enterprises – that generate income but may be either substantially self-funded or substantially government-funded. As a result, they have less autonomy than the schedule 2 public entities even though they are still run in accordance with general business principles. These entities also have limited borrowing powers.

The remaining public entities are classified as schedule 3A and 3C entities. These entities are normally extensions of a public entity with the mandate to fulfil a specific economic or social responsibility of government. They rely on government funding and public money, either by means of a transfer from the Revenue Fund or through statutory money. As such, these entities have the least autonomy.

Evaluating public sector entities against criteria

Four types of entities were considered in our evaluation of Schedule 2 entities, a DFI, project special purpose vehicles (SPV), lending banks and a fund. Our assessment looked at existing entities, such as the DBSA, the Trans Caledon Tunnel Authority (TCTA), the Land and Agricultural Bank, the Industrial Development Corporation (IDC) and the Independent Development Trust (IDT).

In terms of Schedule 2 entities, the DBSA scored the highest overall, indicating that it might be better equipped to handle the complexities of just transition financing. The TCTA's unique strength lies in capital mobilisation, while the IDT scores high on alignment with policy priorities and the IDC on planning and advice. Yet, they have weaknesses in terms of technical assistance and capital mobilisation. The choice of entity for a just transition financing facility should consider not just these scores but also the specific needs and focus areas of the facility.

All these entities would have to adhere to governance, operational standards and reporting requirements outlined in the PFMA, ensuring financial sustainability, transparency and accountability. We summarise the advantages and disadvantages of Schedule 2 entities below:

Table 4: Advantages and disadvantages of Schedule 2 entities

Advantages	Disadvantages
Financial sustainability as a schedule 2 entity, with mechanisms in place to maintain operations.	Bureaucraticc challenges associated with PFMA regulations
Defined governance under PFMA facilitates clear governance structures	Attraction of private capital
Operational autonomy	Operational rigidity that undermines flexibility
Public accountability mechanisms to stakeholders	

In terms of Schedule 3 entities, we explored the following models: funds, aid schemes and development agencies. The models we looked at were the Road Accident Fund (RAF), National Student Financial Aid Scheme (NSFAS) and the National Youth Development Agency (NYDA).

In our assessment, the NYDA model appears to be the strongest in several domains, particularly in planning and advice, capital mobilisation and technical assistance. In contrast, the National Student Financial Aid Scheme (NSFAS) and Road Accident Fund (RAF), while possessing strengths in planning, score lower in several areas such as mobilisation and reporting to funders. However, none of these entities scored as high as the DBSA and other Schedule 2 entities. We summarise the advantages and disadvantages of Schedule 3 entities below:

Table 5: Advantages and disadvantages of Schedule 3 entities

Advantages	Disadvantages
Enables a holistic approach	Complex governance structures
Built-in operational mandate allows not only fund management but also project execution	High operational costs
Significant potential for strategic partnerships	Administrative delays due to their large structures

Our analysis of Public Service Act entities focused on government components. Conceptually, government components are entities within the administration of a government department that have particular roles and functions. We looked at the Municipal Infrastructure Support Agency (MISA), the Gauteng Infrastructure Financing Agency (GIFA) and the Government technical Advisory Centre (GTAC). Here, the GTAC emerges as the strongest all-rounder, with consistently high scores across all domains. The GIFA displays commendable abilities in certain areas but have specific domains that need improvement. The others scored well in planning, but lower in several other areas such as the mobilisation of capital and reporting to funders.

Table 6: Advantages and disadvantages of PSA entities

Advantages	Disadvantages
Allows for a specialised focus	Narrow focus could undermine integration with broader objectives
Enables operational flexibility	Bureaucratic overlaps with other department
Consists of technical expertise	Ensuring transparency and accountability can be challenging

Establishing the JTFM within an existing entity

Given the long lead time to set up a new entity, a more practical way forward may be to establish the dedicated just transition financing facility within an existing structure. In this evaluation, we assess three potential options for housing the facility within a government department, within GTAC or within the DBSA. Each option has advantages and considerations in terms of organisational capacity, expertise and alignment with the facility's objectives. We consider how this will work in this section, looking at government departments, the DBSA and the GTAC.

Within a government department

While this is possible in theory, several practical problems emerged in our analysis. First, these departments are subject to the full PFMA requirements and particularly the transfer of unrequired monies like grants is subject to significant audit oversight and processes. Second, the bureaucratic nature and operational rigidity of government departments could create significant roadblocks for the facility. Specifically, lengthy approval processes could delay the timely allocation and disbursement of funds, while limited operational flexibility could hinder the facility's capacity to adapt swiftly to new opportunities or challenges. Both factors combined could compromise the effectiveness and responsiveness of the JTFM.

Within GTAC

Establishing the JTFM within the GTAC offers several advantages, most notably the GTAC's proven track record in efficiently administering the Jobs Fund, designed for job creation projects. This existing operational framework could be adapted to accommodate the JTFM, accelerating its launch and potentially easing stakeholder concerns given the GTAC's credibility. Moreover, the GTAC's familiarity with managing multi-stakeholder engagements makes it a fitting host for the JTFM, which will undoubtedly involve a diverse range of participants from various sectors.

However, despite these advantages the GTAC's focus on job creation doesn't necessarily extend to the wide array of sectors and projects that a just transition involves, like renewable energy or workforce re-skilling. This might necessitate building new expertise or partnerships that could slow down the JTFM's operations initially. Additionally, aligning the mandates and objectives of the GTAC and JTFM may require strategic shifts in stakeholder communications and management, possibly leading to friction or operational delays. Therefore, while the GTAC has substantial infrastructure and experience that could benefit the JTFM, there are also potential limitations and challenges that would need to be thoughtfully addressed.

Within the DBSA

The DBSA could serve as a candidate for hosting the JTFM due to its extensive experience in managing multiple significant funds like the Green Fund and the Infrastructure Fund. The Green Fund focuses on environmental projects and complements South Africa's transition towards a green economy. Its well-established procedures for investment assessment, along with a variety of financial instruments such as grants and equity, make it particularly relevant for a facility aimed at just transition. Additionally, the Infrastructure Fund leverages both public and private sector expertise to finance and facilitate various infrastructure projects, thereby strengthening investor confidence and alignment with government objectives.

This translates into significant advantages such as the DBSA’s proven track record to manage major facilities as well as bridging funding gaps for large-scale projects through the introduction of innovative financial instruments. Yet, this option also comes with the drawbacks of institutional capacity, limited resources and potential complex reporting requirements.

In summary, housing the JTFM within an existing entity brings several considerations to the fore:

- **Flexibility and bureaucracy:** Housing within a government department may introduce unwieldy bureaucratic constraints that could hamper swift fund disbursement;
- **Existing models:** GTAC's model with the Jobs Fund showcases an effective mechanism for fund distribution, suggesting potential scalability for just transition initiatives;
- **Alignment with objectives**: DBSA, with its Green Fund and Infrastructure Fund, as well as the GTAC’s Jobs Fund present structures that resonate closely with just transition objectives. Their experience in managing such funds, coupled with an alignment of goals, makes them a potentially strong candidate;
- **Diverse financial instruments**: The range of financial tools utilised by existing funds (grants, loans, equity) could be instrumental in catering to varied needs of just transition projects; and
- **Strategic collaboration:** Existing facilities’ emphasis on forging partnerships could amplify the reach and impact of the just transition facility.

Joint DBSA and IDC structure

Considering the unique strengths both the DBSA and IDC, the PCC proposes the consideration of a joint structure where both entities act as potential hosts for the JTFM. The IDC, with its distinct advantage in commercial and small-scale business financing, deserves a more pronounced focus in this partnership. This not only brings the IDC's expertise to the fore but also complements the DBSA's strengths. Their experience and understanding of the commercial landscape will ensure that the JTFM addresses the micro-level nuances of the transition. Meanwhile, the DBSA has consistently showcased its ability to steer the intricacies of large-scale projects. This is evident in their track record of bridging funding disparities and innovating financial instruments. By integrating the JTFM within a combined DBSA/IDC framework, it could be possible to not only tap into both entities' experience in fund management and partnership cultivation but also leverage their abilities in attracting both domestic and international investments. Such a synergy will not only harness the strengths of both institutions but also expedite the establishment of the JTFM, addressing the pressing need for its swift implementation.

Considerations for a public-private partnership

Establishing the mechanism within a public-private partnership (PPP) framework offers the advantage of combining private sector efficiency with public sector oversight. Such partnerships could be agile and cost-effective, leveraging the specialised expertise and financial resources of private entities while being guided by government regulation and public funding. The collaborative nature of PPPs allows for shared responsibilities, lowering the taxpayer burden and often leading to better outcomes, such as enhanced infrastructure and healthcare services.

The Health Foundation serves as a real-world example, highlighting the importance of strong governance, transparent financial management and alignment with strategic objectives for the success of PPPs.

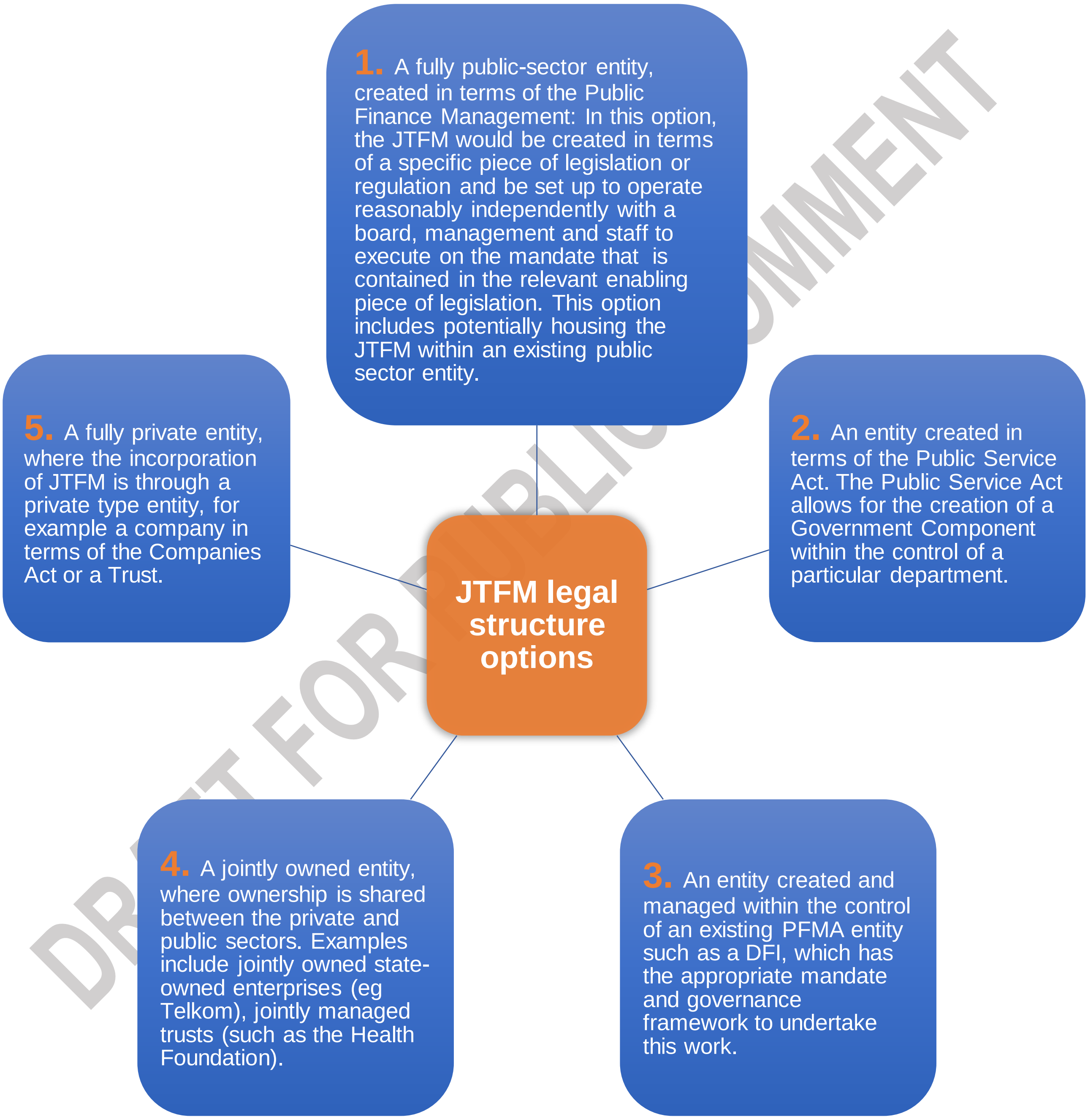
However, a PPP structure also brings its own challenges, chiefly concerning conflicts of interest and accountability. Private entities involved in the partnership might prioritise profit over public welfare, creating ethical and operational dilemmas. Furthermore, PPPs typically aren't subjected to the same level of scrutiny and transparency as fully public entities, which might cause concerns around accountability. To mitigate these risks, a robust governance structure, like that of the Health Foundation, would need to be put in place. This would include transparent financial reporting, ethical operations and regular evaluations to ensure quality control and bolster stakeholder trust.

Summary of institutional options

Our analysis has explored multiple options for the institutional structure of the JTFM, each with its own set of advantages and challenges. At the heart of the facility are two core functions: matchmaking between just transition projects and appropriate funding sources and tagging to ensure these projects align with broader sustainability goals. Existing DFIs could offer an expedient route to set up the facility, leveraging their expertise in fund management and capital mobilisation. Establishing a new entity, while compelling in its design features, may present challenges in terms of time and governance.

The ultimate choice of structure should prioritise the JTFM's primary functions and be agile enough to adapt as the facility matures. It is crucial to note that the PCC is not favouring any particular approach at this stage. The final decision will depend on a deeper analysis of all available options and will be informed by comprehensive stakeholder consultations and inputs. The objective is to achieve a balanced solution that combines functional efficacy, strong governance and operational agility to realise a robust and effective JTFM.

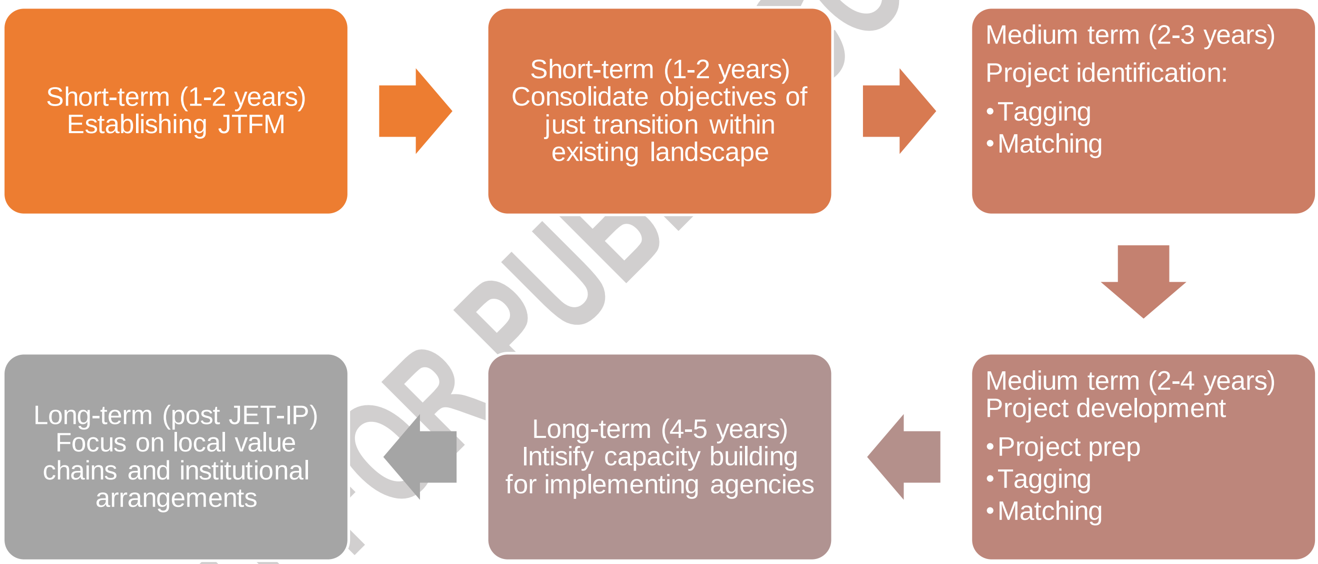
Figure 3: Options for a JTFM



13. Timeline of JTFM functions

It's crucial to set realistic expectations for the evolution of the JTFM. The most immediate priorities will revolve around the establishment of the JTFM, aligning just transition objectives within the existing financial ecosystem, identifying existing, shovel-ready projects, tagging them appropriately and directing efforts towards mobilising and matching funding with these. Subsequent to this phase, the emphasis will shift to the project preparation function, seeking synergies with established entities, such as the DBSA. This will be coupled with efforts to foster collaborations with both domestic and international funding channels to secure resources for projects. As the process matures, the spotlight will turn to project generation, where capacity building and technical support for project sponsors, including local governments and communities, take centre stage. In the longer term, the vision extends to nurturing local value chains by engaging with small and medium-sized enterprises, facilitating vocational training and other capacity-building initiatives.

Figure 4: Timeline of JTFM operations



14. Procedural justice

Procedural justice is one of the key principles upon which a just transition is built. It ensures that all stakeholders but particularly those directly affected, have an influential voice in decision-making processes. This entails ensuring that all stakeholders, particularly those directly affected, have a meaningful seat at the table, echoing the sentiment, "nothing about us without us!" (PCC, 2022a).

We outline below how procedural justice will be prioritised through the establishment and operations of the JTFM.

Inception

Inception and mandate establishment

Before any actionable steps are taken, it is vital to identify all potential stakeholders and ensure they are informed and involved from the beginning. The PCC has aimed to ensure this by conducting several stakeholder engagement sessions that have informed the content of the recommendations put forth in this report. The aim of these engagements is to gather diverse perspectives, understand on-the-ground realities and integrate them into the JTFM's functional mandate.

Through this collaborative approach, the PCC aims to ensure that the JTFM is not a top-down mechanism but a collective endeavour that addresses real concerns and aspirations. Such an approach can go a long way not only in establishing the legitimacy of the JTFM but also in enhancing its effectiveness by ensuring that actions are grounded in the lived experiences and needs of beneficiaries.

Project development

Community-led Initiatives: The project development phase of the JTFM will place significant emphasis on community-driven just transition interventions. By prioritising these, the JTFM can ensure it supports initiatives that are tailored to local contexts and needs. Such interventions are not externally imposed but defined by a bottom-up approach that enhances their chances of driving positive outcomes. Supporting grassroots efforts also reinforces trust and strengthens the relationship between the JTFM and beneficiaries, as communities see their ideas and initiatives being valued and translated into actionable projects.

Feedback mechanisms: This phase also requires the incorporation of continuous feedback loops. Establishing and maintaining a robust feedback system becomes vital in ensuring the projects remain aligned with their intended outcomes and can adjust to changing circumstances. Stakeholders, especially those directly affected by the interventions, should have channels through which they can voice their insights, concerns and suggestions throughout the project's lifecycle. This not only promotes transparency and accountability but also ensures the continual refinement of projects based on real-world experiences and feedback.

Ongoing operations

Inclusive decision-making: Embed participatory processes in the JTFM's regular operations. This should include routine consultations with a broad spectrum of stakeholders, from local community members, project sponsors and experts in relevant fields. By ensuring that a wide range of voices are heard and considered in decision-making processes, the JTFM can foster a sense of collective ownership and commitment among those involved.

Transparent reporting: The JTFM should commit to regularly sharing comprehensive updates on its activities, including detailed financial statements and the outcomes of its projects. We expand on this point below.

Review and evolution

Periodic stakeholder surveys: Conduct surveys to assess the effectiveness of stakeholder engagement and identify areas for improvement. By doing so, the JTFM can gather insights into how its initiatives are being received and where there might be gaps or opportunities for improvement. These surveys provide a structured platform for stakeholders to voice their opinions, share experiences and offer suggestions. By utilising this feedback, the JTFM can ensure that its strategies remain aligned to its mandate and objectives and grounded in the local realities of those it aims to serve.

Adaptive mechanisms: The dynamic nature of climate, socioeconomic and political landscapes necessitates that the JTFM remains agile in its approach. This implies that the JTFM should not be rigidly bound to a set framework but malleable to accommodate iterative improvement. Based on continuous feedback from stakeholders, as well as changing on-ground realities, the JTFM can refine its strategies, reallocate resources or introduce new initiatives as needed. This adaptability ensures that the mechanism remains relevant and effective in the face of evolving challenges and opportunities.

By threading procedural justice into the inception and operational phases of the JTFM, it becomes possible to ensure a just transition that reflects the needs, hopes and aspirations of all stakeholders involved.

15. Transparency and monitoring and evaluation (M&E)

Transparency is crucial for the JTFM, specifically to ensure procedural justice. It is vital to ensure that all actions, decisions and fund allocations are clear, open and readily accessible to all stakeholders. In emphasising transparency, it is important to acknowledge the importance of open communication and the active involvement of all relevant stakeholders. This not only fosters trust but also promotes a culture of accountability. By embedding transparency within the framework of procedural justice, the JTFM prioritises inclusivity and fairness, ensuring that decisions are made with comprehensive input and that outcomes are communicated openly. Such transparency serves as a safeguard against potential biases or unfair practices and encourages active participation from diverse stakeholders, fostering a more collaborative and equitable transition process.

Recent critiques have highlighted transparency concerns with certain financial institutions. For example, stakeholders have criticised the transparency standards at climate finance facilities and their accredited entities for not being up to private sector standards. These institutions often rely on their internal policies and procedures, which may not always align with global best practices for transparency.

These gaps can serve as a cautionary guide for ensuring transparency within the JTFM. This could include establishing a set of transparency standards that are aligned with global best practices. These standards should be publicly available and reviewed periodically to ensure relevance and effectiveness.

Additionally, engaging a broad spectrum of stakeholders, including those from the private sector, in the drafting of transparency standards will provide varied perspectives and ensure that concerns are addressed from diverse quarters.

Another intervention to ensure transparency could include periodic external audits of the JTFM's processes, decisions and fund allocations. Relatedly, adopting a rigorous reporting mechanism that details project evaluations, fund allocations and outcomes will promote accountability. Using a standardised template for reporting can ensure consistency.

Additional measures

Whistleblower protections: Establishing a system where employees and associates can safely report any perceived breaches of transparency or other ethical concerns can act as an internal check.

Open communication channels: Maintaining regular, open channels of communication with the public and stakeholders can help in receiving feedback, addressing concerns and updating processes in real time.

Training and capacity building: Regular training sessions for staff and associates on the importance of transparency and the mechanisms to ensure it can help ingrain these values within the JTFM's operations.

In conclusion, while critiques of other institutions highlight potential challenges, they also offer the JTFM an opportunity to learn and build a robust, transparent system that earns trust and sets a benchmark in procedural justice.

Self-evaluation model

A robust self-evaluation model could play a critical role in performance monitoring and results tracking for each project that has been matched and implemented through the JTFM platform. This model needs to include a comprehensive reporting template that requires the collection and reporting of data across a range of key performance indicators (KPIs). The main focus of the self-evaluation criteria will be their contribution to the goals of the just transition. Additionally, for projects funded through blended and private financing, the evaluation will also track financial efficiency.

In the figure below, we outline some of the main quantitative and qualitative aspects that could inform the evaluation of a project's performance.

Figure 5: Criteria of self-evaluation model

Climate impact	This criterion assess the project's contribution to reducing GHG emissions or enhancing climate resilience. Metrics may include tonnes of CO_2 emissions reduced or sequestered, or the extent to which the project has increased community resilience to climate change impacts.
Socioeconomic impact	This involves assessing the project's impact on local communities, specifically those most affected by the transition. It could include the number of jobs created, changes in income levels and improvements in health and well-being.
Skills and development training	This criterion evaluates the extent to which the project provides skill development or training opportunities to workers affected by the transition, fostering their integration into new, green sectors.
Environmental sustainability	This measures the project's alignment with environmental sustainability principles, beyond just climate change. Metrics could include the extent of natural resource conservation, waste reduction or biodiversity enhancement.
Inclusion and equity	This evaluates the project's contribution to reducing social and economic inequalities. It could involve assessing the project's impact on historically disadvantaged groups, including women, youth and communities disproportionately affected by the transition.
Innovation and scalability	This assesses the extent to which the project introduces innovative approaches or technologies that could be scaled up or replicated elsewhere to advance the just transition.
Financial efficiency	This involves evaluating the financial performance of the project, including its cost-effectiveness and the sustainability of its funding model.
Stakeholder engagement	This criterion assesses the extent to which the project has involved key stakeholders, including affected communities, in its design and implementation.

The goal of the self-evaluation model will be to ensure consistent monitoring and evaluation (M&E) at both the project and portfolio levels to provide insight into the performance and outcomes of funded initiatives. Importantly, the KPIs that will be included in the self-evaluation template will be designed such that they can be audited, ensuring accuracy, transparency, and accountability in reporting.

Monitoring and Evaluation (M&E)

The PCC proposes the establishment of a partnership secretariat, anchored within a chosen host institution (specifically a DFI such as the DBSA), complemented by an independent evaluation. This secretariat will be primarily responsible for project evaluation for funding, along with real-time monitoring and evaluation (M&E).

To maintain impartiality and adhere to a rules-based approach to funding, the JTFM will operate under clearly defined "investment and grant guidelines", directly linked to the tagging framework we developed. These guidelines should set out unambiguous criteria for project evaluation and funding determinations, thus ensuring the transparency and equity of the allocation process. Moreover, it is essential for the partnership secretariat to collaborate with key stakeholders to routinely review and revise these guidelines, ensuring they remain aligned with evolving needs and strategic priorities.

To underscore the importance of transparency and trustworthiness in the resource allocation process, periodic audits should be instituted. These audits will not only bolster the rules-based strategy but will also underscore the commitment to accountability.

16. Conclusion

In this report, the PCC emphasises the importance of a just transition in the South African context. Focusing on the financing of the just transition, we acknowledge the inadequacies of the current financial ecosystem to accommodate the just transition imperative. Some of the key challenges identified in this report entail the under-recognition of just transition objectives within existing climate finance typologies, the lack of standardised metrics and indicators for just transition projects, coordination and information gaps, as well as market and structural issues. Drawing on existing literature and our own research, we recognise that the current financial ecosystem needs several system-level changes to address the funding gaps in just transition finance. We acknowledge that these changes will take time. As such, we suggest the establishment of the JTFM, a dedicated just transition financing facility, to catalyse change in the shorter term.

The PCC envisages the JTFM as a central node in South Africa's financial ecosystem, aiming to facilitate a just transition to a low-carbon economy. Key functions include:

- Matchmaking where the JTFM serves as a central hub linking projects to appropriate financiers.
- Project preparation and capacity building: This function is crucial for the development of a viable just transition project pipeline and needs to address challenges in implementing agencies' capacity for project development and implementation.
- Funding mobilisation, focused on carving out a specialised space within existing climate finance frameworks and introducing innovative financing instruments.
- Collaboration facilitation, serving as a conduit for collaboration between various entities like government and corporates to align resources with beneficiaries.
- Tagging: additionally, the JTFM will standardise just transition indicators through a just transition tagging framework.

The PCC recommends that the design of the JTFM be informed by the strengths and lessons learned from similar facilities in other countries as well as our own. We conducted a literature review of how financing gaps in the just transition and other social justice issues have been addressed across the globe and divided these institutions into centralised and decentralised institutions. From centralised models, the JTFM can draw upon the benefits of streamlined administration and coordination. This model promotes robust governance as well as collaboration and enables the leveraging of multiple funding mechanisms. Decentralised models offer lessons in local governance and community participation, which could empower affected communities and promote local ownership of the transition process. These models exhibit flexibility and responsiveness to local needs, which may attract a broader range of capital providers and ensure a sustainable funding base.

Given the urgency of achieving a just transition, the PCC recommends that the initial stage of South Africa's just transition facility adopts a centralised institutional model. This approach offers streamlined administration and coordination, robust governance and the ability to leverage multiple funding mechanisms. The centralised model is deemed most effective for mainstreaming just transition objectives and catalysing broader-scale ecosystem change quickly. The JTFM will need to address the limitations in terms of responsiveness to local needs. Additionally, the centralised institutions explored in this report have benefitted from significant fiscal funding, which won't be the case in the South African context. These fiscal realities should also be considered in the design and institutionalisation of the JTFM.

Finally, the report explores the institutional and legal options for the establishment of the JTFM. The PCC is mindful that the design and implementation of the JTFM requires a nuanced approach that takes into consideration governance, functional efficiency and swift deployment. We considered several approaches, such as establishing a new PFMA entity under Schedule 2 and 3 of the PFMA as well as the Public Service Act. While there are significant benefits in establishing a new PFMA entity, this option falls short due to the long period of time it will take to set up. As such, we explored how the JTFM could be incubated within an existing structure, such as the DBSA and GTAC. These structures score high on expedited time to market, proficiency in technical advice, simplified reporting and effective capital allocation. These entities, especially the DBSA, have a proven track record in large-scale project management, innovative financial tools and fund mobilisation. Incubating the JTFM within an existing DFI allows for quicker operationalisation while leveraging established expertise and structures. As such, the PCC suggests that this option should be considered for the establishment of the JTFM. As the facility matures, it could potentially evolve into a standalone entity, allowing for greater adaptability and specialisation. However, the PCC reiterates that this decision should be informed by stakeholder consultations and further analysis.

The PCC values the perspectives of all stakeholders and warmly welcomes any feedback on this report. We recognise that a collaborative approach is essential for the successful implementation of a just transition financing facility. As such, the next steps will entail a series of extensive stakeholder consultations. These consultations aim to gather diverse viewpoints, discuss our recommendations and identify any gaps or opportunities we may have overlooked. These insights are crucial to refining our approach and ensuring that it is both comprehensive and actionable.

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18. Addendum A: Just transition tagging framework

As mentioned, the lack of standardised metrics and indicators to both inform investors and project developers on what constitutes a just transition project and monitor and evaluate inputs to these initiatives, is a critical barrier in the mobilisation of just transition financing. In addition, the frequent conflation of the objectives of climate finance with just transition finance renders the objectives of the just transition overlooked within the existing financial ecosystem.

The PCC recognises the urgency of addressing these problems and conducted a series of stakeholder consultations on a preliminary tagging framework. These consultations included a focus group discussion on 18 July 2023 and a public consultation on 8 August 2023. Table 7 summarises the feedback obtained during these consultations and how the PCC refined the framework based on stakeholder feedback.

The stakeholder feedback has been invaluable in refining our tagging framework. As the PCC, we are committed to an inclusive and broad-based approach that is aligned with the JTF principles and appreciate all stakeholders that has been involved in this work.

Table 7: Stakeholder feedback on tagging framework

Feedback	Actions taken
Need for inclusivity: Stakeholders emphasised that the framework should be as inclusive as possible and not contain excessive prescriptive criteria.	We ensured that the criteria are inclusive by lowering threshold scores for the different categories of the framework.
Focus on gender and youth: There was a strong call for the framework to explicitly address issues relating to gender inequality and youth unemployment.	Although addressed in the first draft, we adopted and added specific criteria that address gender inequality and youth unemployment.
Focus on low-carbon economy: Concerns were raised that the criteria should not be too energy-focused but encompass the broader low-carbon economy.	We broadened the scope of the tagging criteria to include the entire low-carbon economy, beyond just the energy sector.
Difficulties of raising adaptation financing: Stakeholders pointed out the difficulties related to financing adaptation measures and consider mitigation only.	We acknowledge the financing challenges associated with adaptation. However, in line with the JTF, the PCC stresses that it is vital for the just transition.
Alignment with JTF principles: the importance of fully integrating the JTF principles of distributive, redistributive and procedural justice was emphasised.	In line with the overarching JTF principles, we ensured that issues of distributive, redistributive and procedural justice are adequately covered in our tagging criteria.

In what follows, we outline the main dimensions of the tagging framework, which could function as an assessment tool to categorise and evaluate projects against the principles of the JTF. It's vital to emphasise that our tagging approach aims to highlight key priorities in alignment with JTF principles. While doing so, it is crucial that the system remains inclusive and non-exclusionary. This requires further deliberation to transition from its conceptual stage to operational effectiveness. The tagging framework, in its essence, stands as a clear statement of intent that resonates with the goals and values of JTF.

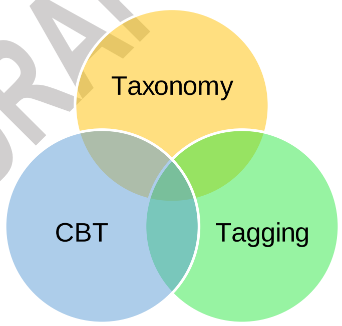
The PCC sees this as a central component in the financial ecosystem. This framework shares similarities with related frameworks in climate finance, such as the green finance taxonomy and climate budget tagging (CBT). For instance, the tagging framework we envision and South Africa's green finance taxonomy are both classification systems to streamline and guide investments and project development. They aim to reduce uncertainties by clearly defining what qualifies as a sustainable or "just" initiative, helping to channel resources effectively towards environmental sustainability, social equity and economic resilience. Likewise, the tagging framework and CBT can function as resource allocation tools, albeit in different contexts. While climate budget tagging focuses on tracking and influencing climate-related government expenditures, the tagging framework for just transition projects helps in categorising and securing funding for projects that meet specific social and environmental criteria. Both methods act as "filters" that ensure resources are directed toward targeted sustainable goals.

Yet, the framework we envisage differs from these in important ways:

- **Objectives**: The just transition tagging framework will align with broader objectives than the environmental and climate focus of the green finance taxonomy and CBT
- **Scope**: While the green finance taxonomy and CBT focus largely on environmental and climate considerations, a just transition tagging framework will be broader, encompassing a range of factors such as job creation, economic diversification and community transition support. What sets it apart is an explicit focus on social equity. It recognises the potential negative social impacts of decarbonisation and seeks to identify and promote projects that ensure a fair distribution of both the benefits and burdens of the transition
- **Flexibility**: Given the relative novelty of just transition financing, we propose a framework that is flexible. It has to avoid overly prescriptive criteria that might exclude projects with potential benefits to a just transition

In summary, while the green finance taxonomy and CBT are instrumental in driving environmentally sustainable action, the tagging framework aims to provide a holistic and flexible approach. Below we explain the methodology for developing the tagging framework, followed by an overview of the contents of the framework and how the scoring for the criteria can work.

Figure 6: Classification approaches: taxonomy, CBT and tagging



Methodological notes on developing a tagging framework

The design of a just transition tagging framework for South Africa can be informed by international and local frameworks and policy documents.

International: A number of just transition frameworks exist which have been recently developed. These include the Impact Investing Institute's (III) Just Transition Criteria (Impact Investing Institute, 2023) that emphasises three universal, yet adaptable elements: advancing climate and environmental action, improving socioeconomic distribution and equity and increasing community voice. The World Benchmarking Alliance has also introduced a set of just transition indicators to assess 450 companies' contributions to decarbonisation and related SDGs that includes social protection systems, ensuring healthy lives, youth employment and access to affordable and reliable energy among others (World Benchmarking Alliance, 2021).

Domestic: Locally, Synergy (2021) introduced a framework of social indicators for investments in a just transition, such as jobs and skills, economic indicators like business support, infrastructure and services, environment and land and empowerment. This framework serves as an initial input to TIPS' just transition transaction framework (Lowitt et al., 2023). This framework identifies several socio-economic objectives such as employment and livelihoods, access to basic services and support for the development of existing and new supply chains, among others.

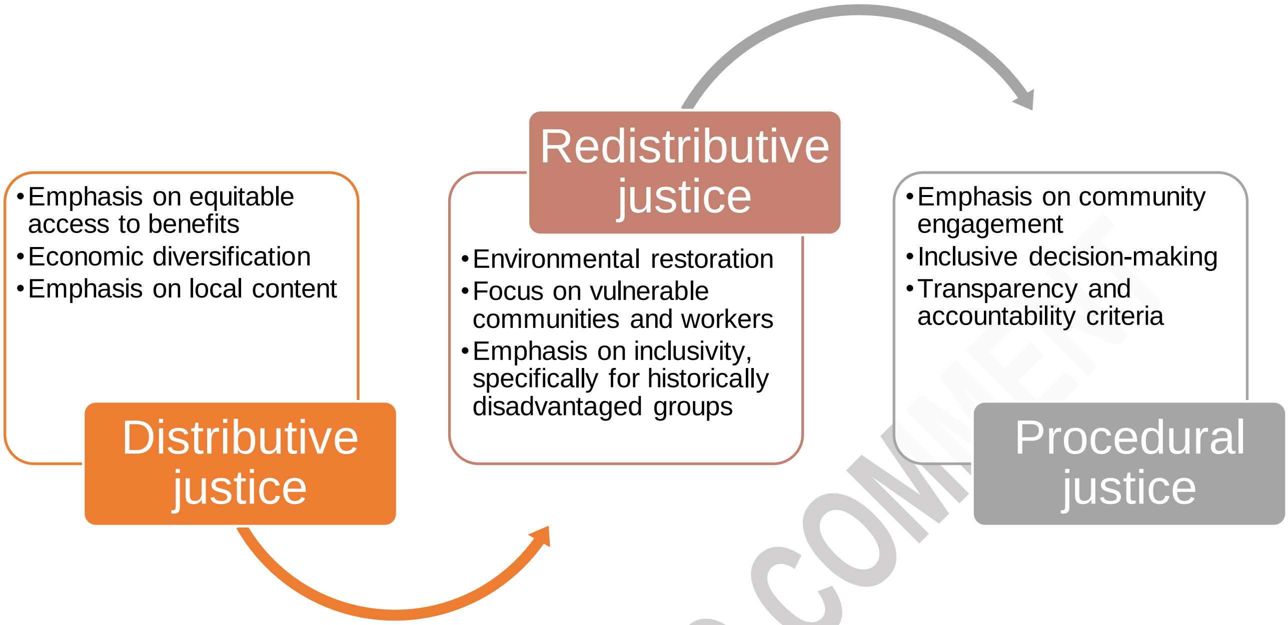
Just Transition Framework: The PCC's vision of a tagging framework is informed by existing approaches. Yet, a crucial input to our framework will be the JTF and, the three justice principles, namely distributive, redistributive and procedural justice. By emphasising these principles, we aim to ensure that our framework embodies fairness and equity in benefit and burden distribution, resource redistribution and decision-making processes associated with the just transition. These principles will also align projects with the goals of the National Development Plan (NDP), South Africa's Nationally Determined Contributions (NDC) and the outcomes of the JET-IP.

Evidence-based: The framework's development was evidence-based and project-oriented, featuring a selection of potential local just transition projects, each representing different aspects of the just transition in South Africa. These projects ranged from transitioning into low-carbon industries, out of fossil fuel-dependent activities, or both. We also considered projects specifically targeting ex-mineworkers, recognising the need to support this group during the transition to a low-carbon economy.

These projects differ from other social justice projects by their focus on climate-related impact. For example, transitioning out projects aim to support a just transition within mitigation efforts, whereas projects like transforming unused coal mine land into agroforests represent both climate adaptation and mitigation efforts, enhancing local community climate resilience. Transitioning in projects typically involves mitigation efforts through job creation and reskilling initiatives in low-carbon industries.

We stress-tested our initial framework against this diverse project selection, refining it based on the derived insights. This method enabled us to ground our theoretical model in the realities of South Africa's just transition projects, enhancing the framework's applicability and utility.

Figure 7: Justice principles in tagging



Finally, environmental justice underpins the framework's socio-economic and environmental dimensions. The PCC recognises that environmental degradation often disproportionately affects the most vulnerable populations — those without the means to escape polluted environments or adapt to changing conditions, largely as a result of the legacy of colonialism and apartheid.

Within the tagging framework, projects are assessed not only on their carbon-reduction merits but also on their broader environmental impact. This includes considerations such as the restoration and protection of ecosystems, as well as measures to enhance the resilience of natural resources. This focus is consistent with the principles of environmental justice, which seek to ensure that all communities, irrespective of their socio-economic status, have equal access to clean environments and are equally protected from environmental hazards.

Moreover, the framework's emphasis on community participation and representation ensures that marginalised communities, often the first to be affected by environmental degradation, have a voice in the decision-making processes. This is crucial for environmental justice, which seeks to give those most affected by environmental decisions a say in those very decisions.

Main components of the proposed just transition tagging framework

The tagging framework is divided into four main categories: climate impact, transitioning in, transitioning out and economic development & social development (EDSD).

18.1. Climate action

The first and essential step of the tagging framework is to assess if a project has a climate-related dimension. This preliminary filter allows us to distinguish between broader social justice projects and those that align with just transition principles. This assessment uses the following criteria:

Table 8: Climate criteria

Criteria	Description
Emissions reductions	Does the project contribute to the reduction of GHG emissions?
Climate adaptation	Is climate adaptation integrated into the project's design and implementation?
Decommissioning and rehabilitation	Does the project consider the process of safely decommissioning obsolete infrastructure and restoring the environment?
Input to emissions reduction	Does the project provide inputs to just transition efforts? This includes providing job opportunities or reskilling programmes or other forms of community support to workers effected by decarbonisation efforts.
Capacity building in low-carbon economic sectors	Does the project include initiatives aimed at building human capacity in low-carbon economic sectors?

Each sub-criterion carries three points, for a total of 15, with a minimum threshold of three (20%). This threshold is deliberately low, as it aligns with our goal of making the tagging framework as inclusive and flexible as possible. It is also important to note that some projects will provide inputs to just transition projects where the outputs will not necessarily entail a climate impact such as emissions reductions. For instance, consider a project that provides a skilling programme for former miners in Mpumalanga. The output of this initiative may not directly affect climate parameters such as emissions reductions. Still, the project is critical in providing an essential input towards the just transition – equipping a vulnerable group with the skills necessary for employment in an industry outside the mining sector. This human capacity development not only aids in personal livelihoods but also contributes to a wider, more equitable transition to a low-carbon economy.

Additionally, climate adaptation refers to the process of adjustment to actual or expected climate change and its effects and is crucial to enhancing climate resilience. As such, they are of vital importance in the context of a just transition. While not all projects would directly contribute to job creation or economic growth, they address the vulnerabilities of communities to climate change. For example, the Small Grants Facility approved a project where small-scale rooibos farmers of the Suid Bokkeveld community will enhance rooibos production by optimising the sustainable use of land and water resources in collaboration with the Heiveld Cooperative. While this project does not directly target job creation, it plays a crucial role in building the resilience of these farming communities to climate change impacts. This strengthens their livelihoods and food security in the face of climate change, thus contributing to the social equity aspect of a just transition. Our tagging framework aims to recognise these projects, specifically for their focus on vulnerability and resilience.

18.2. Transitioning in criteria:

Subsequently, we look at "transitioning in" criteria, which are designed to assess how a project aids in the shift towards a sustainable, low-carbon future. The sub-criteria in this category comprise:

In line with the objectives of the framework, a project must meet a certain threshold within the "transitioning in" criteria to be considered as contributing towards the just transition. A threshold of 48% has been set, meaning that a project must score at least 11 points out of the available 23 to qualify under this dimension.

This ensures that projects making significant efforts towards creating jobs in renewable sectors, enhancing climate resilience, supporting a low-carbon economy and providing place-based impact are recognised and promoted.

Equally, this threshold allows for some flexibility to accommodate projects that may excel in some areas more than others.

It should be noted that this same threshold applies to the “transitioning out” dimension as well. Projects must score at least 33% on these criteria that is, they need to reach at least 12 points out of the available 37. This ensures the projects are meaningfully assisting in managing the social and economic impacts of moving away from high-carbon industries. This threshold, although lower than in the “transitioning in” category, is deliberate. We acknowledge that some of the sub-criteria under “transitioning out”, such as relocation and financial support, may not be present in all projects in our current sample. However, these elements are fundamental to ensuring a fair and inclusive transition away from fossil fuel-based activities.

Therefore, the set threshold allows us to accommodate a diverse range of projects, including those that may not fully cover every aspect of the “transitioning out” dimension but still make valuable contributions to the just transition effort. By requiring a minimum score of 12 points, we ensure that projects are making a meaningful effort to manage the social and economic impacts of the transition away from high-carbon industries.

18.3. Transitioning out criteria

This section is key to understanding how a project supports individuals, communities and economies that need to move away from carbon-intensive activities. The goal is to ensure those impacted by the transition to a low-carbon economy are supported and not left behind.

The first criterion under this category is “support for displaced workers”, which carries a total of 19 points:

1. **Reskilling and upskilling (maximum 9 points):** Projects that include provisions for education, retraining and skills development receive high scores. We pay particular attention to the accessibility and affordability of such training initiatives, ensuring they are within reach of those most affected by the transition.
2. **Human resource development (maximum 4 points):** This includes strategies focused on reskilling/upskilling existing workers, aligning skills development with future labour force needs (particularly green jobs) and ensuring foundational skills through the education system to improve workforce adaptability
3. **Job placement (maximum 2 points):** Points are also awarded to projects that help displaced workers redefine their job goals, prepare for job interviews and assist in the search for new job opportunities.
4. **Relocation support (maximum 3 points):** Projects that aid workers in relocating to different regions or cities for securing a new job are recognised.
5. **Financial support (maximum 5 points):** The provision of financial aid to workers or communities either through direct financing or by facilitating access to loans or grants is also evaluated.

The second main criterion is “community transition support”, which carries a total of 18 points:

1. **Infrastructure investment (maximum 6 points):** Projects that invest in infrastructure to assist communities in generating livelihoods in the absence of fossil fuel activities are favoured. Additional points are given if these infrastructures are sustainable and resilient to future climate impacts.

2. **Access to basic needs (maximum 6 points):** Projects that improve the community's access to basic needs such as food, healthcare or housing are also evaluated positively.

3. **Economic diversification and job creation (maximum 6 points):** Projects that include strategies for diversifying the local economy and creating new job opportunities score high. It's also important that the transition plan reduces reliance on the fossil fuel industry and stimulates job creation.

In total, the "transitioning out" category allocates a maximum of 37 points. The threshold for this category is 12 points, recognising that some important elements such as relocation and financial support might not yet be widely present in the current sample of projects, but are nevertheless crucial to achieving a just transition.

18.4. Economic development and social development (EDSD):

The EDSD section of the tagging framework focuses on social equity, economic inclusion and governance. EDSD carries a total of 27 points, distributed across three main criteria:

1. **Equity and inclusion (maximum 15 points):** The focus here is on whether a project prioritises the needs of the most impacted and vulnerable groups and provides opportunities for these groups to participate in the decision-making processes.

    a. **Community participation (maximum 4 points):** How does the project engage with the community to restore relationships, build trust and ensure inclusive decision-making? This is evaluated through stakeholder engagements, the involvement of marginalised communities and project planning.

    b. **Representation (maximum 3 points):** This considers whether the project involves marginalised communities, historically disadvantaged and/or vulnerable groups in decision-making processes.

    c. **Equitable benefits and opportunities (maximum 2 points):** This considers how the project ensures equitable distribution of benefits that considers historical disadvantages.

    d. **Monitoring, evaluation and transparency (maximum 2 points):** This considers the measures the projects has in place to monitor, evaluate and ensure transparency in the implementation and decision-making processes.

    e. **Affordability (maximum 2 points):** This assesses whether the project benefits are accessible and affordable to the broader community, regardless of their social status or economic situation, thereby potentially improving aspects like energy, water, food or land security.

    f. **Accountability (maximum 2 points):** This criterion looks at the mechanism in place to hold responsible parties accountable for decisions, with opportunities for review and appeal.

    g. **Environmental restoration (maximum 2 points):** This criterion looks at the project's commitments and plans for repairing environmental degradation.

2. **Small, medium and micro enterprises (SMME) and local content (maximum 8 points):** This criterion evaluates whether the project encourages local economic development by promoting SMMEs and local resources. Projects that stimulate local economies by sourcing labour, materials and services locally and supporting local small businesses are considered positively in the framework.

The two components of EDSD – equity and inclusion and SMME and local content – collectively carry a total of 25 points. A threshold of 12 points (approximately 48%) has been set to ensure a certain standard of performance in these areas. This means a project must score at least 12 out of 25 in these combined criteria to be deemed as significantly contributing to economic development and social equity in the context of a just transition.

By establishing this threshold, we encourage projects to strive for meaningful outcomes in these areas, while also acknowledging the varying challenges and opportunities different projects may encounter. This approach aligns with our aim of balancing flexibility and inclusivity with the need to uphold key principles of a just transition.

18.5. Additional ("bonus") points: Gender and youth

We also aim to recognise the importance of addressing gender inequality and youth unemployment through the just transition. To this end, we included additional criteria that measures the following:

Gender (maximum 2 points): this entails measures to address gender inequality, such as ensuring equal job opportunities or training.

Youth: (maximum 2 points): This entails measures that address youth unemployment and promote youth involvement.

Each sub-criterion in the tagging framework is evaluated on a scale. This enables a more nuanced assessment of the projects, allowing for varying degrees of accomplishment to be recognised and awarded accordingly. The scoring is not a binary, 'all-or-nothing' determination, but rather provides a continuum that can reflect the breadth of potential outcomes and efforts within each project.

For example, in the category of 'Support for Displaced Workers', the sub-criterion 'Reskilling and Upskilling' is worth a maximum of 9 points. This sub-criterion is then broken down further into sub-points: 'Accessibility and Affordability of Training' (4 points) and 'Relevance of Training for Future Labour Market' (3 points). This means a project could be awarded any number of points up to the maximum, depending on how comprehensively it addresses these elements.

Such a scoring method helps to capture the richness of each project's efforts and accomplishments. It enables differentiation between projects that exceed, meet, or fall below the expectations set by the sub-criteria and provides useful information for project comparison, evaluation and improvement. This approach is reflective of the just transition principle of promoting fairness and inclusivity while striving for substantial positive outcomes.

Conclusion

This section proposes a tagging framework through which prospective projects can be evaluated and tagged to ensure their alignment with the JTF. Designed to accessible and simple to use, the PCC believes that the tagging framework could play a crucial role in ensuring that the financing of the transition is just.

The tagging framework is designed to ensure that the just transition financing ecosystem not only supports climate action and sustainable development but also fosters social equity and inclusivity, providing robust opportunities for affected communities and workers. This focus on distributive, procedural and restorative justice is pivotal to the framework's efficacy and is embedded within its core principles.

Furthermore, the tagging framework allows for a wide range of projects to be identified and potentially directed to the appropriate just transition financing elements, contributing to its efficient and effective functioning. This aspect of the framework directly facilitates the matchmaking function of a just transition facility, enhancing its role as a key player in South Africa's just transition.

In conclusion, the tagging framework stands as an essential tool for directing financial support where it is most needed, playing a crucial role in the achievement of a just transition. By aligning project assessment with principles of justice and sustainability, it provides a path for the just transition finance to contribute meaningfully to South Africa's transition to a net-zero, resilient and inclusive economy.

20. Addendum B: Literature review of social justice financing mechanisms across the globe

In this section, we delve into transition financing facilities – for the just transition and beyond – that have been set up across the world. The goal here is to gain insights into the strengths and weaknesses of different institutional arrangements in the South African context. For ease of discussion, we group these mechanisms into centralised and decentralised institutions. Centralised mechanisms, such as the EU's Just Transition Mechanism and Canada's CCTI demonstrate a high degree of coordination, political support and policy alignment but can face challenges in local responsiveness and flexibility. Decentralised models such as India's District Mineral Foundations and Kenya's Northern Rangelands Trust underscore the value of local engagement, autonomy and innovative resource mobilisation, while posing challenges related to governance, accountability and policy coherence.

The PCC believes that understanding these nuances can help tailor a mechanism that capitalises on the strengths and mitigates the limitations of different models, thereby paving the way for a more effective and locally adapted just transition financing facility in South Africa.

It's important to clarify that the JTFM is not envisioned as a traditional fund. The literature review cites examples from nations with substantial financial capacities. However, South Africa's fiscal situation stands in stark contrast. The nation has limited fiscal room and while the initial JETP grant funding can serve as a starting point, the bulk of financing will need to stem from the private sector, development finance entities and other such sources.

India's District Mineral Foundations (DMFs)

India's mining sector is significant to its economy but often has adverse impacts on local communities, such as environmental degradation and restricted access to clean water (Abraham, 2022). To address these issues, the government introduced District Mineral Foundation (DMF) funds in 2015. These are non-profit trusts meant to benefit mining-affected areas and are funded by mining royalties. DMFs have been established in 600 districts across 22 states (Chadha & Kapoor, 2022).

DMFs are governed at the district level through a governing council and a managing committee, comprising representatives from the government, mining sector and affected communities. They focus on key areas like clean water supply, environmental conservation, healthcare, education, women and children's welfare, infrastructure development and livelihood generation (Golder & Rajesh, 2018).

Despite the funds collected, there has been underutilisation and challenges in governance, including lack of community involvement in decision-making processes. Yet the design and governance of DMFs potentially holds important lessons for South Africa's JTFM. These include:

- DMFs balance environmental sustainability, social equity and economic resilience, which aligns with the principles of just transition
- DMFs manifest a commitment to distributive justice, sharing the benefits and burdens of the transition from mining. They contribute to environmental preservation and mitigate negative impacts of mining, embodying the just transition framework's emphasis on transitioning to a low-carbon economy
- DMFs also embody redistributive justice, investing mining royalties in local communities. This enhances healthcare, education and welfare, aligning with the goal of supporting affected communities and workers, promoting economic diversification and life quality improvement

  Finally, procedural justice is reflected in DMFs' governance, involving community representatives in decision-making processes

In conclusion, DMFs represent a unique and targeted approach to financing social justice programmes that can inform elements of SA's just transition financing facility. First, DMFs require significant community involvement that inherently entails representation from affected communities. This can help ensure that the concerns of the local population are heard and taken into account when implementing projects and could particularly be beneficial in the context of SA's just transition to address the needs of vulnerable communities. Second, the decentralised structure of DMFs operating at the district level allows for targeted action in areas most affected by mining-related activities. Such an approach could lead to more tailored and effective solutions for local problems related to the transition. Third, financed through royalties from mining leaseholders, this funding model can help ensure a steady stream of funds for just transition projects, especially if South Africa can leverage its mineral wealth and extractive industries to contribute to the transition.

Kenyan Community Trust Funds

The Kenyan Community Trust Funds (CTFs) focus on local development, environmental conservation and sustainable resource management. They operate on the belief that local communities are best suited to manage their own resources and projects (Kenya Wildlife Trust, 2023).

The Northern Rangelands Trust (NRT), one of the CTFs, was founded in the 1980s to address issues like rhino poaching and now oversees 43 community conservancies. NRT aims to improve governance, promote sustainable natural resource management, foster peace and support livelihoods.

Programmes under the NRT include the Conservancy Livelihoods Fund, the Carbon Community Fund, BeadWORKS and others aimed at benefiting the community directly and indirectly.

Community conservancy management occurs at two levels: at an umbrella organisation such as the NRT and at community level. The Northern Rangeland Trust is registered as a Kenyan Trust with a Board of Trustees and constituent communities as members (Saruni, 2018). The NRT board is accountable to an overarching Council of Elders made up of elected chairpersons of all member conservancies (Kalvelage et al., 2021). Formally, the Council of Elders is the top decision-making organ of the NRT that controls budget decisions, although this has been contested (see Mkutu, 2020). Conservancies are furthermore managed by a conservancy board, consisting of one elected person per location, as well as the respective chiefs, a manager and a representative of the Kenyan Wildlife Service (KWS). Conservancy managers attend planning meetings at the regional level where budgetary decisions are made, which are then approved at annual meetings in the presence of the Council of Elders, the NRT board and donors.

The NRT receives diverse funding, including international donors and follows strict financial management and transparency rules. It has been praised for its work but its decentralised governance model presents both strengths and weaknesses, particularly in balancing local needs with broader developmental objectives. The key strengths of the NRT entail the following:

- Emphasis on local governance and community participation, which could empower communities affected by decarbonisation
- Independence potentially allows for more flexibility and responsiveness to local needs, offering a comfortable institutional arrangement for diverse capital providers
- Diversified funding sources reduce reliance on public funds, contributing to a more sustainable and diversified just transition funding base

- If transparent and well-governed, institutions like the NRT can build trust with communities, investors and stakeholders, though this remains complex
- Independent institutions aligned with economic and environmental goals can support projects that stimulate community economic activity and contribute to South Africa's climate and sustainability goals

However, a key weakness of the NRT and a decentralised approach is the lack of coordinated, cross-sectoral coordination that is required to gain momentum and recognition for the objectives of the just transition.

EU's Just Transition Mechanism

The EU's Just Transition Mechanism is an integral part of the European Green Deal, designed to facilitate a socially fair transition to a climate-neutral economy by 2050. The mechanism focuses on regions heavily reliant on fossil fuels, aiming to mitigate the socioeconomic impacts of the transition. It comprises three main pillars, including the Just Transition Fund and the InvestEU programme, both aimed at supporting regions heavily reliant on fossil fuels. To complement these pillars, the EU has implemented two key online platforms: the Just Transition Platform (JTP) and the InvestEU Portal. These platforms play a crucial role in facilitating the development of Territorial Just Transition Plans, offering technical support, and connecting project promoters with potential investors (see Box 8).

Box 8: Project visibility and the use of platforms

The EU uses two main online platforms for implementing just transition initiatives: the Just Transition Platform (JTP) and the InvestEU Portal.

Launched in 2020, the JTP offers technical and advisory help to stakeholders, particularly regions that are dependent on fossil fuels or carbon-intensive industries. The platform aids in the creation of TJTPs and helps member states secure funding from the Just Transition Mechanism.

The InvestEU Portal acts as a matchmaking service between project promoters and potential investors. Projects are reviewed by the European Investment Bank for compliance before being published on the portal, where investors can search for opportunities aligned with their interests. Additional support for project financing and implementation is provided through the InvestEU Advisory Hub.

Pillar One: The Just Transition Fund

The Just Transition Fund has a budget of €17.5bn for 2021-2027, of which €7.5bn will be financed under the multiannual financial framework and an additional €10bn under NextGenerationEU, along with national co-financing (European Parliament, 2022). The Just Transition Fund provides support to all EU member states and the amount they receive is based on factors such as industrial emissions, employment in industries like coal mining and the level of economic development.

To access funding from the EU's Just Transition Mechanism, member states are required to create one or more Territorial Just Transition Plans (TJTPs). These plans must outline the specific regions' reliance on fossil fuels and the anticipated economic and social impacts of transitioning to a greener economy. The TJTPs should be aligned with national energy and climate plans and provide detailed timelines for the transition. They should also specify how dependent the areas are on natural capital, fossil fuels and greenhouse gas-intensive industries (Cameron et al., 2020; Galgóczi, 2022).

Pillar Two: The Just Transition Scheme under InvestEU

After a country's TJTPs are approved, they can access the InvestEU programme, part of the broader European Green Deal Investment Plan aimed at mobilising €1tn for sustainable initiatives. The programme has €45bn set aside for just transition projects in approved territories. InvestEU uses various financial tools, including guarantees and equity investments, to stimulate private sector investment. It operates through four policy windows that focus on sustainable infrastructure, research and innovation, support for SMEs and social investment. To encourage private investment, the European Commission offers budgetary guarantees for projects in approved just transition territories. The InvestEU Advisory Hub provides additional support for project planning and implementation (Brunel, 2021; Europa.eu, 2023).

Pillar Three: Public Sector Loan Facility

Pillar Three of this mechanism involves a public sector loan facility with the European Investment Bank (EIB), offering €1.5bn in grants and €10bn in loans (Brunel, 2021; InvestEU Advisory Hub, 2023). This facility is for projects that aren't financially self-sustaining and will focus on areas specified in approved TJTPs. The funding aims to diversify economies, create jobs and enhance quality of life in affected regions, supporting projects like efficient heating systems, renewable energy and social infrastructure. The InvestEU Advisory Hub will provide additional guidance. The mechanism fosters collaboration among various stakeholders, including regional and local authorities, industries and social partners, emphasising tailored transition plans for each region.

Lessons for South Africa:

The EU's Just Transition Mechanism with its strong regulatory framework, diverse funding instruments and comprehensive implementation planning could benefit the design of the JTFM, in particular, the following approaches and mechanisms:

- A dedicated just transition financing facility established within a broader climate finance framework that mobilises targeted just transition funding
- The use of diverse financial instruments to catalyse private sector investment in the just transition, such as guarantees and grants to de-risk projects
- The use of centralised platforms to garner just transition project visibility
- Facility acting as a central intermediary (matchmaker) between funders and project sponsors

Canada's Coal Transition Initiative and Infrastructure Fund (CCTI – IF)

Canada's Coal Transition Initiative (CCTI) is a $35m programme designed to help Alberta and Saskatchewan transition from coal-based electricity generation to a low-carbon economy by 2030. It has six components to aid workers, including relief grants, moving reimbursements and career consulting services. An additional $105m has been allocated through the CCTI-Infrastructure Fund for infrastructure and economic diversification.

Alberta received particular focus, securing $5.6m for green investments and a $40m Coal Workforce Transition Fund. The province has already reduced its coal-based electricity generation from 50% to 35.5% between 2015 and 2019.

To fund these just transition efforts, the government deployed the use of existing funds, programmes and budgets. Key financing sources and programmes include:

- **Low Carbon Economy Fund**: A C$2bn fund that targets mitigation and advancing clean growth. It has two main components: The Leadership Fund for provinces and territories and the Challenge Fund for business and non-profit initiatives (Canada, 2020);
- **Canada Infrastructure Bank**: Founded in 2017, this federal institution aims to finance infrastructure projects, including those in renewable energy and clean technology. With an investment goal of C$35bn over 11 years, it seeks to attract private sector investments (Government of Canada, n.d.);

- **Green Infrastructure Programme**: Part of the broader Investing in Canada Plan, this program allocates C$26.9bn over 12 years for projects that bolster clean energy, improve energy efficiency, reduce emissions and strengthen resilient infrastructure (Government of Canada, 2018); and
- **Strategic Innovation Fund**: Provides financial backing for projects that spur innovation, economic growth and job creation, including those in clean technology and low-carbon energy sectors. (Government of Canada, 2023b)

The CCTI-IF is a collaboration of federal and regional agencies working together to assist those affected by the coal phase-out. Support extends beyond the dedicated CCTI and CCT-IF resources, with programmes such as those mentioned above contributing significantly. The key lessons for the JTFM from this mechanism are its targeted, spatial approach to the mobilisation and allocation of just transition financing. Additionally, transitioning in activities that are supported by the deployment of existing funds and mechanisms, such as the Canada Infrastructure Bank, the Low Carbon Economy Fund and the Strategic Innovation Fund stimulate economic diversification, fostering large-scale economic activities beyond just capacity building and training. Moreover, the CCTI offers robust worker support through transition centres that assist workers facing job losses, guiding them towards government programmes for social support, retraining/reskilling and employment opportunities.