PRESIDENTIAL CLIMATE COMMISSION
TOWARDS A JUST TRANSITION

Financing just and social aspects of the transition at scale:

Exploring the idea of a Just Transition Financing Mechanism

October 2023

1. 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.

2. Acknowledgments

The PCC wishes to thank its Climate Finance Steering Group for its continued input, ideas and feedback on the need for a Just Transition Financing Mechanism. Many issues in this report have also been discussed with a broad range of stakeholders with whom the PCC interacts on an ongoing basis for which it is grateful.

This report was drafted by Krutham which is retained by the PCC to explore and advise on the need for modalities around the formation of a Just Transition Financing Mechanism. This report however has been redrafted after comments and input from the PCC staff and commissioners and is ultimately the view and product of the PCC.

3. Executive Summary

This report discusses the urgency of raising finance for the just transition. It looks at the challenges and barriers that currently undermine financial flows toward the just transition and considers how a dedicated just transition financing facility can help to overcome these challenges.

The just transition to a low-carbon, climate resilient economy requires substantial financing to support both environmental sustainability and social justice. The PCC views the just transition as a pathway to ensure a quality life for all South Africans. This perspective is grounded in several key objectives. Firstly, it emphasises the need to increase our ability to adapt to the adverse impacts of climate change. Secondly, it focuses on fostering climate resilience. Lastly, it aims to reach net-zero greenhouse gas emissions by 2050, a target set in alignment with the best available science (PCC, 2022a). Despite the urgency of a just transition, the current financial ecosystem is not adequately structured to accommodate the needs of this transition.

A significant challenge is the lack of recognition and appreciation of just transition objectives within the broader transition to a low carbon economy. While climate action is indeed a key objective of the just transition, the justice components of the low-carbon transition placed added emphasis on addressing the social, economic and environmental justice questions. Neglecting these questions have serious implications for the broader low-carbon transition, introducing the risk of stranded assets, higher social protection costs, environmental degradation, increased social strife and political instability (Lowitt, 2021).

The current climate finance landscape therefore does not encompass the objectives of the just transition. This translates into significant barriers, such as a lack of standardised indicators, information and coordination gaps, perceived risks, and tailored financial instruments that cater to the needs of just transition projects.

The PCC recommends the establishment of a dedicated just transition financing facility to directly address the gaps and barriers in the current financial ecosystem. This facility could act as a catalyst, accelerating the flow of capital towards just transition projects that prioritise both environmental sustainability and social justice. The PCC envisages the facility as a "node" within the broader financial ecosystem, to mobilise and channel funds towards the just transition. Its role would be instrumental in overcoming market failures like information asymmetry and risk perceptions, thereby enabling more equitable and sustainable outcomes for all stakeholders involved in the just transition.

These functions are, to an extent, fulfilled by existing institutions, including the PCC itself as well as the Just Energy Transition Investment Plan Project Management Unit (JET-IP PMU). The PCC is responsible for forming a unified vision for the transition and is involved in mobilising funding to ensure alignment with the Paris Agreement. As such it is well placed to forge a consensus on the need for special and workable just transition financing mechanisms to ensure that marginally returning (but essential) projects give expression to the justice components of just transition financing, as well as make recommendations to government. The JET-IP PMU, on the other hand, has the mandate to develop an implementation plan and strategy to mobilise climate finance and engage with potential funders.

While these entities are driving coordination, capacity building and finance mobilisation, a dedicated financing facility with an appropriate legal basis is needed to mobilise and match funds with just transition projects.

The problem of raising just transition financing is not unique to South Africa. Across the globe, financing mechanisms (to varying degrees of generality) have been put in place to mobilise funding for just transitions. These mechanisms, such as the European Union’s Just Transition Mechanism functions as a dedicated just transition facility that mobilises and channels investments toward the just transition within the broader European financial landscape (Cameron et al., 2020). It does this by leveraging public funds, targeted financial instruments that de-risk just transition projects, partnerships with local financial institutions and by integrating just transition financing into other EU programmes such as the Cohesion Fund.

The PCC suggests that the design of a just transition facility, termed the Just Transition Financing Mechanism (JTFM) throughout this report, draws from experiences across the globe. These institutions can be divided into centralised and decentralised financing facilities. Centralised models offer robust governance and the ability to attract large-scale investment, while decentralised models excel in community engagement and fundraising innovation.

These lessons should be adapted and tailored to South Africa's legal and regulatory context. To this end, we consider several options for the establishment of the JTFM, particularly as a new entity under the Public Finance Management Act (PFMA) or within an existing structure. While a new PFMA entity would offer tailored governance and financial oversight, the time required to set it up is a significant drawback. Establishing the JTFM within an existing structure, particularly a development finance institution (DFI) emerges as a feasible approach. These entities excel in technical proficiency, effective capital allocation, and have a track record in managing large-scale projects. As the JTFM matures, it can evolve into a standalone entity, offering more specialised and adaptable functions.

The PCC has conducted several stakeholder consultations that informed the recommendations throughout this report. We welcome any additional feedback on the presented recommendations and the tagging framework, detailed in Appendix A. The tagging framework is an effort to address the lack of standardised indicators and metrics defining a just transition project. The PCC envisions the tagging framework as a pivotal tool in the financial ecosystem that could facilitate the categorisation and evaluation of projects in line with the principles of the Just Transition Framework (JTF).

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5. Introduction

Ensuring a just transition to a low-carbon economy is crucial in the South African context, which is marked by pressing environmental, energy, societal and economic challenges. This entails, in the PCC's view, several key objectives. First, it aims to achieve a quality of life for all South Africans. Second, central to quality of life is the increasing ability to adapt to the adverse effects of climate change. A just transition is therefore one that fosters climate resilience. Finally, a just transition is one that reaches net-zero greenhouse gas (GHG) emissions by 2050, in line with the best available science (PCC, 2022a). This approach puts an emphasis on adaptation and climate resilience, but also positions people – especially the most vulnerable – at the heart of the decision-making processes.

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 achieve an equitable, holistic societal transition.

Realising this vision necessitates substantial financial investments. At COP26 in 2021, a Just Energy Transition Partnership (JETP) was announced between South Africa and a consortium of donor countries, mobilising an initial $8.5bn for the country's just energy transition (JET). The JETP is made up of a combination of financial instruments that include grants, as well as concessional and commercial loans. Although the JETP funding is significant, several barriers in the existing financial ecosystem undermine both the further mobilisation of just transition financing as well as the channelling of the funding that is available to deserving projects and initiatives. A key challenge is that just transition financing is still in a nascent stage, which makes it susceptible to market failures like information asymmetry, coordination failures and risk perceptions, among others. These barriers in the supply of finance translate to several obstacles for project sponsors and communities in raising just transition finance, such as limited awareness and understanding of just transition objectives, limited capacity in communities and government to prepare just transition projects, and varying definitions and criteria that apply to for what constitutes just transition projects (Lowitt, 2021).

Compared to the objectives and investment requirements of a just transition, climate finance is more established and understood. Climate finance encompasses mitigation finance, which focuses on reducing or removing greenhouse gas emissions and adaptation finance which pertains to the preparation for and reduction of climate-related risks and damages.

Just transition finance indeed aligns with the objectives of climate finance, but places added emphasis on addressing the social, economic and environmental justice questions that underpin the transition to a low-carbon economy.

While these actions contribute significantly to addressing the effects of climate change, the broader vision of a just transition adds an important layer by centring the human dimension of the low carbon transition. Just transition finance indeed aligns with the objectives of climate finance, but places added emphasis on addressing the social, economic and environmental justice questions that underpin the transition to a low-carbon economy (Lowitt, 2021; PCC, 2022a)

This entails support for workers and communities whose livelihoods are at risk due to mitigation strategies as well as measures to restore environmental and spatial injustices, rooted in the country's colonial and apartheid past. These measures focus on strengthening the resilience of both the people and the environment against the consequences of climate change such as safeguarding strategic water sources, enhancing ecosystems, improving biodiversity, implementing sustainable land-use practices and restoring ecosystems to their natural forms. Additionally, environmental justice extends to rectifying historical damage to land by building upon existing mechanisms that ensure equitable access to environmental resources, land redistribution and strategies like Broad-Based Black Economic Empowerment (B-BBEE) (PCC, 2022a).

The PCC recognises that the financial ecosystem needs to support the just transition. Following examples across the globe, we explore the potential of a dedicated just transition financing facility to catalyse broader change across the financial ecosystem. We envision this facility as acting as a “node” within the broader financial ecosystem, designed to stimulate the flow of capital to the just transition. However, in light of South Africa’s fiscal constraints, the PCC does not conceive this facility as a government fund that disburses funding to recipients as has been witnessed in international case studies we review. Instead, the facility is conceived as a facilitative mechanism. As a key node in the just transition finance landscape, it will guide project sponsors toward appropriate funding avenues and simultaneously assist potential financiers in understanding the just transition project landscape in South Africa and the unique needs and local realities on the ground. In other words, the facility could act as a conduit, ensuring coordination and alignment between various stakeholders, thereby supporting the effectiveness of just transition efforts.

6. Problem statement

The existing financial ecosystem is not adequately structured to mobilise and allocate just transition finance, thereby undermining the advancement of projects that address the socio-economic and environmental objectives of South Africa’s just transition. This report explores the difficulties project sponsors and local communities face in raising just transition finance and considers how the establishment of a dedicated just transition financing facility can facilitate broader change to cater to the unique needs and challenges of just transition initiatives.

The PCC will call this facility the Just Transition Financing Mechanism (JTFM). In this report, we outline the functions that a facility like the JTFM could play in addressing the challenges and gaps in the current landscape of just transition financial flows. We explore how the complexities around just transition financing – and social justice issues in general – have been addressed in countries across the globe and within the South African context. We explore the strengths and weaknesses of these mechanisms and consider how this could inform the design of the JTFM. Subsequently, we examine the various legal structures and possibilities for establishing a JTFM, taking into account the domestic legal landscape. In line with the PCC’s mandate to facilitate a just transition towards a low-emissions and climate-resilient economy in South Africa, the report concludes with a set of targeted considerations essential for the design and implementation of a facility such as the JTFM.

It is our view that the design of a JTFM should be informed by a collaborative approach that incorporates the views of various stakeholders in order to bolster public trust.

As such, the PCC has actively sought input through several consultations to shape the content and recommendations of this report. These engagements included:

1. A public stakeholder consultation 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 tagging;
3. Targeted stakeholder consultation on the potential institutional host of the JTFM. This entailed engagements with the JET-IP Project Management

Unit (PMU), the Infrastructure Fund, National Treasury, and the DBSA.

The feedback gathered from these consultations not only affirmed the pressing need for a JTFM but also provided crucial insights into the preferred institutional arrangements for the facility and the direction of financing flows. Throughout this report, we will delve deeper into specific feedback and insights gleaned from these consultations to ensure transparency and clarity in our recommendations.

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.

7. What needs funding?

Financing South Africa's just transition is about funding a holistic transition that integrates environmental, economic and social dimensions. Some of the key activities that will require just transition financing entail (Intellidex, 2022; Lowitt, 2021; PCC, 2022a):

- **Economic diversification and reskilling**: Supporting economic diversification in regions negatively impacted by decarbonisation activities involves financing initiatives that encourage the growth of new industries, job creation and reskilling of workers. Investments in research, innovation and skills development programmes are crucial to facilitate the transition of affected communities.
- **Sustainable agriculture and land use**: Financing is needed to promote sustainable agricultural practices that improve food security, reduce the sector's environmental impact and enhance the resilience of rural communities. This includes investments in climate-resilient crop cultivation, agroforestry and land management.
- **Affordable and accessible clean energy**: Ensuring equitable access to clean and affordable energy for all South Africans requires funding for projects that bring renewable energy solutions to underserved communities, reducing energy poverty and promoting social inclusion.
- **Climate resilient infrastructure:** Investing in climate-resilient infrastructure such as water supply systems, transportation networks and urban planning helps communities adapt to changing climate conditions while maintaining essential services.
- **Social protection and inclusive policies**: Just transition financing supports social protection measures that safeguard the wellbeing of vulnerable populations affected by the transition. This includes funding for basic income grants, healthcare, education and housing for marginalised communities.
- **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.

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

Figure 1: Barriers in just transition financing

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, 2022). This underlines the need for adaptation measures and climate resilient development alongside mitigation efforts. The country's revised its Nationally

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.

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).

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).

8.1. 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.

This is significant, as neglecting the social and environmental justice concerns of decarbonisation raises the risk of environmental degradation, increased social strife and 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, 2023; 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.

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

8.2. 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.

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

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.

8.3. 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.

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.

8.4. 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.

8.5. 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.

9. 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.

A just transition project is 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.

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:

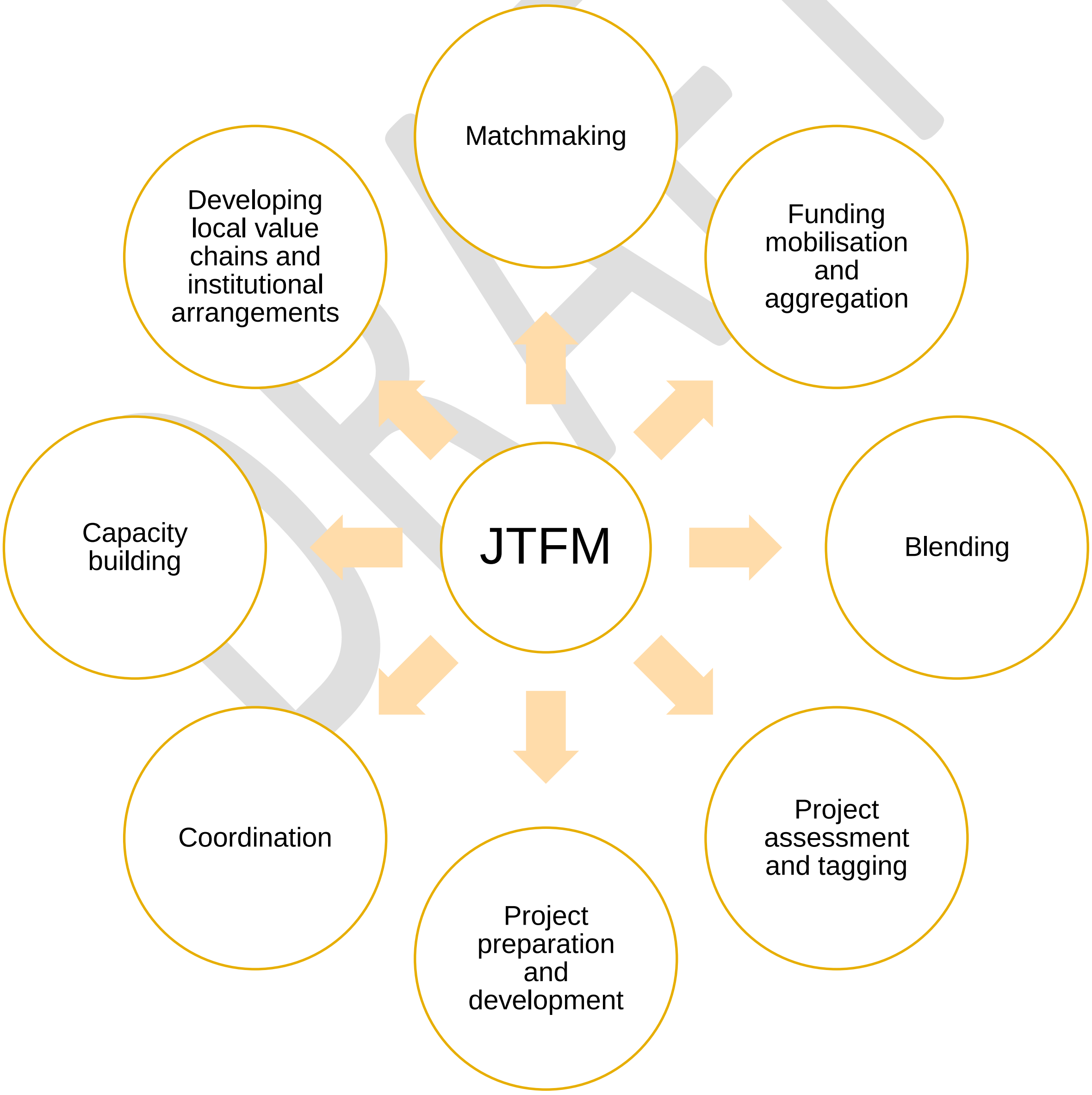
- **Tax benefits** to companies that invest in just transition projects, which can be linked to the just transition tag discussed later in the report.
- **Community shares** for local community-based projects, which can provide residents with both a financial stake and a voice in project development.
- **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 a dedicated just transition financing facility such as the JTFM could play a pivotal role in mobilising just transition finance and carving a space for this type of financing in the short-term.

Figure 2: Key functions of the JTFM



10. The JTFM as a key node in the financial ecosystem: potential functions

Given the barriers and required system-level changes identified earlier, the JTFM should aim to address these challenges directly, playing a pivotal role within the broader financial ecosystem. Drawing on examples across the globe and recognising the unique needs of the South African context, some of the functions of the JTFM should include:

10.1. Matchmaking

A key function of the JTFM will be matching suitable just transition projects with potential funders. This matchmaking function, however, is not merely a cataloguing platform but is intricately connected to the multiple stages of project financing. This starts with an initial screening to identify projects and potential financiers based on their preliminary fit. For municipalities and local communities, especially those with limited capacity, there's a significant focus on capacity building. This ensures that these entities are empowered to meet the stringent criteria set by potential financiers, a process that could encompass training programmes and technical assistance. Subsequently, detailed project preparation comes into play. This involves in-depth feasibility studies, planning, and structuring projects so they align with the objectives and risk appetites of potential financiers. Negotiation, often the most tenacious phase, is then facilitated by the JTFM to bring all parties to a consensus, respecting each stakeholder's unique considerations, risks, and expectations.

The JTFM's involvement won't necessarily end at the negotiation table. It extends to offering post-deal support, ensuring the project's successful execution, and setting up monitoring and reporting mechanisms to ensure just transition promises are delivered. Additionally, there's a continuous feedback loop where the outcomes of various projects feed into refining the processes for future initiatives. It's through this comprehensive approach that the JTFM truly facilitates immediate action in support of a just transition, ensuring both environmental sustainability and social equity.

The functions detailed in the subsequent discussion, such as funding mobilisation, blending, project preparation as well as capacity building, are not standalone services but are interwoven elements that complement and enhance the JTFM's comprehensive matchmaking process.

10.2. Funding mobilisation and aggregation

The JTFM will be instrumental in raising just transition finance. Underpinning this function is a set of additional tasks, such as carving a unique space for just transition objectives within existing climate finance typologies and facilitating coordination between the public and private sector and international funding sources. The JTFM could support the introduction of innovative financial tools tailored to the unique needs of just transition projects, such as guarantees, insurance, and catalytic capital mechanisms to crowd in traditional investors. Moreover, this function involves support and funding for pilot projects to explore the viability and benefits of innovative solutions to just transition challenges. This can be done through the strategic aggregation of smaller, similar projects into a larger investment portfolio. Aggregation can group together projects that are located in the same area, such as Mpumalanga and Limpopo, or projects that are of the same 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 the JTFM demonstrates successes, even on a smaller scale, it can attract more investors, gradually establishing just transition financing as a viable investment opportunity.

10.3. 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. **Error! Reference source not found.** lists a few types of capital and their roles within a blended finance approach.

10.4. Project assessment and tagging

In line with the JTFM's matchmaking and mobilisation functions, comprehensive project assessments should be conducted to evaluate a project's alignment with the just transition and longer term sustainability. While the tagging framework enables an assessment of a project's alignment with the JTF, longer term sustainability can focus on the follow criteria:

- **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 JTFM will also evaluate the scalability potential of each project, looking at how easily it can be expanded or replicated in other contexts. This consideration will help the facility to prioritise investments that have the potential for broader

Table 1: 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

impact beyond the initial implementation site.

Community involvement: An integral part of the project assessment will involve gauging the level and quality of community participation and benefit. Local stakeholder interviews and public consultations will be conducted to ensure that the project addresses community needs and has local buy-in. This aspect is crucial for long-term success and aligns with the JTFM's commitment to social justice and equitable resource distribution.

10.5. 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. It includes a consideration of economic, social, and environmental factors, emphasising not only the reduction of carbon emissions, but also the creation of sustainable jobs, support for communities and workers in transition, and the enhancement 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.

10.6. Project preparation and development

This function will further position the JTFM as a vital facility to support the just transition and in particular, the development of a viable project pipeline. 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**: The JTFM should work with project sponsors and communities to help refine their project ideas into actionable plans. This includes facilitating ideation sessions and providing initial feasibility studies to help crystallise the project concept.
- **Technical assistance**: The JTFM should be able to provide guidance on a plethora of technical dimensions associated with 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, the JTFM can draw on its networks with other key players in the financial ecosystem to help project sponsors navigate and conduct comprehensive stakeholder engagements. From local communities and governmental agencies to NGOs and private entities, the JTFM should facilitate constructive dialogue ensuring that projects are harmonised with the aspirations and concerns of all relevant parties.
- **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.
- **Execution**: During the project's implementation phase, the JTFM will provide ongoing support in terms of performance monitoring, technical assistance, and problem-solving.

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

10.7. 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.

10.8. Local community and municipal capacity for the just transition.

The challenge of achieving a just transition to a more sustainable and equitable future is a complex and multi-layered endeavour. It demands a synergistic approach that involves multiple stakeholders, including local communities and municipalities. These local entities are often the first in line for implementing sustainable initiatives but frequently lack the necessary capacity to implement social initiatives.

To ensure a successful and equitable transition to a more sustainable future, the JTFM will undertake a multi-faceted approach to capacity building that target both municipal and local community levels. This involves several key strategies, such as fiscal management training, absorptive capacity improvement, portfolio management, value chain development, and project preparation. Figure 3 briefly discusses these strategies.

Figure 3: Capacity building focus areas for local governments and communities

Fiscal management

- One of the immediate focus areas should be to train local officials on sound fiscal management. This includes efficient tax collection systems, budgeting methods, and leveraging existing resources to fund just transition projects. Local communities, serving as project developers, fiscal management could also focus on budget management as well as techniques to ensure the financial sustainability of projects

Absorptive capacity

- Here, capacity building will entail empowering local entities to identify, manage, and deploy funds and technologies efficiently. This could include best-practice sharing forums, workshops, and technical consultation services, ensuring that these local entities are not just beneficiaries but active, knowledgeable participants in just transition initiatives.

Portfolio management

- Beyond individual projects, the JTFM's technical assistance and capacity building should focus on enhancing the capacity of local entities to management their just transition project portfolio. Given the interlinked nature of these projects across sectors like energy, transport and agriculture, comprehensive portfolio management is crucial. To equip local decision-makers with the necessary skills, capacity building should focus on, among others, risk assessment methodologies for evaluating and mitigating project risks; resource allocation techniques for optimal distribution of financial, human, and technical resources; tools for identifying synergies between projects as well as scenario planning exercises to build resilience against market fluctuations and policy changes.

Value chain development

- Understanding and effectively managing value chains can be crucial for the success of just transition projects. For example, in a project aimed at sustainable agriculture, the value chain could extend from seed suppliers to farmers, processors, distributors, retailers, and finally to consumers. The JTFM would provide specialised guidance on how to develop and manage these value chains in a sustainable manner. This could include workshops or resources focusing on topics like sustainable sourcing, ethical labour practices, and low-carbon distribution methods

Project preparation

- Here, technical assistance will focus on helping local entities create detailed, feasible project plans. This includes participatory planning methods to incorporate community perspectives into the project's social and environmental dimensions. This ensures that projects not only have technical feasibility but also social legitimacy and environmental integrity, which are crucial for long-term success.

Aligning Integrated Development Programmes (IDPs) with Just Transition

Local governments typically have existing Integrated Development Programmes (IDPs) that could be aligned with just transition objectives. The JTFM can provide assistance in adjusting existing programmes to the objectives of the just transition. These programmes must be rooted in the local context, as local communities have a deep understanding of their environment, social structure, and the unique challenges they face. Leveraging local knowledge can lead to the design of more targeted and relevant interventions. For example, in coastal areas where fishing is a primary occupation but threatened by climate change, training in sustainable fishing practices or aquaculture can offer alternative livelihoods while preserving local traditions.

Community engagement and stakeholder involvement

Skills development: Municipalities that build their capacity can subsequently facilitate skills development programmes aimed at preparing local communities for the shifts in the job market due to decarbonisation activities. This will build community resilience and enhance the overall effectiveness of just transition projects.
Stakeholder engagement: Local governments need to be adept at engaging with a diverse array of stakeholders in their communities, including civil society organisations, NGOs, labour unions, and religious institutions. This is essential for a community-centric approach to just transition, ensuring the programmes are tailored to local needs and are more likely to be accepted and supported by the community. Capacity building, when treated as a cornerstone of the just transition strategy, lays the foundation for initiatives that are sustainable, inclusive, and tailored to local realities. By focusing on fiscal management, enhancing absorptive capacity, aligning with existing development programmes, and fostering stakeholder engagement, the JTFM can play a critical role in ensuring that the transition to a more sustainable future is both effective and equitable.

10.9. Local value chains and institutional arrangements

The JTFM aims to be a catalyst in fortifying local value chains by connecting various elements of the financial ecosystem, from raw material providers to end-users. The focus will be on enhancing local capacities, thereby ensuring sustainable economic outcomes that resonate at the grassroots level. Here, strategic partnerships with local businesses, government agencies, municipalities and

Box 3: 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 itself from earlier green finance initiatives, the JTFM must consider these lessons in its operational strategy. By focusing on scalability, streamlining administrative processes, offering strong project preparation support, and being proactive in project sourcing, the JTFM has a greater chance of fulfilling its role as a facilitator of a just and equitable transition to a greener economy.

NGOs will be crucial to create an environment that fosters innovation, job creation, and market accessibility.

Another key institutional arrangement will be between Development Finance Institutions (DFIs) and local government agencies for project financing and policy alignment. By facilitating partnerships on this level, the JTFM can mobilise financial resources and legislative support to incentivise local production and consumption. Special attention will be given to Small and Medium-sized Enterprises (SMEs) through targeted funding and capacity-building initiatives, enhancing their ability to participate in local value chains.

Additionally, JTFM could collaborate with educational institutions and vocational training centres to develop specialised training programmes. These programmes aim to upskill the local workforce in fields directly related to the just transition, thus creating a pool of qualified individuals who can contribute to the local economy.

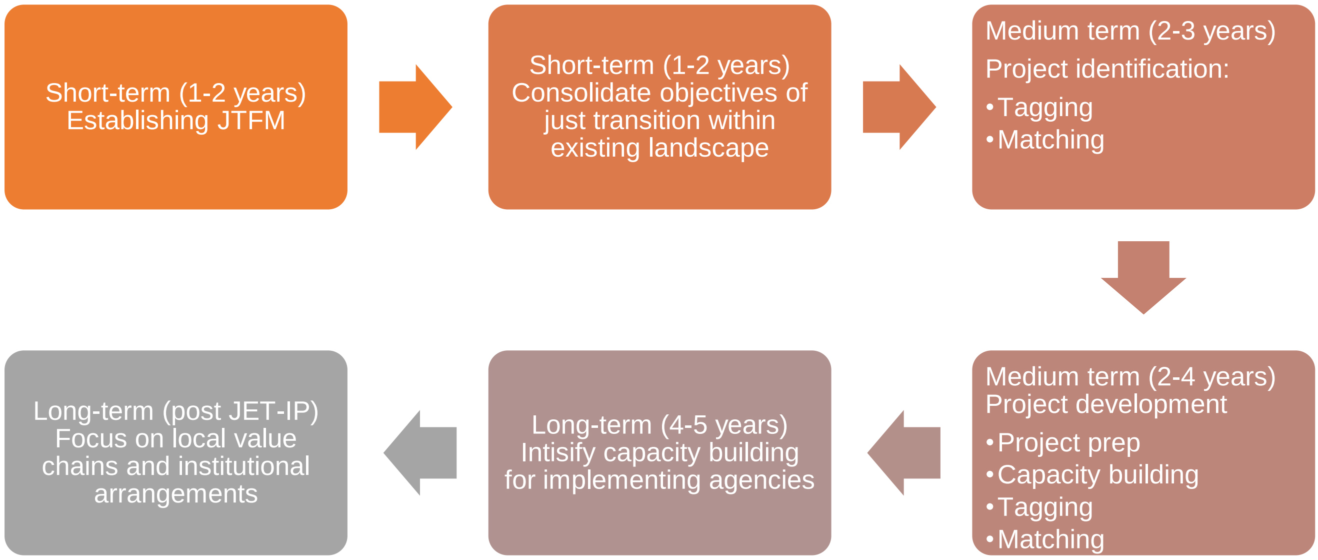
To ensure effective execution and sustainability, the JTFM will work in tandem with community organisations for better insight into local needs and challenges. By understanding the intricacies of the local context, more effective, community-centred solutions can be developed.

In sum, the JTFM envisions a multi-layered institutional partnership model that leverages each stakeholder's strengths to create robust local value chains. This is expected to stimulate economic activities that are both environmentally and financially sustainable and socially equitable.

Timeline of JTFM functions

It's crucial to set realistic expectations regarding the timeline for the evolution of the JTFM. In the initial years, the focus will be on 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. It's imperative to underscore the continuous emphasis on stakeholder engagement throughout this journey. 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



11. Spatial considerations for a just transition

The benefits and burdens of the transition toward a low carbon economy will not be evenly distributed across South Africa. This stems, to a large extent, from the country's long-standing dependence on fossil fuel-driven industries, particularly coal mining in Mpumalanga and the petroleum-based transport sector that is largely concentrated in the Eastern Cape and to a lesser extent 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 over 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, 2020b). Efforts to reduce GHG emissions from transport entail a shift away 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 cars. An electric vehicle has approximately 20 moving parts, compared to 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).

As such, the topic of spatial justice emerges as a critical consideration in managing the low carbon transition. Spatial justice refers to the equitable distribution and arrangement of resources, opportunities, and burdens across disparate geographical and social landscapes. In the context of transitioning to a low-carbon economy, spatial justice underscores the need to account for geographic variances, ensuring that benefits and burdens are fairly distributed. For example, new opportunities for renewable energy projects, mainly related to the REIPPP, are emerging in areas that do not necessarily align with regions that are bearing the brunt of the transition's opportunity costs (Garvey et al., 2022). The REIPPP projects have mainly been concentrated in the Northern Cape, specifically solar plants, while the Western and Eastern Cape have been targeted for wind projects (McEwan, 2017).

In the context of transitioning to a low-carbon economy, spatial justice underscores the need to account for geographic variances, ensuring that benefits and burdens are fairly distributed.

This does not mean that regions less dependent on the fossil fuel economy should receive less attention in just transition planning. Instead, it draws attention to the urgency of spatially targeted just transition planning and interventions. This can include reskilling workers, social safety nets, job placements and relocation support, as well as investing in new sustainable industries.

In terms of new sustainable industries, green hydrogen (GH_2) has recently garnered significant attention in South Africa's just energy transition (JET) planning as an alternative to fossil fuels in several sectors, from transportation to industrial processes (Presidency of South Africa, 2022).

Green hydrogen is produced using renewable energy sources, typically wind or solar power, to electrolyse water. The technology required for GH_2 production is often celebrated for its potential to create jobs that could assist in absorbing job losses in fossil fuel industries. For instance, existing infrastructure facilities in Mpumalanga, particularly Sasol's Coal-To-Liquids (CTL) plant in Secunda, has been framed as a springboard for GH_2 development (JET-IP). The CLT plant possesses some of the vital technologies and equipment that can be repurposed or adapted for hydrogen production. Additionally, GH_2 could preserve mining-related jobs by supporting industries like iron and steel as these materials are widely used in the production of GH_2. Mpumalanga, with its existing mining expertise, could supply the necessary raw materials and manpower for this nascent industry (IASS et al., 2022).

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 compared to 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 GH2 and its derivatives.

While new industries built around GH_2 technology might seem promising, there are several factors to consider when it comes to addressing spatial justice. First, most of the jobs required in GH_2 production are highly skilled and include mechanical and electrical engineering as well as professional skills in process management. These jobs do not cater to the majority of, especially, the coal mining workforce, where 80% of workers do not have matric (TIPS, 2020a). Although the majority of autoworkers do have matric, they do not necessarily possess the required expertise for FCV production (TIPS, 2020b). Therefore, any workers that are displaced as a result of the transition will likely require significant reskilling to access job opportunities in the GH_2 value chain.

Second, the celebration of GH_2 production in the JET stems significantly from its export potential. However, the distribution and transport infrastructure of GH_2 to ports does not necessarily exist and the transport of 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). 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).

This draws attention to the need for the JTFM to adopt a “whole systems” perspective when planning and funding projects related to the just transition (Garvey et al., 2022). Whole systems justice refers to the consideration of justice across the supply chain for a given product or activity and recognises 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 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 stage of decision-making.

Box 4: Spotlight on Komati and lessons for future decommissioning

The PCC visited the Komati power station on 7 July 2023 to assess the decommissioning, repurposing and repowering of the facility. The visit focused on the justness of the decommissioning process and met with Eskom, workers, labour unions, community members and other relevant stakeholders. Our visit revealed critical lapses in how the principles of justice and community engagement were integrated into the decommissioning processes of Komati. The key findings from the PCC's visit entail:

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 suggested 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 underway, 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. They 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 is in the process of drafting a set of recommendations on the future decommissioning, repurposing and repowering of coal-fired power stations as they reach their end of operational life based on our Komati visit. The findings from the Komati visit demonstrate important lessons 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**.**

12. Literature review

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.

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 pillars:

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).

Box 5: 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 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.

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.

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. Each of these mechanisms, while designed to fit unique sociopolitical 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 such as the EU's Just Transition Mechanism and Canada's CCTI are:

12.1. 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.

12.2. 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. Facilities such as the DMFs in India and NRT in Kenya have the following strengths and weaknesses:

12.3. 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.

12.4. Decentralised institutional weaknesses:

- Limitation in terms of complexity of establishing an independent institution;

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 itself from earlier green finance initiatives, the JTFM must consider these lessons in its operational strategy. By focusing on scalability, streamlining administrative processes, offering strong project preparation support, and being proactive in project sourcing, the JTFM has a greater chance of fulfilling its role as a facilitator of a just and equitable transition to a greener economy.

  - 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.

13. Funding the just transition

Estimating the precise financing needs for a just transition can be challenging. Recent projections indicate that South Africa's pursuit of net-zero emissions by 2050 might demand around R6trn (NBI, 2023). This estimate focuses primarily on the investment needs for mitigation purposes (electricity transition, NEVs and GH_2) and does not fully encompass the costs associated with social justice or adaptation components of the transition. Furthermore, given the nascent stage of the just transition in South Africa, a more accurate understanding of the funding requirement for the social and environmental justice components of the transition would likely unfold as more of these projects are developed and implemented over time.

According to the JET-IP, approximately R9.6bn is required for social investment and inclusion between 2023 and 2027 (Presidency of South Africa, 2022). This amount is targeted for social investment and inclusion in the electricity transition and therefore does not include the investment need for NEVs and GH_2 development, as the table below indicates.

Yet it is important to recognise that grants will likely constitute a tiny portion of the financing instruments that will fund the just transition. Moreover, while the JET-IP grant funding will play an essential role in the short-term, the JTFM aims to build on the JET-IP PMU's successes and mobilise financing for the just transition beyond the JETP period. To this end, it is vital to diversify the financing instruments and sources of just transition financing. Drawing on the financing of the literature review, the PCC envisages three primary elements in the just transition financing mix: grant, blended financing and private financing. Below we consider how these funding elements can be used to mobilise and allocate funding for the just transition.

Grant element

The PCC recognises that many just transition efforts will not be bankable. Therefore, the first element to consider is a grant window that caters to critical projects, as outlined in an earlier concept note (PCC, 2022b). Critical projects include initiatives that are vital to achieving the goals of the just transition, which include enhancing economic, social and climate resilience and addressing fundamental needs that are typically unmet due to market failures. These failures include the absence of appropriate price signals that accurately reflect the societal value of projects, or imperfections in capital markets that prevent the flow of financing to these areas. As such, the disbursed funds to critical projects are not expected to be returned or recovered.

Critical projects entail interventions that protect, restore and enhance environmental resources and infrastructure as well as measures to build resilience and adaptive capacity within communities most affected by climate change. These projects are likely to be **transition-out** projects (see Box 2). Grants can be conditional or unconditional grants, matching grants or in-kind grants such as technical expertise and assistance.

13.1. Sources of grant funding

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. Working with existing entities like the JET-IP PMU, the JTFM could mobilise this grant funding toward the following just transition priorities:

- 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 capital takes on disproportionate risk or offers concessionary returns compared to conventional investments. Its primary aim is to achieve enhanced social or environmental outcomes and to mobilise additional third-party investments that wouldn't be accessible without such catalytic intervention. (III, 2023). Catalytic capital can unlock conventional investment in several ways (MacArthur Foundation, 2023). 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 current 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 speed up 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.

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.

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. This provides a pivotal opportunity for redistribution, enabling both sustainable international development funds for global social justice and the harnessing of worldwide markets to boost domestic mitigation efforts, especially for adaptation and social risk initiatives that are still in their early stages of commercial development (PCC concept note).

One of the most significant shifts from the Kyoto Protocol is the leeway granted to local governments in overseeing their carbon markets. 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 ITMOs for government-led initiatives.

At the moment, domestic mitigation action is not being leveraged by the South African government under this provision, hence in future, it may be possible to capture this source of revenue for ringfenced just transition purposes in a politically viable manner (ie without diverting existing sources of revenue from the fiscus). This follows the precedent set by the Adaptation Fund in which a portion of funds raised by markets for carbon abatement is diverted to grant funding for adaptation projects, typically with high impact but low commerciality.

Non-market approaches (NMA) under Article 6.8 of the Paris Agreement are 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
- just 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 be used to 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:

This Fund, set up in 2010 under the UN Framework Convention on Climate Change, 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 its 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.

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 projects 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. 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 is focused 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.

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 7**).

- **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 socio-economic 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 to 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 100 MW solar power plant in the Northern Cape Province. 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 be able to 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 7: 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.

14. 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. This requires strong collaboration with different entities from the private and public sector as well as local communities. 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.

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.

Box 8: 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.

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 2: Advantages and disadvantages of Schedule 2 entities

Advantages	Disadvantages
Financial sustainability as a schedule 2 entity, with mechanisms in place to maintain operations.	Bureaucratic 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 3: 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 4: 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.

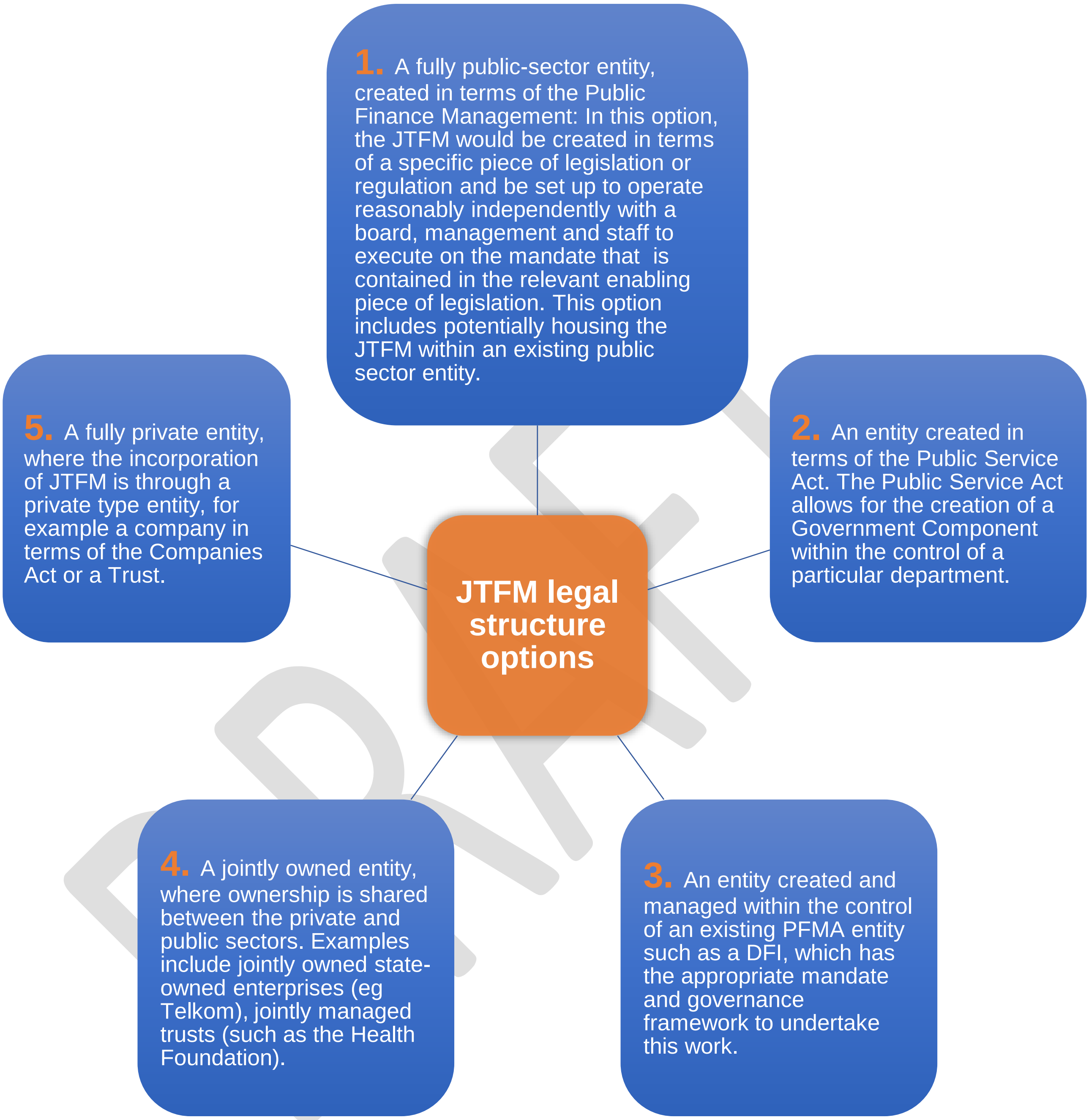
However, a PPP structure also brings its own challenges, chiefly concerning conflicts of interest and accountability. Private entities involved in the partnership might prioritise profit over public welfare, creating ethical and operational dilemmas. Furthermore, PPPs typically aren't subjected to the 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 5: Options for a JTFM



15. 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 existin 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 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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17. 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.

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. 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

Table 5: 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.

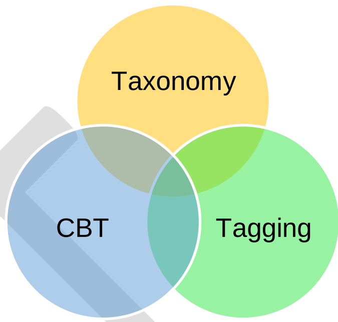
uncertainties by clearly defining what qualifies as a sustainable or "just" initiative, helping to channel resources effectively towards environmental sustainability, social equity, and economic resilience. Likewise, the tagging framework and CBT can function as resource allocation tools, albeit in different 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.

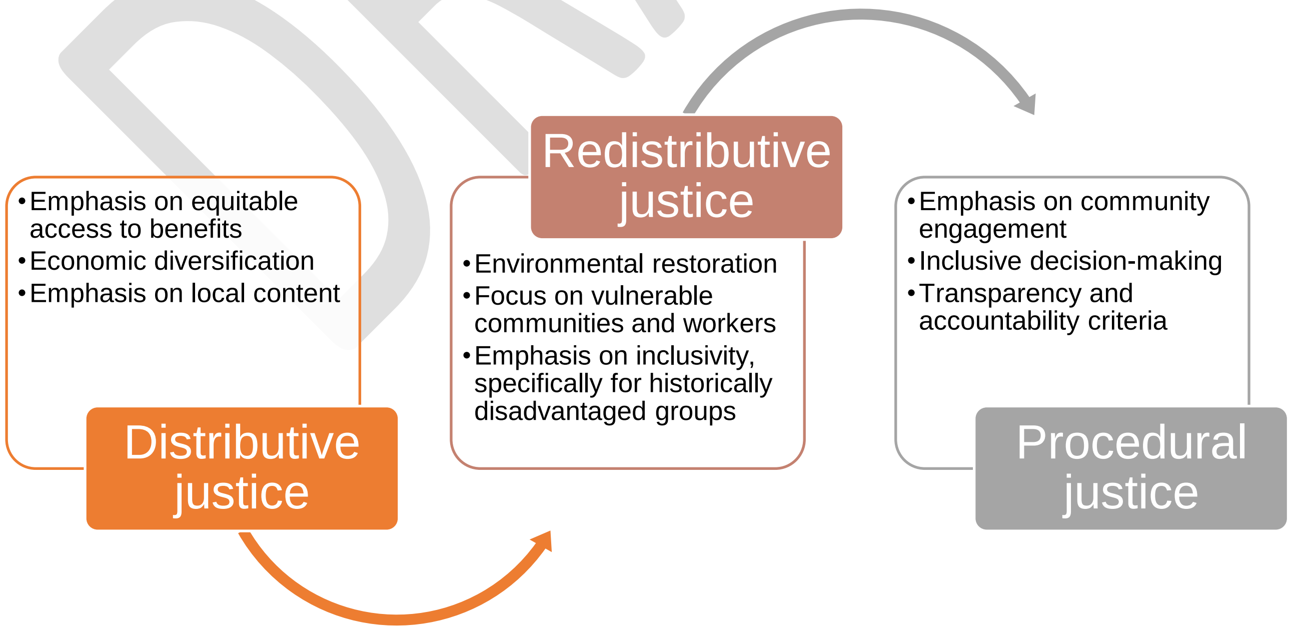
Just Transition Framework: The PCC's vision of a tagging framework is informed by existing approaches. Yet, a crucial input to our framework will be the JTF and, the three justice principles, namely distributive, redistributive and procedural justice. By emphasising these principles, we aim to ensure 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).

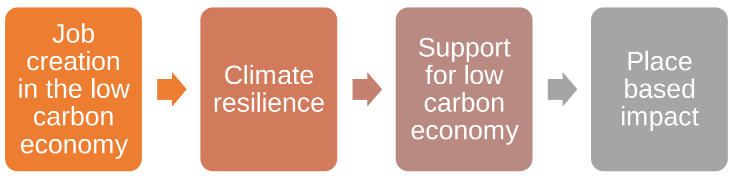
17.1. Climate action

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 6: 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.

17.2. 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:

Figure 8: Transitioning in criteria

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.

17.3. 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.

17.4. 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.

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

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

- 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.

- 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.

- 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.

- 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.

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.

17.5. 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.

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.

Table 7: Climate impact criteria

Climate Impact			
Criteria	Sub-criteria	Points allocation	Score
Emissions reductions *Does the project contribute to the reduction of greenhouse gas emissions in line with South Africa's NDC commitments?*	The project's annual greenhouse gas emissions represent a significant reduction compared to baseline scenario (i.e. what would the GHG emissions be in the absence of project?).	If project's emissions represent a reduction compared to business as usual, award three points **OR** If project is targeting vulnerable communities in transition (e.g. ex-mineworkers facing job losses due to plant closure), award 2 points (x2).	3
Climate adaptation *Is climate adaptation integrated into the project's design and implementation?*	The principle of climate adaptation is integrated into the project's design and implementation stages.	If the principle of climate adaptation is integrated into the project's design and implementation stages, award 3 points.	3
Low-carbon economic sectors *Does the project include initiatives aimed at building human capacity in low-carbon economic sectors, such as training programmes, workshops or apprenticeships that prepare individuals for careers in low-carbon industries?*	The project includes initiatives aimed at building human capacity in low carbon economy sectors.	If a project includes skills training in the low carbon economy, award three points.	3
Input to emissions reductions Does the project provide inputs to just transition efforts?	The project provides inputs to just transition efforts by targeting vulnerable communities in transition. For instance, by providing job opportunities or reskilling programmes/other forms of community support to ex-	If the project provides inputs to just transition efforts by targeting vulnerable communities in transition, award 3 points.	3

	mineworkers facing job losses due to plant closures.		
Decommissioning and rehabilitation *Does the transition plan detail how the decommissioning of plants will be conducted safely and how the environment will be rehabilitated*?	The project considers the process of safely decommissioning obsolete infrastructure and restoring the environment.	If the transition plan provides details on either the safe decommissioning of plants or the environmental rehabilitation, or both, award three points.	3
Total Climate Impact (threshold 3/12)			**15**

Table 8: Transitioning in criteria

Transitioning in criteria		
Job creation in the low-carbon economy: *The sub criteria presented below looks at how a project provides opportunities for employment in the low-carbon economy.*		
Sub-criteria	**Points allocation**	**Score**
Accessibility: Are the jobs accessible to a broad range of people, including those with lower levels of education or those who were previously employed in carbon-intensive industries?	0 point - Project does not target or will lead to job creation.	5
	1 point - The jobs are specialised and require advanced skills and education, making them inaccessible for people with lower levels of education or those previously employed in carbon-intensive industries.	
	2 points – The jobs require some specialisation but also provide opportunities for on-the-job training and development.	
	3 points - A balance of jobs is available that require varied levels of skills and education, with some jobs accessible to those with lower levels of education or from carbon-intensive industries.	
	4 points - Many of the jobs are accessible to people with lower levels of education or those transitioning from carbon-intensive industries, and the project includes plans for on-the-job training or reskilling programmes.	
	5 points - Most of the jobs are accessible to a broad range of people, including those with lower levels of education or those previously employed in carbon-intensive industries. Comprehensive on-the-job training or reskilling programmes are included to ensure these individuals can effectively transition into these roles.	

Transitioning in criteria		
Sustainability and quality: Projects should ideally lead to the creation of jobs that not only provide a living wage and benefits, but also job security. Higher scores will be allocated to jobs that are not project-based or temporary and provide at least a living wage and benefits.	0 point - The project does not clearly outline job creation that provides living wages, benefits or job security.	3
	1 point - The project creates jobs that either provide a living wage or benefits but not both. The project may not provide job security or the jobs created may be temporary or project-based.	
	2 points - The project creates jobs that provide a living wage and benefits but may lack long-term security or they are project-based/ temporary.	
	3 points - The project creates jobs that not only provide a living wage and benefits, but also provide long-term job security. The jobs created are not solely project-based or temporary, indicating a commitment to sustained employment.	
Development of low-carbon economic activities: *This section considers the project's plan to encourage the growth of new industries that have low-carbon footprints and contribute positively to the climate change fight.*		
Sub-criteria	**Points allocation**	Score
Does the project support the development of low-carbon industries such as green manufacturing, sustainable agriculture or services that improve energy efficiency?	0 point - The project does not clearly indicate any support for the development of low-carbon industries such as green manufacturing, sustainable agriculture or services that improve energy efficiency.	2
	1 point - The project supports the development of low-carbon industries in a limited capacity or focuses on only one industry (for example, only sustainable agriculture or only services that improve energy efficiency).	
	2 points - The project robustly supports the development of multiple low-carbon industries, such as green manufacturing, sustainable agriculture and services that improve energy efficiency. This can be demonstrated through explicit strategies, partnerships or initiatives aimed at fostering these industries.	
Promotion of entrepreneurship and innovation: Does the project include strategies to stimulate entrepreneurship and innovation in	0 point - The project does not incorporate any strategies related to entrepreneurship, innovation or skills development.	2
	1 point - The project includes defined strategies, but they may be limited in scope or lack substantial resources, partnerships or alignment with broader policy areas	

Transitioning in criteria		
relation to green technologies and sustainable practices?	2 points - Comprehensive strategies covering entrepreneurship, innovation, reskilling, upskilling, human resources development and alignment with policy areas listed in the JT Framework.	
Sub-total development of low carbon economic activities		4
Climate resilience: *This section looks at how a project contributes to equipping communities, ecosystems or industries to adapt to the impacts of climate change and increase their resilience.*		
Sub-criteria	**Points allocation**	**Score**
Community resilience building: Does the project work to increase community resilience to climate change? This could include developing local food systems, increasing access to clean water or investing in climate resilient infrastructure.	0 point - The project does not demonstrate any efforts to increase community resilience to climate change.	2
	1 point - The project shows some initial efforts to increase community resilience, but these efforts are limited in scope or not well-defined.	
	2 points - The project has well-defined strategies in place to increase community resilience to climate change. These could include local food system development, improving access to clean water or investing in climate-resilient infrastructure.	
Ecosystem resilience: Does the project prioritise the protection and restoration of ecosystems in a way that enhances their resilience to climate change? This could involve initiatives like reforestation, wetland restoration or implementing sustainable land management practices.	0 point - The project does not demonstrate any priority towards the protection and restoration of ecosystems in a way that enhances their resilience to climate change.	2
	1 point - The project shows some initial efforts to enhance ecosystem resilience, but these efforts are limited in scope or not well-defined.	
	2 points - The project has well-defined strategies to prioritise the protection and restoration of ecosystems, enhancing their resilience to climate change. These could involve initiatives like reforestation, wetland restoration or implementing sustainable land management practices.	
Climate-resilient industries: Does the project focus on developing industries that are resilient	0 point - The project does not demonstrate any focus on developing industries that are resilient to the impacts of climate change.	2

Transitioning in criteria		
to the impacts of climate change? Apart from renewable energy, this could involve sustainable agriculture or green construction.	1 point - The project shows some initial efforts to develop climate-resilient industries, but these efforts are limited in scope or not well-defined.	
	2 points - The project has a well-defined focus on developing industries resilient to the impacts of climate change. This could involve sectors like renewable energy, sustainable agriculture or green construction.	
Sub-total climate resilience		6
Place-based impact: Is the project specifically targeting historically coal-dependent areas like Mpumalanga and Limpopo?	An additional five points if a project targets communities that are most vulnerable to job losses due to the transition to a low-carbon economy.	5
Total Transitioning in (threshold 12/23)		**23**

Table 9: Transitioning out criteria

Transitioning Out Criteria		
Support for displaced workers: ***The sub-criteria for this dimension looks at how a project includes plans to support displaced workers through either reskilling, job placement, relocation or income support.***		
Sub criteria	**Points allocation**	**Score**
Reskilling and upskilling: Does the transition project include provisions for the education, retraining and skills development of workers who will be displaced by the phase-out of carbon intensive industries? In scoring this criterion, attention will be paid to the following: - Accessibility and affordability of training (4) - Recognition of prior learning to facilitate smoother transition into new industries (2) - Training relevance for future labour market (3)	**Accessibility and affordability of training (Max: 4 Points)** 0 point - No provisions for the accessibility and affordability of training. 1 point - Minimal provisions, which may lack in depth or breadth, for the accessibility and affordability of training. 2 points - Some level of provisions for the accessibility and affordability of training but could use further improvement. 3 points - Good provisions for the accessibility and affordability of training but might have minor shortcomings. 4 points - Comprehensive and robust provisions for the accessibility and affordability of training	4
Human Resource Development: This includes strategies focused on reskilling/upskilling existing	0 point - The project does not indicate any plans for human resources development or skills building.	4

Transitioning Out Criteria		
workers, aligning skills development with future labour force needs (particularly green jobs) and ensuring foundational skills through the education system to improve workforce adaptability.	1 point - The project includes efforts toward human resources development and skills building, but these are limited or not well-defined. It may only cover one aspect (such as reskilling existing workers) but not others (like education system improvements or alignment with future green jobs). 2 points - The project includes comprehensive and well-defined strategies for human resources development and skills building. It takes a holistic approach, covering reskilling/upskilling of existing workers, aligning skills development with future green jobs and improvements to the education system for better workforce adaptability. The project aligns with broader policy frameworks for human resources development.	
Job placement: Does the transition plan include services that help displaced workers redefine their job goals, prepare for interviews and search for new job opportunities?	0 point - The transition plan doesn't include any services to help displaced workers redefine their job goals, prepare for interviews or search for new job opportunities. 1 point - The transition plan includes some basic services to assist displaced workers, but these may be limited in scope or not fully developed. 2 points - The transition plan includes comprehensive services to assist displaced workers in redefining job goals, preparing for interviews and actively searching for new job opportunities	2
Relocation support: Does the transition project provide workers to relocate to a different region or city if they were able to secure a new job?	0 points - The transition project does not provide any form of assistance or support for the relocation of displaced workers who secure new jobs. 1 point - The transition project provides minimal support for relocation, such as basic information and resources for displaced workers considering relocation. 2 points - The transition project provides moderate support, such as financial assistance or organised programmes to facilitate the relocation process, but the support may not be sufficient for all workers' needs. 3 points - The transition project provides comprehensive support for relocation, including robust financial assistance, counselling services and logistical support to help displaced workers relocate and integrate into new communities effectively and comfortably.	3

Transitioning Out Criteria		
Financial support: Does the transition plan provide financial support to workers or communities through direct financing or facilitating access to loans or grants?	0 points - The project does not provide any support for access to finance. 1 point - The project provides limited support for access to finance, such as occasionally offering advice or referrals, but does not actively facilitate this process. 2 points - The project provides some level of assistance in accessing finance, such as assisting with loan applications or connecting businesses with potential funders. 3 points - The project provides regular assistance in accessing finance, and this is an established part of the project's offering. This could include helping SMMEs prepare business plans and loan applications. 4 points - The project provides extensive assistance in accessing finance, and this is a significant part of the project's activities. This could include providing direct financing or consistently facilitating access to loans and grants. 5 points - The project has a dedicated focus on providing access to finance. It may have its own fund from which it provides grants or loans, and consistently assists SMMEs in preparing business plans and loan applications. It also works to connect businesses with a range of other potential funding sources.	5
Sub-total support for displaced workers		19
Community transition support*: This section looks at how a project includes specific measures to support communities that are economically dependent on fossil fuel industries.*		
Sub-criteria	**Points allocation**	Score
Infrastructure Investment (climate resilient): Does the transition project invest in infrastructure that will assist the community in generating livelihoods in the absence of fossil fuel activities? (4)	**Infrastructure Investment (Max: 4 Points)** 0 points - The transition project does not include any investment in community infrastructure to generate alternative livelihoods. 1 point - The transition project includes some investment in community infrastructure, but it is minimal and likely insufficient to adequately support the generation of alternative livelihoods.	4

Transitioning Out Criteria		
These could include broadband internet access, transportation networks or power infrastructures. Additional two (2) points will be allocated if these infrastructures are sustainable and resilient to future climate impacts.	2 points - The transition project includes moderate investment in community infrastructure, which should aid in generating alternative livelihoods, but may not fully meet the community's needs.	
	3 points - The transition project includes significant investment in community infrastructure that is likely to significantly assist in generating alternative livelihoods in the absence of fossil fuel activities	
	4 points - The transition project includes comprehensive investment in community infrastructure, explicitly designed to support the creation of alternative livelihoods and provide robust support for the community in the transition away from fossil fuel activities.	
	Additional sustainability and resilience points (Max: 2 Points) 0 points - The proposed infrastructural investments do not consider future climate impacts and sustainability.	2
	1 point - Some, but not all, of the proposed infrastructural investments are designed with sustainability and climate resilience in mind.	
	2 points - All proposed infrastructural investments are designed to be sustainable and resilient to future climate impacts.	
Improving access to basic needs: Does the transition plan include measures to improve the community's access to basic needs such as food, healthcare or housing?	0 points - The project does not include measures to improve access to basic needs such as food, healthcare or housing.	6
	1 point - The project includes minimal measures to improve access to basic needs (x2).	
	2 points - The project does include measures to improve access to basic needs, but these measures are limited in terms of their scope or reach (x2).	
	3 points - The transition project includes comprehensive measures that are designed to improve the community's access to a wide range of basic needs (including food, healthcare and housing) and are intended to cover the whole community (x2).	

Transitioning Out Criteria		
Economic diversification and job creation: Does the transition plan include strategies for diversifying the local economy and creating new job opportunities? The scoring of this criterion will be broken down into the following: The transition plan will reduce reliance on the fossil fuel industry in the region (2) The diversification strategies will stimulate job creation (2)	**Reducing reliance on the fossil fuel industry** 0 points - The transition plan does not include strategies to reduce reliance on the fossil fuel industry in the region. 1 point - The transition plan includes strategies to reduce reliance on the fossil fuel industry, but these strategies are not comprehensive or may not significantly reduce this reliance (x2). 2 points - The transition plan includes comprehensive and actionable strategies that are expected to significantly reduce the region's reliance on the fossil fuel industry (x2).	4
	Stimulating job creation 0 points - The transition plan does not include strategies that are likely to stimulate job creation. 1 point - The transition plan includes strategies that could stimulate job creation, but these strategies are not comprehensive or may not lead to significant job creation. 2 points - The transition plan includes comprehensive and actionable strategies that are expected to stimulate significant job creation.	2
Sub-total community transition support		18
Total transitioning out (threshold 15/37)		**37**

Table 10: EDSD criteria

Economic development and social development (EDSD)		
Equity and Inclusion*: This section considers the extent to which a project prioritises the needs of the most impacted and vulnerable groups and provide opportunities for these groups to participate in the decision-making processes.*		
Sub-criteria	**Points allocation**	**Score**
Community Participation: How does the project engage with the community to restore relationships, build trust and ensure inclusive decision-making?	0 points - No evidence of local community involvement in the transition plan. No engagement, relationship-building or inclusion of marginalised communities in decision-making processes.	4
	1 point - Minimal community participation and engagement. The transition plan superficially acknowledges the needs and interests of the community, and engagement may be non-inclusive or exclude marginalised communities.	
	2 points - Some community participation and engagement. Efforts have been made to include relevant stakeholders, but engagement may not be fully reflective or representative of the entire community, including marginalised communities. Some strategies to restore relationships and trust may be present.	
	3 points - Substantial community participation. The project actively engages with the local community, including marginalised communities, in its planning stages, incorporating feedback and working towards restoring relationships and building trust. Inclusion efforts are evident but may still have room for improvement.	

Economic development and social development (EDSD)		
	4 points - Comprehensive community participation. The transition plan is community-driven, reflecting the needs and interests of the local community, including marginalised groups. There is continuous and meaningful engagement with community members at every stage of project planning and implementation, with clear strategies to restore relationships and trust, and active and meaningful participation from all stakeholders in the decision-making process.	
Representation: Does the project involve marginalised communities, historically disadvantaged and/or vulnerable groups in decision-making processes?	0 points - The project shows no evidence of involving marginalised communities, historically disadvantaged and/or vulnerable groups in its decision-making processes.	3
	1 point - The project demonstrates a basic level of involvement of these groups, such as through soliciting feedback, but their input does not significantly influence the project's decisions.	
	2 points - The project actively involves these groups in decision-making, ensuring their voices are heard, but they may not have significant influence over major project decisions.	
	3 points - The project fully integrates these groups into decision-making processes, giving them a meaningful say in the project's direction and outcomes. Their influence is evident in the project's actions and results.	
Equitable Access: How does the project ensure equitable distribution of benefits, considering historical disadvantages?	0 points - No consideration of equitable distribution or historical context.	2
	1 point - Some efforts to distribute benefits equitably but lack a detailed understanding of historical disadvantages.	
	2 points - A clear plan to distribute benefits equitably with a conscious effort to redress historical disadvantages.	
Affordability: Will the project benefits be affordable and thereby improve, for instance, energy, water food or land security?	0 points - The project does not consider affordability, and the resultant products or services may be priced out of reach for a significant portion of the community, undermining security in energy, water, food or land.	2
	1 point - The project has some strategies to address affordability, but these may not be comprehensive, and some community members may still find it challenging to access the project's benefits.	

Economic development and social development (EDSD)		
	2 points - The project clearly considers and addresses affordability. It aims to ensure that its benefits, whether in the form of products, services or opportunities, are priced in a way that the majority, if not all, of the community can afford. It directly contributes to improving security in aspects such as energy, water, food or land.	
Monitoring, evaluation and transparency: How does the project plan to monitor, evaluate and maintain transparency?	0 points - No plans for monitoring, evaluation or transparency.	2
	1 point - Plans for monitoring and evaluation but lacks transparency or inclusivity.	
	2 points - Comprehensive monitoring, evaluation, and transparent reporting that includes various stakeholders.	
Accountability: What mechanisms are in place to ensure accountability in decision-making, and how are opportunities for review and appeal provided?	0 points - No mechanisms for accountability, review or appeal.	2
	1 point - Some mechanisms for accountability, but they may be weak or lack opportunities for review and appeal.	
	2 points - Strong accountability mechanisms with clear opportunities for review and appeal, involving various stakeholders	
Environmental restoration: What are the project's commitments and plans for repairing environmental degradation?	0 points - No recognition or action toward environmental restoration.	2
	1 point - Recognition of the need for restoration but lacks a concrete plan.	
	2 points - A comprehensive plan for environmental restoration, including sustainable practices and measurable goals	
Sub-total equity and inclusion		17

Economic development and social development (EDSD)		
SMME and local content: ***This section considers how a project plans to integrate local content by focusing on SMMEs and the prioritisation of local value chains***		
Sub-criteria	**Points allocation**	**Score**
Does the project prioritise and integrate local content?	0 points - The project does not prioritise or incorporate local content. It relies heavily on imported goods, services or external resources, and there are no clear plans to utilise local resources or promote local industries (x2).	4
	1 point - The project incorporates some local content, but this is not a key priority. The project may partially rely on local resources or talent, but there's a substantial dependence on external resources (x2).	
	2 points - The project highly prioritises and integrates local content. It aims to utilise local resources, promote local industries and contribute to local economic development. There is a strong commitment to sourcing materials, talent and services from within the community or region (x2).	
Does the project support or contribute to the development of SMMEs?	0 points - The project does not provide support or contribute to the development of small, medium and micro-sized enterprises (SMMEs). There are no plans or provisions to aid the growth of local businesses (x2).	4
	1 point -The project provides some support for SMMEs, but it isn't a major focus. This might include minor financial assistance, occasional training opportunities or partnerships with a few local businesses (x2).	
	2 points - The project heavily supports and contributes to the development of SMMEs. It provides significant resources, such as financial support, business development services, training or mentorship. It also establishes strong partnerships with local businesses, encouraging their growth and development (x2).	
Sub-total SMME and local content		8
Total EDSD (threshold 12/25)		**25**

Economic development and social development (EDSD)		
Special focus on gender and youth: This section provides the opportunity to recognise projects that entail a specific focus on addressing gender inequality and youth**.**		
Sub-criteria	**Points allocation**	**Score**
Gender: Does the project include measures to address gender inequality?	0 point - The project does not include any specific measures or provisions to address gender inequality or promote gender inclusivity. 1 point (bonus) - The project includes some measures to promote gender equality, such as ensuring equal opportunities in hiring or training but lacks a comprehensive strategy or targeted initiatives. 2 points (bonus) - The project has a well-defined, comprehensive strategy to promote gender inclusivity. This could include initiatives aimed at supporting women in leadership roles, targeted training programmes, partnerships with women's organisations or other efforts to proactively promote gender equality.	2
Youth: **Does the project include measures to address youth unemployment or promote youth involvement?**	0 point: - The project does not include any specific measures or provisions to address youth unemployment or promote youth involvement. 1 point (bonus) - The project includes some measures to promote youth employment and engagement, such as internship opportunities or entry-level positions, but lacks a comprehensive strategy or targeted initiatives. 2 points (bonus) - The project has a well-defined, comprehensive strategy to promote youth involvement. This could include targeted job training and placement programmes for young people, collaboration with educational institutions, development of youth entrepreneurship initiatives or other efforts to actively engage and support youth in the community.	2