PRESIDENTIAL
CLIMATE COMMISSION
TOWARDS A JUST TRANSITION

A Presidential Climate Commission Working Paper

Proposed Arrangements for a Just Transition Financing Mechanism

January 2023

About this working paper

The Presidential Climate Commission (PCC) commissioned this working paper to help inform a just transition financing mechanism (JTFM) for South Africa. The paper sets out options for designing and operating a JTFM, considering institutional form, governance, and potential sources of financing.

This working paper was written by Megan Sager, Kamleshan Pillay, David Hazell and Lara Rabinowitz (all from Consulting for Sustainable Solutions). The paper benefited from the review and inputs from Dipak Patel and Dumisani Nxumalo (both PCC Secretariat), as well as feedback from the PCC's Climate Finance and Innovation Working Group.

PCC working papers contain preliminary research, analysis, findings, and recommendations. They are circulated to stimulate timely discussion and critical feedback and to influence the ongoing debate on emerging issues. Working papers may eventually be published in another form and their content may be revised.

About the Presidential Climate Commission

The PCC is a multi-stakeholder body established by the President of South Africa to advise on the country's climate change response and pathways to a low-carbon, climate-resilient economy and society. The PCC facilitates dialogue between social partners on these issues, defining the type of society we want to achieve and detailed pathways for how to get there.

Contents

Executive summary

South Africa (SA) has made a policy commitment to just transition, ensuring no one is left behind during the shift to a low-carbon, climate-resilient economy. The South African interpretation of just transition is society-focused, envisioning measures to uplift and support workers, communities, and society. It accommodates a broad range of interests and advocates for system transformation. It tackles inequities on both national and sub-national scales, centring on the spatial and distributional impacts of economic transition.

To address the scale and urgency of the just transition imperative, a Just Transition Finance Mechanism (JTFM) is required. Neither the public sector, through conventional revenue sources and budgeting processes, nor the private financial sector, through its commercial investing and financing activity can sufficiently mobilise, coordinate, and deploy funding to ameliorate socioeconomic risk alone. The JTFM is envisioned to be a policy-aligned national platform to mobilise additional capital for a just transition and coordinate funding from various sources to align allocation with policy priorities. It will be a vehicle which works with government and existing financial institutions to scale up and optimise the impact of investments. In doing so, it will undertake**:** 1) Planning and advice in respect of just transition investments; 2) Mobilisation of additional sources of capital for the just transition, domestically and internationally; 3) Allocation of capital across policy-aligned priorities; 4) Provision of technical assistance to implementation institutions including local governments, enterprises, NPOs, and communities; and 5) Reporting to funders on the allocation of capital.

The JTFM is likely to house within it a Just Transition Fund (JTF) which aggregates capital from various sources to deliver against a defined set of policy priorities and targets. These will encompass vital investments which would otherwise fail to take place timeously or at all due to existing market failures. A JTF will address likely under-provision of vital high-impact investments, focusing support on two categories: Critical investments central to developing economic and climate resilience but typically lacking a business case due to market failures, and designated investments, being high-priority market needs aligned to economic transition policies and strategies. Once adequately de-risked or enhanced, they may become bankable. Since the business case is marginal at inception, these projects or enterprises would otherwise fail to attract funding. It is envisioned that the JTF would constitute two funding windows: a grant-making window, which targets critical projects, and from which no capital recovery is expected; and a blended-finance window, which targets designated projects, and from which a below-market return is expected. Projects may also access both windows as required (e.g., a commercially viable project may need supporting, enabling, or catalysing investments from one or both windows).

This concept note sets out – at a high level – options for the design and operationalisation of a JTFM, considering institutional form, the need for sound governance both in general and with regards to any funding decisions in which it participates, and potential sources of financing. The JTFM will embrace institutional flexibility and be designed in a manner that does not rush towards a fully fledged mechanism, but rather creates the space and urgency for local-level responses, before establishing the "end-state" institutional mechanisms through learning. The JTFM takes into account the recent joint statement made by the South African DFI CEOs Forum and the centrality of the DFIs as developmental actors in financing the transition to a low-carbon, climate-resilient, inclusive economy in South Africa. As a concept note, it is intended to stimulate discussion regarding both the need for such an institutional arrangement (whichever form it may take), the principles informing its design and implementation, and key strategic decisions which should be taken to guide further work.

Abbreviations

AFB	Adaptation Fund Board		**JTF**	Just Transition Fund
B-BBEE	Broad-based Black Economic Empowerment		**JTFM**	Just Transition Finance Mechanism
CA$	Canadian Dollar			
CEO	Chief Executive Officer		**KZN**	KwaZulu-Natal
CER	Certified Emission Reduction		**MDB**	Multilateral Development Bank
CDM	Clean Development Mechanism		**NBI**	National Business Initiative
COP	Conference of the Parties		**NDC**	Nationally Determined Contribution
CRISA	Code for Responsible Investing in South Africa		**NDP**	National Development Plan
CSI	Corporate social investment		**NEF**	National Empowerment Fund
DBSA	Development Bank of Southern Africa		**NMA**	Non-market approach
DFFE	Department of Forestry, Fisheries, and the Environment		**NPO**	Non-profit organisation
			NT	National Treasury
DFI	Development Finance Institution		**PCC**	Presidential Climate Commission
DSBD	Department of Small Business Development		**PFMA**	Public Finance Management Act
DTIC	Department of Trade, Industry and Competition		**SA**	South Africa
EIB	European Investment Bank		**SAIA**	South African Insurance Association
ER	Emission Reductions		**SANBI**	South African National Biodiversity Institute
ESG	Environmental, social and governance		**SARB**	South African Reserve Bank
EU	European Union		**SARS**	South African Revenue Service
FSCA	Financial Sector Conduct Authority		**SMME**	Small, Medium and Micro Enterprise
GDP	Gross Domestic Product		**TJTP**	Territorial Just Transition Plan
GHG	Greenhouse Gas		**tCO_2e**	Tonnes of Carbon Dioxide Equivalent
IDC	Industrial Development Corporation of South Africa		**USD ($)**	United States Dollar
ITMOs	Internationally Transferred Mitigation Outcomes		**ZAR (R)**	South African Rand

1. Context and need for a Just Transition Finance Mechanism

South Africa has made a policy commitment to just transition, ensuring no one is left behind during the shift to a low-carbon, climate-resilient economy. The South African interpretation of just transition is society-focused, envisioning measures to uplift and support workers, communities, and society; accommodating a broad range of interests; and advocating system transformation. It tackles inequities on both national and sub-national scales, centring on the spatial and distributional impacts of economic transition.

Crucially, the policy acknowledges the need for expansive and well-targeted social risk mitigation due to:

- Persistent and extreme inequality. South Africa remains the most unequal country[1] in the world with a third of its population living in poverty.[2]
- The economic vulnerability of large parts of the workforce. South Africa suffers from structural unemployment on a huge scale,[3] with close to half of the work-eligible population unemployed. Unemployment has worsened with the Covid-19 pandemic.
- The vulnerability of indigent households to physical climate risks including acute risks such as natural disasters (e.g., the recent KwaZulu-Natal (KZN) flooding) and chronic risks such as drought (which can already be seen again in Nelson Mandela Bay and currently encroaching in Gauteng), resulting in loss of lives and livelihoods, and deteriorating quality of life (e.g., through shifting disease patterns).
- Highly spatially concentrated economic activity. Gauteng alone generates more than a third of the total GDP[4] with metros growing rapidly at the expense of secondary urban and rural areas. This is overburdening infrastructure and social delivery in metros, leading to sprawling slums, crime, and congested roads.
- Dependence by communities outside metros on the fossil fuel value chain. The coal mining value chain provides almost 400,000 formal jobs[5] in the rural provinces of Limpopo, Mpumalanga and KZN.

Transition is necessitated not only by domestic climate policy but also by changing rules of global engagement. New carbon border taxes and similar instruments will rapidly render exports from carbon-intensive economies like SA's uncompetitive. As a coal-dependent economy, South Africa faces enormous transition risk associated with international climate mitigation policy developments since the Paris Agreement. With much of this risk due to fall on the public balance sheet, such transition risk will strain public finances, and potentially jeopardise the sovereign credit rating and government's ability to pursue a progressive

[1] South Africa has a Gini coefficient of 67 for consumption per capita (World Bank).
[2] Cheruiyot-Koech, R. and Reddy, C. D. (2022). "Corporate Social Responsibility Preferences in South Africa", Sustainability 14, no. 7: 3792. https://doi.org/10.3390/su14073792
[3] Latest official unemployment rate is 34.5% (Stats SA, 2022, Q1). Expanded unemployment rate was 45.5%. Statistics South Africa (2022). Quarterly Labour Force Survey, Quarter 1: 2022.
[4] Stats SA. (2021). *Gross domestic product (GDP): 2020.* Pretoria: Department: Statistics South Africa.
[5] Makgetla, N., Maseko, N., Montmasson-Clair, G. and Patel, M. (2019). National Employment Vulnerability Assessment: Analysis of potential climate-change related impacts and vulnerable groups. *Trade & Industrial Policy Strategies.*

social agenda.[6] A quarter of formal jobs lie in manufacturing, mining, and agriculture – all of which are at risk if the embedded carbon in export minerals and products is not significantly reduced.[7] The South African chemicals and petrochemicals sector accounted for approximately 169,000 direct and approximately 693,000 indirect jobs in 2017.[8]

Vulnerable communities are at risk of loss as change sweeps through South Africa. Losses will derive from changes in both economic and climatic conditions.

Sectors including energy, automotive manufacturing, agriculture and tourism are at high risk of negative impact, with job shedding expected to disproportionately affect low-skilled workers. These jobs can also sustain local economies outside major metropolitan areas. For example, the loss of a single coal industry job loss could prejudice the financial security of 10 people,[9] due to economic interlinkages impacting upstream and downstream industry and worker support of extended households. Agriculture employs close to 1 million rural workers formally,[10] many more informally (including for subsistence); many of these jobs are at risk as droughts and extreme weather events increase.

Losses will also result from physical risks associated with climate change – both acute catastrophic events and chronic "slow-burn" hazards like drought and sea-level rise. Many vulnerable communities are located outside major metropolitan areas, where local governments lack the human capital and financial resources required to achieve climate resilience. Even within metros, lack of insurance, savings, and other buffers will severely constrain the ability of the poor to deal with climate change, as the recent floods in KZN have shown. Adverse climatic events will damage people's assets, erode their income streams, and reduce their quality of life. Though the entire population is negatively affected by climate change, households in the first quartile are shown to be considerably more vulnerable to large shocks.[11]

To mitigate social risks arising from transition, investments in projects that improve social, economic, and climate resilience outcomes are needed, urgently and at scale. The first type of investment relates to economic diversification, enabling new jobs and livelihoods, enhanced access to resilient services and infrastructure, water, land, and biodiversity rehabilitation and restoration. The second type of investment relates to equipping and strengthening workers, SMMEs (small, medium, and micro enterprises), and currently excluded non-workers to participate meaningfully in transforming regional economies. The third type of investment relates to the establishment and operation of just transition political

---

[6] Huxham, M., Anwar, M. and Nelson, D. (2019). *Understanding the impact of a low carbon transition on South Africa*.
[7] Stats SA, QLFS 2022, Q1.
[8] National Business Initiative. (2021). *Decarbonising South Africa's Petrochemicals and Chemicals Sector*.
[9] Estimates suggest that workers tend to support several dependents – an average of almost three per worker in key mining areas *(Mpumalanga Provincial Treasury (2015a). Socioeconomic review and outlook of Mpumalanga)*. Additionally, PWC estimates suggest that for every direct job lost in the industry, another three jobs are impacted downstream. *PwC. (2021). What a 'just transition' means for jobs in South Africa. https://www.pwc.co.za/en/assets/pdf/what-a-just-transition-means-for-jobs-in-south-africa.pdf*
[10] 868,000 in Q4 2021 according to Statistics South Africa.
[11] Engelbrecht, F., Le Roux, A., Arnold, K. and Malherbe, J. (2019). *Green book. Detailed projections of future climate change over South Africa*. Pretoria: CSIR. Available at: https://pta-gis-2-web1.csir.co.za/portal/apps/GBCascade/index.html?appid=b161b2f892194ed5938374fe2192e537.

structures and institutional arrangements responsible for coordinating policy responses, ensuring and facilitating stakeholder engagements, and the implementation of projects in affected areas.[12]

To address the scale and urgency of the just transition imperative, a JTFM is required. Neither the public sector, through conventional revenue sources and budgeting processes, nor the private financial sector through its commercial investing and financing activity can sufficiently mobilise, coordinate, and deploy funding to ameliorate socioeconomic risk. Constraints arise due to:

- Quantum of capital required over a short time frame. Addressing the impacts of stranded assets, like job losses and shrinking economic activity at a regional level is a huge task. This cannot be fully accommodated by the fiscus due to static revenue servicing heavy indebtedness. Transition will require more than a trillion rand over the coming decade, which includes costs to physically transform all sectors of the economy (e.g., phase out coal and accelerate renewable energy deployment).
- Non-market nature of a large portion of just transition funding requirements. Social investments include upgrading skills and social protection. Others include assistance to improve the absorptive capacity of local governments, SMMEs and project developers hoping to facilitate future transactions. The absence of price signals deters private-sector investment.
- Marginal economics of high-impact projects. Research conducted in Mpumalanga on just transition project economics[13] points to the inability of many socially impactful projects and initiatives to achieve bankability, precluding access to commercial and developmental finance; many projects also require preparation support for the pre-bankability stage.
- Uncertainty about the future. Uncertainties exist in modelling how climate risks will evolve in the future. Limited incorporation of climate risks and opportunities in policy and business decision-making will affect planning and budgeting, resulting in underfunding.
- Capital market imperfections. For many reasons, including imperfect information and unwillingness to accept high or uncertain credit risk, capital market imperfections exist and credit rationing frequently occurs. This limits the ability of capital markets to adapt to changing circumstances.

Within this context, a JTFM can source, negotiate, and coordinate the funding required to make just transition investments, blending grants, concessionary and other types of capital, both domestically and internationally.

2. Key stakeholders

2.1 Policymakers

[12] Lowitt, S. and Mokoena, I. (2021). *A Just Transition Finance Roadmap for South Africa: A First Iteration*. Pretoria: TIPS.
[13] ibid. Factors include lack of commerciality, small ticket size, and lack of technical and commercial track record required to meet credit requirements.

The Presidential Climate Finance Task Team is tasked with bringing to Cabinet a just transition investment plan, articulating the financial needs of essential mitigation pathways (energy, electric vehicles and green hydrogen). The JET Investment Plan, currently being developed, will provide guidance for South Africa's energy transition to 2030 and beyond. The investment plan will provide guidance to the Just Energy Transition Partnership on where best to allocate the offer made by France, Germany, United Kingdom, United States of America and the European Union (the International Partners Group) of $8.5 billion, to catalyse the energy transition and to do so with sufficiently concessional finance.

The Department of Forestry, Fisheries and the Environment (DFFE) is a key ministry in planning SA's just transition, providing leadership towards sustainability in environmental management, conservation and protection. Under the Climate Change Bill, the Minister will develop mitigation and adaptation policies and plans; establish indicators for monitoring progress; and set a time limit on when objectives should be incorporated into national policies, planning, instruments, and programmes.

The Department of Small Business Development (DSBD) facilitates the development and growth of small businesses and cooperatives, contributing to inclusive and shared economic growth and job creation. Through its two reporting entities, the Small Enterprise Development Agency (SEDA) and Small Enterprise Finance Agency (SEFA), the DSBD will play an integral role in facilitating partnerships with all spheres of government and the private sector to ensure mutual cooperation that will benefit these small businesses and cooperatives throughout SA's just transition.

The Department of Trade, Industry and Competition (DTIC) supports economic development through a focus on global competitiveness and economic empowerment. One aim is to lead and facilitate access to sustainable economic activity and employment for all South Africans – both focus areas in ensuring a successful just transition, including through co-ordinating contributions of government departments, state entities and civil society. It will be central to integrating decent work outcomes (more jobs as well as better jobs), industrialisation, equitable and inclusive growth, and social inclusion into SA's just transition plan.

The provincial departments of economic development and tourism identify province-specific economic risks and opportunities. Each province has an Annual Performance Plan informed by socioeconomic objectives such as addressing unemployment, poverty, and inequality while improving economic performance. However, the threat of climate change, as well as water and energy insecurity, will add an additional barrier to improving local economic development. This highlights the need to incorporate resilience into planning to safeguard economic growth prospects.

The non-financial corporates, though not directly making policies, have a wide impact and are located in both the private and public sectors. These are companies that are going to be closing down mines and power plants, and changing feedstocks. These companies need to embrace and support the just transition and should develop activities that require access to the JTFM. In addition, they should also be expected to contribute to funding the JTFM.

Local governments are at the heart of SA's just transition. While climate policies, bills and frameworks provide guidance on SA's just transition, implementation occurs at local government level. Municipalities have local knowledge and support the implementation of policies on the ground. In terms of ensuring SA's transition is both sustainable and just, local government is well-aligned with the sensitivities that will arise as a result of a transition to a low-carbon economy. This is critical when undertaking context-specific climate change assessments and action plans.

2.2 Financial sector regulators

The National Treasury determines the carbon tax rate. In the 2022 budget speech, the Minister of Finance announced an increase in the carbon tax rate for 2022, progressively increasing in phases. This signalled an intention to internalise the cost of emissions by companies. Although "ringfencing" is also mandated to finance the fiscal just transition package associated with policy, budgetary provision for this must be made. Its mandate is to ensure transparency, accountability, and sound financial controls in the management of public finances.[14] The National Treasury is also the regulator for managing official development assistance (ODA) flows into the South African public finance system. As the Ministry of Finance, it is concerned both with the allocation of capital across the financial sector in accordance with policy priorities related to just transition, as well as raising new capital with which the fiscus can finance the transition.

The Prudential Authority, operating within the South African Reserve Bank (SARB) is responsible for regulating financial institutions and market infrastructure to ensure safety, soundness, and financial stability. With climate change posing an increasing financial risk to financial institutions because of operational, market, credit, legal and reputational risks, the Prudential Authority will be required to play an ever-more important role.

The Financial Sector Conduct Authority (FSCA) is responsible for overseeing the response of the financial sector to the impact of climate change and the transition towards a just, sustainable economy. Two focus areas for the FSCA will be to ensure appropriate reporting and disclosure frameworks with respect to sustainability, as well as provide uniform guidance for the incorporation of SA's newly released green/sustainable finance taxonomy, to manage risks associated with potentially unsustainable investments.

2.3 Financial institutions

SA's major DFIs – DBSA, IDC and NEF – have recently agreed on a joint strategic position on SA's just transition. This falls within their broader focus and mandates, to utilise environmental, social and governance (ESG) frameworks to achieve broader sustainable development. It will be undertaken through various initiatives, including incorporating sustainability when undertaking project development and due diligence; ESG impact analysis when undertaking credit risk assessment; the provision of transition finance for carbon-intensive sectors; leveraging green finance; and providing financial and non-

[14] National Treasury. (2021). Financing a Sustainable Economy. *Technical Paper.*

financial support.[15] It is likely that they will, individually or collectively, play an important role in the process of mobilising, scaling up and allocating blended finance capital towards just transition programmes.

Climate change and transition will affect the banking sector profoundly, by transforming the demand for capital and the values of underlying assets and security held against loans. Future regulation linked to the Task Forces for Climate- and Nature-Related Disclosures, as well as the implementation of the Sustainable Finance Taxonomy, will favour initiatives associated with just transition. In addition, as the risks associated with their current balance sheets (through their banking books and markets exposure) will have to be rapidly offset by increasing renewable and sustainable project exposures and declining appetite to provide funding for fossil fuel projects. Indeed, all the major South African banks have taken policy decisions to exit further exposure to the coal value chain.

Institutional investors are gradually aligning with the just transition agenda, owing to the changing market conditions and competitiveness, the global transition to net-zero greenhouse gas (GHG) emissions, impact investing, and infrastructure investing. At an industry level, the Code for Responsible Investing in South Africa (CRISA) provides guidance aligned with the global United Nations Principles for Responsible Investing. However, its non-compulsory nature has hindered its impact. CRISA is planning to provide more focused disclosure requirements, including how institutional investors should execute investment analysis, investment activities, and promote sound governance.[16]

Insurers will be affected by physical climate risk and so support climate-resilient infrastructure. Climate change presents a significant risk for the insurance industry as recognised by the South African Insurance Association (SAIA) endorsement of the United Nations Environment Programme's Principles for Sustainable Insurance Initiative. However, by not requiring members to commit to these principles or disclose their impact and activities, they have failed to be widely adopted in SA[17] and so far are unsuccessful in catalysing change.

3. Key policy developments

SA's National Development Plan (NDP) serves as a long-term strategic action plan for the country to eliminate poverty and reduce inequality by 2030**.** This focuses on six interlinked master economic priorities to achieve sustainable development, namely:

1. Mobilisation of all South Africans across races and classes
2. Active engagement of citizens in their own development
3. Raising economic growth, promoting exports, and making the economy more labour absorbent
4. Focusing on key capabilities of both people and the country
5. Building a capable and developmental state

[15] DBSA, IDC, National Empowerment Fund. (2022). Joint Statement South African DFI Round Table on Just Transition Finance. Accessed on 20 May 2022, via https://www.idc.co.za/wp-content/uploads/2022/05/Joint-Statement-on-DFI-CEOs-Forum-A-DFI-Collaboration-on-SA-s-Just-Transition.pdf
[16] National Treasury. (2021). "Financing a Sustainable Economy". *Technical Paper.*
[17] National Treasury. (2021). "Financing a Sustainable Economy". *Technical Paper.*

6. Fostering strong leadership throughout society.

The Climate Change Bill is a key step towards a coordinated, integrated national response to climate change and a just transition to a low-carbon economy. The Bill sets out the institutional arrangements to ensure the harmonisation of climate-related policies, plans, programmes, and decision-making processes. Implementation takes centre stage, with provincial and municipal governments required to establish Climate Change Needs and Response Assessments to serve as blueprints for climate action. One of the most significant features of the Bill is the determination of SA's GHG emissions trajectory. This provides emissions reduction targets which align policy with SA's international obligations, including sector-specific targets to guide the economic transition. Further, the Bill provides for the formation of the PCC as an independent, statutory body whose purpose is to "oversee and facilitate a just and equitable transition towards a low-emissions and climate-resilient economy".

The PCC presented its Just Transition Framework for South Africa to the President, and it has been adopted by the national Cabinet as a national policy guide for the just transition. The Just Transition Framework provides a multi-pronged, policy-aligned, strategic framework for achieving a just and equitable transition to a climate-resilient economy, by guiding affected stakeholders and setting out actions that will need to be undertaken in the short-, medium-, and long-term. The goal of the framework is to manage the consequences associated with the transition and maximise opportunities. By emphasising the importance of human development, this framework provides an important first step in bringing coherence and coordination for just transition planning in South Africa.

National Treasury is leading work on an approach to financing just transition within the financial sector. In 2020, it released a technical paper focused on climate risks and opportunities for the financial sector and how these can be managed to make a positive contribution towards the facilitation of a just, low-carbon and sustainable economy. This was followed by the publication of a Green Finance Taxonomy in April 2022, defining a set of eligibility criteria for assets, projects and sectors defined as "green" or environmentally friendly. This Green Finance Taxonomy is being expanded to include social objectives and activities under a separate project titled "Expanding the South African Green Finance Taxonomy and embedding its use." This project will result in the development of a Sustainable Finance Taxonomy which could guide just transition investments.

4. Role and functions of a Just Transition Finance Mechanism

4.1 Role

The JTFM is envisioned to be a policy-aligned national platform to mobilise additional capital for a just transition and coordinate funding from various sources to align allocation with policy priorities. It will be a vehicle which works with government, business and existing financial institutions – both public and private – to scale up and optimise the impact of investments.

4.2 Functions

The JTFM is expected to have five core functions:

1. Planning and advice in respect of just transition investments
2. Mobilisation of additional sources of capital for the just transition, domestically and internationally
3. Allocation of capital across policy-aligned priorities
4. Provision of technical assistance to implementation institutions including local governments, enterprises, NPOs, and communities
5. Reporting to funders on the allocation of capital.

4.2.1 Planning and advice

The JTFM will facilitate coordinated and effective just transition investment strategies and planning by working with key stakeholders to budget and plan accordingly. These stakeholders will vary significantly, with special emphasis placed on national, provincial and particularly local governments, and local businesses recognising the necessity of sound governance for future implementation. Currently, many of the most affected local governments may not have the necessary capabilities and capacity to develop effective just transition investment strategies and plans, which will prejudice their abilities to attract and deploy funding for priority initiatives.

Through strengthening governance, the JTFM can help to address the varying spatial investment requirements. Advice could include contributing to blended finance strategies (i.e., making strategic use of available public funds and grants), and facilitating access to financial vehicles, institutions and technical assistance to enable the financing and implementation of just transition investment strategies.

4.2.2 Mobilisation of capital

Critically, the JTFM will mobilise additional capital domestically and internationally to support the achievement of a just transition. The nature and scope of this function will be determined by its institutional form and mandate.

4.2.3 Allocation of capital

The JTFM will determine capital allocations against policy priorities in relation to the funding it sources.
Allocations from the Just Transition Fund are likely to be at a programmatic level, in the form of funding windows. Funding modalities will be determined once the institutional form is decided. The scope and extent of the JTFM capital governance function will also be determined by its institutional form and mandate.

4.2.4 Provision of technical assistance to implementation institutions

The JTFM will strengthen the ability of local stakeholders to access and absorb funding for a just transition. Technical assistance may include strengthening of existing institutions, design of new institutions, project preparation to facilitate deal flow, and provision of SMME support (e.g., via incubators).
This function will focus on:

1. Building the capacity and capability of key stakeholders, at all levels of government and outside government
2. Building the capacity and capability of the developers of critical and designated projects to prepare feasible plans and projects
3. Assessing the constraints associated with developing a viable pipeline of quality funding applications for just transition projects, initiatives, and enterprises (e.g., SMMEs, NPOs) and proposing solutions
4. Catalysing innovative models for the decommissioning of coal plants, mine closures, and other critical climate investments supporting resilient livelihoods and jobs (e.g., land rehabilitation and water infrastructure improvements).

4.2.5 Reporting to funders

The JTFM will support sound monitoring and reporting in respect of funding sourced, providing funders with the assurance that funds have been correctly allocated (alignment with policy), responsibly used (transparency and integrity), and deployed effectively to generate desired impact (credibility).

The scope of the JTFM reporting function will also be determined by its institutional form and mandate.

4.3 A Just Transition Fund

4.3.1 Need for a Just Transition Fund

The JTFM is likely to house within it a JTF which aggregates capital from various sources to deliver against a defined set of policy priorities and targets. These will encompass vital investments which would otherwise fail to take place, timeously or at all, due to existing market failures.

4.3.2 Focus areas

A JTF will address the likely under-provision of vital high-impact investments, focusing support on two categories:

- <u>Critical:</u> these are projects and other investments central to developing economic and climate resilience but typically lacking a business case due to market failures such as the absence of price signals and capital markets imperfections. Examples include community climate adaptation measures, restoration of water sources and degraded land (to become productive assets that are commercially viable and waterways) and equipping displaced workers or affected communities with skills to obtain jobs and earn a living.

In Lowitt and Mokoena's analysis of just transition projects in Mpumalanga,[18] this would encompass those Cluster 3 project types which demonstrate high just transition ambition but are too small to get finance in the current system. Examples include land and water rehabilitation (for adaptation, e.g., water security, or livelihoods, e.g., community-based agricultural opportunities) as well as small-scale waste and circular economy projects. Project developers would typically be NPOs, community-based initiatives, and private- sector firms.

One of the biggest and most important needs for grant funding is for research and development, piloting of novel technologies, and supporting the development of community and worker ownership models in a decentralised electricity system. These activities will be the catalyst for new economic activity as envisioned by the diversification of the economy goal. There is also a need to increase flows to impact investors, especially in relation to training and incubation where we set up mechanisms based on outcomes-based contracting to prevent training for the sake of training.

- Designated: these are high-priority market needs aligned to economic transition policies and strategies. Once adequately de-risked or enhanced, they may become bankable. Because the business case is marginal at inception, these projects or enterprises would otherwise fail to attract funding.

  Projects would be classified as Cluster 2 and 4 types, or commercially oriented Cluster 3 projects, within Lowitt and Mokoena's analysis with medium to high just transition ambitions and ranging in scale. Developers may include SMMEs, large businesses, and corporates such as mining houses and oil and gas companies in the Mpumalanga coalfields. Examples could include clean energy projects, businesses promoting disruptive technologies, and businesses developing sustainable tourism or agriculture value propositions.

A JTF will adopt the Sustainable Finance Taxonomy under development (which needs to urgently develop a national justice-aligned sub-taxonomy within it), ensuring this adequately reflects the range of investments and expenditures required to achieve a just transition. Importantly, projects and initiatives financed by the JTF may not necessarily only be focused on climate mitigation or adaptation. However, all projects should be compatible with and aligned to the climate pathways set out in climate policy to avoid working at cross purposes.

4.3.3 Scope of financing activities

It is envisioned that the JTF would constitute two funding windows:

- A grant-making window, which targets critical projects and qualifying components of designated projects, and from which no capital recovery is expected
- A blended-finance window, which targets designated projects, and from which a below-market return is expected.

[18] Lowitt, S. & Mokoena, I. (2021). *A Just Transition Finance Roadmap for South Africa: A First Iteration*. Pretoria: TIPS. See Annexure 1 for further information on their project classification system.

Projects may access both windows. Research shows that projects are suites, which combine multiple complementary elements, some of which require grant money, some of which require concessionary money and some of which can get market finance.

Grant-making window

In respect of **critical projects**, the JTF would channel grants to eligible projects and activities based on their fit to provincial and local government just transition high-level plans and expected socioeconomic and climate benefits. The list of eligible project and activity types would be determined in accordance with policymakers. All projects would need to be socially motivated, i.e., be developed for the purposes of supporting vulnerable communities. This would exclude projects for which existing climate finance is available.

Funding applications would be prioritised based on a range of considerations within a defined geographic boundary constituting the target investment location (e.g., municipality or province) including:

1. **Gender and youth impacts**. Gender and youth have been identified as two crucial dimensions of vulnerability.
2. **Quantity, quality and duration of jobs created**. Consideration would be given to the skill level of jobs and implications for local workers to access available positions, as well as expected duration.
3. **Potential contribution to local economic growth**. For example, restoring degraded areas in locations with existing agro-processing facilities is likely to lead to more economic benefits through economic linkages than in locations where only subsistence farming is a possibility.
4. **Ability to catalyse private co-funding**. For example, initiatives in which capital from the JTF could be leveraged through growth in corporate social investment, or philanthropic capital on a matching basis (for instance) could be considered more favourably.
5. **Reliance upon (additional) capital expenditure to realise intended benefits**. For example, worker training and skilling in respect of an established industry in the area, including with youth, would be prioritised over reskilling for potential future local workforce needs or current workforce needs located far away.
6. **Longer-term financial sustainability** of envisioned projects or activities, anticipating a pathway to independence over the medium term.

Beneficiaries would be limited to public entities, NPOs, vulnerable individuals, or SMMEs with less than R1 million turnover. Considering the full subsidy implied by grants, for-profit companies may not apply, except in cases where clear ringfenced projects meeting just transition programme criteria are motivated for, side by side or clearly embedded within a climate response project.

Certain applications would not be accommodated, for example:

- Projects which are incompatible with SA's climate mitigation pathway
- Projects with material negative environmental or social impacts
- Projects able to raise adequate funding from other sources, public or private.

Certain beneficiaries would not be eligible:

- For-profit companies
- Institutions in default on other financial obligations or facing lawsuits
- Institutions which failed their last audit
- Institutions not in good standing with SARS
- Beneficiaries previously convicted of a crime including fraud.

Blended finance window

In respect of **designated projects**, the JTF would take a strategic approach aimed at rebalancing risk-return over the project or enterprise lifecycle to attract other sources of capital (private, primarily, although DFIs may also respond). This adopts a blended finance lens to programme design. The grant and concessional development finance tranches will provide risk mitigation for private and commercial leveraged contributions.

Eligible project types would be compatible with local just transition plans (i.e., if not contained within it, show a high degree of alignment with its spirit and objectives) and demonstrate a positive business case over the long term (10-15 years) but lack one or more attributes required for bankability, for example, due to:

- Transaction size or type not being accommodated by existing financial institutions
- Novel technology, business model or untested offtake assumptions
- Payback period exceeds the maximum accommodated by existing financial institutions
- Project or equity rates of return fall below hurdle rates
- Project developer/enterprise (i.e., funding applicant) has insufficient equity or track record to qualify as creditworthy.

In this case, applicants such as NPOs, SMMEs and other for-profit companies would be the primary focus. Public entities other than parastatals and municipalities would not be eligible since their mandates do not envision financial independence, which is at odds with the intent of the window, namely to support the medium- to long-term bankability of high-impact projects. Financing for related projects and activities by such public entities would be catered for through existing mechanisms, including the national Infrastructure Fund, various DBSA programmes, and intergovernmental grants. In the cases of for-profit companies, both a credible socioeconomic additionality case and a substantial own contribution would be required to benefit from the JTF, to mitigate the threat of “just transition washing”.

Certain applications would not be accommodated, for example:

- Projects which are incompatible with SA’s climate mitigation pathway
- Projects with material negative environmental or social impacts.

Certain beneficiaries would not be eligible:

- Institutions in default on other financial obligations or facing lawsuits
- Institutions which failed their last audit
- Institutions not in good standing with SARS
- Beneficiaries (including directors of institutions) previously convicted of a crime, including fraud.

A range of concessional financial instruments may be considered to operationalise this funding window, including guarantees or other risk-sharing instruments, conditional debt, and early-stage risk capital (e.g., funding which converts to non-repayable grants in the event the initiative fails).

5. Institutional architecture and governance

5.1 Institutional form options and guidelines

There are three main options for the implementation of the JTFM which will largely depend on the scope of its activities. None of these options are mutually exclusive nor are they collectively exhaustive and can work in parallel with each other. Option 1 can be adopted in parallel with either Options 2 or 3. In general, it is considered important to prioritise less fiscally onerous options, in particular the introduction of new publicly funded financial institutions, noting the associated expense and complexity. Further, several developmental funders including donors prefer independent and well-governed institutions, suggesting that careful consideration should be given to policy-aligned options that **fall outside government and public financial institutions like DFIs**; in particular, capital providers from the donor community, private sector, and philanthropies might insist on an independent but well-governed institutional arrangement for the reception of their grant and concessional capital.

Option 1 takes the form of a task team or advisory body which functions as a public sector coordination mechanism that will support fundraising and provide light oversight of JTF activities and projects. The legal form will require an independent advisory body or task team with a decision-making committee and reporting function to assist in funding allocations. This option would involve no financial intermediation or advice provided but could target any source of funding and assist in matchmaking funders to projects. This entity would provide strategic input and resolve resourcing issues for key stakeholders (DFIs, project implementation agents, etc.) where barriers exist, which could be tightly aligned with PCC work programmes.

Option 2 is an independent aggregator that provides coordination, fundraising and grant-making to supplement official public capital flows. It would be formed as a separate legal entity to receive the pooled funds and could be formed as either a statutory public institution or a public benefit organisation (trust or company). Its activities would conduct grant fundraising and grant-making (similar to philanthropy). It would target funding sources outside of the public sector such as bilateral, multilateral, philanthropies, and climate change funds. The aggregator could fund the full spectrum of just transition grant-seeking projects using innovative, market-aligned approaches (e.g., results-based financing) to derive outcomes efficiently and catalysing additional revenue streams associated with impact investing. The possibility of public funds from fiscal allocations should be considered, and in this regard, it will be necessary to evaluate how this might be enabled within the fiscal and the Public Finance Management Act (PFMA) framework.

Option 3 involves a fully fledged JTF. This would take the form of a separate legal entity with a relevant financial service license, likely a DFI, fund or bank depending on its activities and ownership structure. It could raise and disburse all types of funding for projects and activities (grants, debt, equity, etc.) and could serve as a conduit for all public funding (domestic and international) towards just transition purposes. It could be used to fund the full spectrum of just transition activities on a long-term and programmatic basis. If a fund structure was selected, it could also take multiple forms including a fund of funds with different funding objectives and activities segregated into individual underlying funds. Particular attention is required to harness the capabilities of existing DFIs and (potentially) commercial financial entities, to ensure a least cost administrative, credit evaluation and project assessment capacity. Similarly, as for Option 2, should public funds provide some of the seed funding for the JTF, fiscal and PFMA considerations must be taken into account.

Option 4 involves other options to be considered to achieve the desired outcomes of the JTFM. The three options stated above do not purport to be exhaustive.

The merits of each of the three different options that have been suggested are sketched out below in a table.

The recommendation for the institutional form is to strike a balance between a number of different objectives, including government commitment, attracting the widest pool of funding and the sustainability of the funding. The conceptualisation and design of a JTFM is a PCC-led initiative, intended to be the basis on which recommendations will be made to the South African government. It is intended to spur the creation of appropriate and fit-for-purpose institutional and governance mechanisms to fund just transition policy priorities. The sources of finance are expected to extend beyond the fiscus, incorporating donor funds, philanthropic funds, development finance contributions, private and corporate funds, as well as commercial funds in blended finance structures for the fund as a whole or for programmes within the just transition. The funding beneficiaries will extend beyond local and provincial governments and will also require appropriate mechanisms at local and regional levels, or well-structured project mechanisms. Therefore, the preliminary institutional recommendation for the JTFM is a combination of the options above, particularly Options 1 and 3. Option 1 will allow the JTFM to tap into pre-existing structures and function immediately as a coordinating mechanism. Option 3 will take a longer time frame to establish but will enhance the sustainability of the funding by effectively blending available public funds and leveraging private contributions. However, a business case should be developed first, more fully detailing institutional options and costs.

Table 1: Comparison of three JTFM institutional form options

OPTION	ADVANTAGES	DISADVANTAGES
OPTION 1 **Task team / advisory body/ special division within existing DFI / special purpose vehicle**	• Fast to establish • Agile and responsive to evolving conditions • Structure has flexibility and reach (similar to PCC) • Access to some government funding and funding from public entities that fund governments • Reliant on the robustness of existing institutions' fiduciary processes • "Learn while we implement and experiment"	• Implies limited political commitment to the initiative (unless housed within the Presidency, for example) • Limited accountability • Limited access to private funding or certain donors that require an independent structure • Possibly limited capacity and capability to undertake ambitious task
OPTION 2 **Independent aggregator/s**	• Relatively quick to establish (but statutory body less so) • Provides flexibility to use a range of different modalities (inside and outside new mechanism) • Independent structure and associated governance quality could attract a broader range of funding • Ability to recruit the required expertise	• Just transition funding flows within and without mechanism risk confusion, duplication, and territorial battles with both government and funders • Coordination mechanism lacks political support and becomes redundant
OPTION 3 **Just Transition Fund**	• Strongest political signal of commitment (if contributions are made by fiscal grants or DFI grants or deeply concessional capital) • Best resourced, able to attract a wide range of funding and fully discharge its responsibility • Diversity of instruments allows JTFM to fund a wide range of different activities • Institutionalised policies, processes and structures provide extra visibility • Ability to efficiently blend available public funds through leveraging private contributions	• Takes a long time to establish • Expensive to establish and operate (high fixed costs), unless existing DFI capabilities are offered free of charge or at deep discount to cost • Existing fund managers poorly suited to grant-making for social projects • Risk (real or perceived) of state capture or political interference • Coordination mechanism lacks political support and becomes redundant • Will be subject to additional onerous regulations and compliance requirements

5.2 Governance

5.2.1 Decision-making

Regardless of form, the governing body of the JTFM should include a diversity of representatives to be able to effectively implement the objectives and intended activities of the JTFM. Therefore, the recommended members of the governing body would include policymakers, environmental experts, and independent economic and financial experts to represent the broad spectrum of just transition activities. It is also noted that a level of independence in the decision-making forum would broaden the potential funding sources as some developmental funders and donors require features of independent decision-making as a condition of their funding. Some of these representatives could also be sourced from the pre-existing PCC.

5.2.2 Oversight

A separate panel or committee should be appointed to provide an independent review, monitoring and reporting on the activities of the JTFM. This oversight is often a condition of funding imposed by external developmental funders and donors. In addition to the formal governance structure of the JTF mechanism having its own accountability mechanisms, it is important for external accountability measures to be included. These could be in the form of an internal audit[19] and external auditors[20] who are required to audit the financial statements of the JTFM on an annual basis.

5.2.3 Budgeting

Any funding received from the South African government would be subject to the requirements of the PFMA and the annual budget process of the South African government. Furthermore, a number of the projects that the JTFM are likely to fund are those of national, provincial, or local government in South Africa. Therefore, regardless of the legal requirements imposed on the institutional form of the JTFM, it is suggested that it adopts the budget cycle of the South African government to receive any funds from the government and also to form part of the budget and procurement cycles of the national, provincial or local government.

6. Sources of funding

Traditional sources of climate finance are overall unlikely to be a good fit for a JTFM. This is principally because they target climate mitigation or adaptation impacts, with socioeconomic benefits viewed as secondary. Considering that many just transition investments may be motivated exclusively by socioeconomic drivers, other sources of seed funding should be explored.

6.1 Developmental funders (grants and concessional capital)

This category of funders includes major donors such as governments, international financial institutions, multilateral developmental banks, and other official development assistance sources (e.g., the United Nations). These institutions, by virtue of their focus on sustainable development more broadly, are likely to accommodate a broader remit.

Aligning the Just Transition Framework and subsequent policy to the achievement of the UN Agenda 2030, i.e., the Sustainable Development Goals, could unlock capital through communicating alignment of social objectives.

[19] IFAC. (2014).
[20] IFAC. (2014).

6.2 International climate finance: Article 6, Paris Agreement

The Paris Agreement establishes a system of Nationally Determined Contributions (NDCs) in terms of which countries are required to make domestic contributions to the global climate change response. Article 6 is being negotiated to offer a broader array of international cooperation opportunities.

The market approaches defined by Article 6.2 read with Article 6.4 enable developing country governments to raise international climate finance attached to mitigation outcomes with which they may finance adaptation and social risk mitigation initiatives. This presents a critical redistributive opportunity, not only giving rise to more financially sustainable international developmental transfers in support of social justice on a global scale, but domestically, to leverage the existence of global markets for domestic mitigation outcomes for social risk mitigation and adaptation initiatives which remain far less commercially mature.

The sections below elaborate on both market and non-market approaches envisioned by Article 6.

6.2.1 Market approaches

Article 6.2 read with Article 6.4 of the Paris Agreement provides mechanisms for voluntary cooperation between countries in implementing their NDCs, including potential for an international carbon market and (implied) impetus for domestic carbon pricing or taxation. Comprehensive rules for a new carbon crediting mechanism under the supervision of a UN body were established under Article 6.4 which is expected to become the foundation of the future carbon market and of carbon financing.

The intersection or interaction between Articles 6.2 and 6.4 offers important possibilities for the establishment of domestic carbon financing structures. This is because:

- International cooperation in implementing NDCs (Article 6.2) will take the form of exchange (between countries) of internationally transferred mitigation outcomes (ITMOs), which are measured in tonnes of carbon dioxide equivalent (tCO_2e), and tCO_2e is the currency of carbon market financing transactions.
- Article 6.4 accords a higher degree of control over local carbon markets and financing (and their international contact points) than was the case under the Kyoto Protocol. Consequently, there is a greater incentive for governments to intervene in carbon market transactions and financing than was previously the case.[21]

Within this context, the role(s) that government could play to generate funding for the JTFM include:

- Implementing policies (both mitigation and financing policies) that achieve emissions reductions (ERs), which ERs can be reflected as ITMOs (ERs are also measured in tCO_2e) and used in government-to-government cooperation on NDCs,

[21] Examples exist of countries that have halted private sector carbon transactions with a view to exploring expanded roles for government in mitigation project activities, e.g., Indonesia stopped authorising voluntary carbon market transactions in April 2022.

e.g., transactions for financial value.
- Seeking to support, guide and control private sector mitigation project implementation and to extract "rent" in the form of levies imposed on ERs achieved by such projects and/or to require that a portion of ERs is reflected as ITMOs for the government's account.

Currently, 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 JTF purposes in a politically viable manner (i.e., without diverting existing sources of revenue from the fiscus). This follows the precedent set by the Adaptation Fund (see the next section) 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.

6.2.2 Non-market approaches

Article 6 of the Paris Agreement defines a framework for non-market approaches (NMAs) to sustainable development (para.9) which the aim to (a) promote mitigation and adaptation ambition; (b) enhance public and private sector participation in the implementation of nationally determined contributions; and (c) enable opportunities for coordination across instruments and relevant institutional arrangements (para.8). The COP 26 decision on Article 6.8 notes that NMAs may include:
- social inclusivity
- financial policies and measures
- circular economy
- blue carbon
- just transition of the workforce
- an adaptation benefit mechanism.

The decision also notes that these approaches should involve more than one party. However, NMAs are not "transactions" and would not be "regulated" under the rules of Article 6.2 or the Article 6.4 mechanisms. Effectively, the NMA offers the opportunity to frame non-market actions for which developmental finance may be provided as the cooperative means of implementation of the identified action(s).

Negotiations in respect of Article 6.8 are less developed than in the case of Article 6.2, hence it is not yet clear which possibilities may exist for South Africa to secure international finance for the investments to be made by a JTF. Nonetheless, given the clear alignment to the intent of the JTF, developments should be closely watched.

6.3 The Adaptation Fund

The Adaptation Fund, established in 2010, was created under the United Nations Framework Convention on Climate Change. The fund finances projects and programmes that help vulnerable communities in developing countries adapt to climate change, with initiatives based on country needs, views and priorities.

The fund is supervised and managed by the Adaptation Fund Board (AFB) which is composed of 16 members and 16 alternates representing Parties to the Kyoto Protocol. The board has legal capacity in the Federal Republic of Germany. In addition, the World Bank serves as the trustee of the Adaptation Fund and produces regular reports in respect of the fund's financial health and operations.

The fund is funded by governments, private donors, and a levy on Certified Emission Reductions (CERs) (i.e., carbon credits developed under the Kyoto Protocol's Clean Development Mechanism or CDM). To date, it has committed around $850 million to more than 100 projects and programmes, suggesting individual allocations are modest. Since the CDM has terminated, proceeds from CER sales have decreased substantially (approximately $4 million in sales were noted in 2021). However, to date, CER sales have comprised only 14% of all fund proceeds with the bulk of funding being received via donations (69%). This suggests that moving forward, the financial sustainability of the Adaptation Fund is not overly reliant on CER sales.[22]

Eligible parties are developing country Parties to the Kyoto Protocol considered especially vulnerable to climate change including low-lying and other small island countries, countries with low-lying coastal, arid and semi-arid areas or areas liable to floods, drought and desertification, and developing countries with fragile mountainous ecosystems, including South Africa. Under the Direct Access modality, countries can access funding and develop projects directly through accredited national implementing entities. In South Africa, this is through the South African National Biodiversity Institute (SANBI). Considerations in respect of awards include policy alignment, replicability, and governance.[23]

Funding is typically in the form of grants and proposals are accepted three times a year: twice before the biannual Adaptation Fund Board meetings and once during an intersessional review cycle. The project or programme being funded needs to be in accordance with priorities laid out in national strategies and plans or in NDCs. Additionally, proposals require endorsement by the Designated Authorities[24] of the country in which the project or programme would take place.

6.4 Corporate social investment

Corporate South Africa shares in the responsibility for delivering a just transition. Corporate pay inequality, expressed as a ratio of highest to lowest earner pay, is excessively high in South Africa due to its labour market dynamics. This has led to counter-productive mistrust, which can be countered through the adoption of shared value approaches to the most pressing societal challenges. Broad-based black economic empowerment (B-BBEE)

[22] Available funds for project allocation at 31 March 2022 were approximately $270m.
[23] Key considerations in respect of funding awards are as follows:
(a) Consistency with national sustainable development strategies and plans, poverty reduction strategies, national communications and national adaptation programmes of action and other relevant instruments.
(b) Economic, social and environmental benefits from the projects.
(c) Meeting national technical standards, where applicable.
(d) Cost-effectiveness of projects and programmes.
(e) Arrangements for management, including for financial and risk management.
(f) Arrangements for monitoring and evaluation and impact assessment.
(g) Avoiding duplication with other funding sources for adaptation for the same project activity.
(h) Moving towards a programmatic approach, where appropriate.
[24] "Designated Authorities" are government officials who act as points of contact for the Adaptation Fund.

legislation encourages corporate giving to social justice, helping support annual corporate social investment (CSI) of R10 billion. The largest contributor is the carbon-intensive basic materials sector,[25] accounting for a third.[26] The role of the private sector in assisting (through providing free expertise or direct funding) to enable project preparation and technical assistance through their CSI budgets, should be explored.

The JTFM may include public-private mechanisms in which corporates operating within a certain geographic area are either incentivised or compelled to co-invest in just transition projects within this location. This may either be woven into existing B-BBEE legislation (implemented through sector scorecards) or determined outside it. Currently, scorecards do not necessarily account for the territory within which benefits are delivered, rendering an opportunity for shaping them to incentivise action proximate to operations.

7. Lessons from international experience

South Africa's approach to developing a JTFM will be informed by global experience. There are at least two international examples of just transition financing mechanisms that may be of relevance to South Africa: the EU's Just Transition Mechanism and Canada's Coal Transition Initiative. These are more fully detailed in the annexures. Also to be evaluated for lessons are the Indian District Mining Fund, Kenyan Community Trust Funds, US Appalachian Fund, and others which might provide useful lessons.

Although the precedents of international just transition financing mechanisms are both limited and nascent, several insights can be drawn from the experience to date:

1. **Both mechanisms consist of more than one funding programme/window**. This is most pronounced in the European Union (EU) model where each of the three pillars is distinctive in terms of the instruments offered and/or the intended recipients. However, even in the Canadian example, separate disbursement and monitoring and reporting arrangements accompanied funding for programmes stimulating new large-scale economic activity compared with the funding used to support activities such as capacity building and training.

2. **Both examples also make heavy use of existing implementation modalities.** In the EU case, the European Investment Bank (EIB) plays a significant role; in the Canadian example, existing government development agencies are used.

3. **Both programmes emphasise the importance of implementation planning** to accompany the development of any financing mechanism. In the EU case, it is intended that this will be delivered through the Territorial Just Transition Plans (TJTPs). In Canada, the absence of this planning has been heavily criticised.

[25] Mining, chemicals, water and forestry.
[26] Davids, Z., Huma, C., and Zerbst, F. (2021). Business in Society: 2021. Cape Town: Trialogue

4. **The EU case suggests that it is likely to be important to provide technical assistance and support**, especially to local authorities, to ensure investment plans are well-developed and to support the design and implementation of projects.

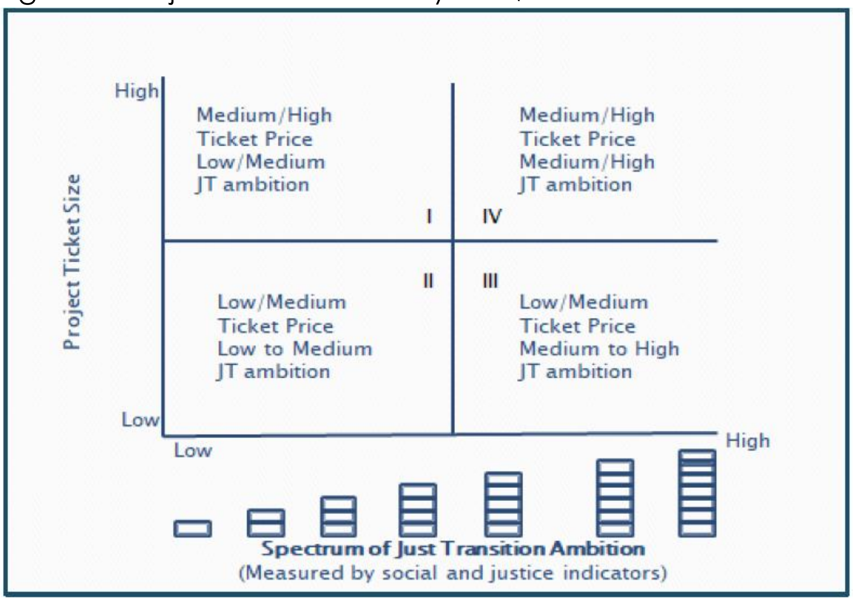
5. **The Canada case illustrates the importance of developing a robust monitoring and reporting system** so that it is easy to justify how funds have been used and the results that they have (or have not) delivered.

Appendix 1: Classification of just transition projects

"Identifying an initial location for the research was relatively straightforward. The province of Mpumalanga accounts for 80% of SA's coal mining and electricity generation. It is viewed as the national "transitional hotspot" as the province is highly economically undiversified with substantial dependence on the state-owned power utility Eskom and its fleet of coal-powered electricity generating stations, and the coal mines which provide the fleet with its inputs.

Project developers, champions, stewards of projects were asked to self-identify whether they believed their projects qualified as transition projects or not. After this self-identification, projects were screened against additional eligibility requirements. In an attempt to maximise the sample size and breadth and scope of sample projects, eligibility requirements were kept to a minimum. Projects which had no commercial basis were excluded. Fossil fuel-based and brown projects were excluded. Economic diversification projects which were not necessarily green (but were not brown) were included. All green projects were included. Projects at all stages of development were considered as long as they met the basic requirements of having a dedicated project developer or champion which was resourced to develop the project further and had access to at least some preliminary funding for initial development. Projects which were only conceptual and had no allocated resources (human or financial) were excluded. Projects needed to be designed and motivated as an *explicit response to an exogenous economic event related to climate action which would negatively impact workers or communities in a given location*. This screening allowed just transition projects to be distinguished from normal local economic development projects. All projects were anonymised (bar those in the public domain) to meet non-disclosure requirements of project originators and developers."[27]

Figure 1: Project classification system, Lowitt & Mokoena



[27] Source: Lowitt, S. & Mokoena, I. (2021). *A Just Transition Finance Roadmap for South Africa: A First Iteration*.

Appendix 2: Summary of international just transition finance approaches

European Union

The EU's Just Transition Mechanism consists of three pillars which are collectively expected to support about €100bn of investment (R1.686 trillion):

- **A €19.2 billion**[28] **(ZAR321.3 billion) JTF.** This funding will primarily be provided as grants to member states and regions and is expected to focus on alleviating the socioeconomic costs associated with the low-carbon transition and supporting economic diversification and reconversion. Member states are expected to combine this funding with other funding from the EU to which they are entitled, alongside national resources, with the expectation that €25.4 billion (R425 billion) of investment will be facilitated. Typical activities identified as appropriate for the JTF include:
    - funding productive investments in small and medium-sized enterprises
    - the creation of new firms
    - research and innovation
    - environmental rehabilitation
    - up- and reskilling of workers
    - job-search assistance
    - active inclusion of jobseekers' programmes, as well as the transformation of existing carbon-intensive installations when these investments lead to substantial emission cuts and job protection.

  Each country within the EU will have a ringfenced allocation of funding from the JTF.[29]

- **The Invest EU "Just Transition Scheme".** This involves the allocation of around €1.8 billion (R30.1 billion) of grant resources as a guarantee for loans made by the European Investment Bank (EIB) and other development finance institutions (DFIs) with the intention of leveraging private sector investment. This funding can be used for a wider scope of investments than the JTF such as energy and transport infrastructure (including gas infrastructure), as well as decarbonisation projects, economic diversification and social infrastructure. It is expected to leverage up €45 billion (R753 billion of investment).[30] Invest EU is an existing mechanism that policymakers decided to "piggyback" on to target resources at the Just Transition.

- **A Public Sector Loan Facility** that will combine €10 billion (R167.3 billion) of EIB loans with €1.5 billion (R25.1 billion) of EU grants and which expects to mobilise €18.5 billion

[28] This was increased from €7.5 billion following the COVID pandemic. https://ec.europa.eu/regional_policy/en/funding/jtf/just-transition-platform/opportunities
[29] The allocation method considered the scale of the transition challenge, the scale of the social challenge in terms of potential job losses and the level of economic development of different member states.
[30] https://ec.europa.eu/commission/presscorner/detail/en/qanda_20_24

(R309.6 billion) in public sector investment.[31] This pillar focuses on projects that do not generate sufficient resources to be financed commercially, including energy and transport infrastructure, district heating networks, energy efficiency measures, as well as social infrastructure. Support to fossil fuels related investments is excluded.

In all three cases, funding must be allocated towards activities within the framework of a TJTP and funding cannot be received until these are approved by the European Commission (EC). TJTPs are prepared by member states, taking into account analysis from the EC, and are required to outline transition plans in the period to 2030. The plans need to demonstrate that they are consistent with the transition to climate neutrality. Each country's TJTP must identify the specific territories most in need of resources. In the case of the JTF (pillar 1), the activities funded must be in the territories identified in the TJTP. In the case of pillar 2 and pillar 3, funding can be allocated to projects outside the boundaries of each TJTP, so long as the projects can be shown to contribute to meeting the needs associated with the territories identified in the TJTP.

The EU has also established a Just Transition Platform to support countries and regions to access the funds of the Just Transition Mechanism, including through offering support to develop TJTPs. This platform will also enable bilateral and multilateral exchanges of experience on lessons learnt and best practices across all affected sectors. At the same time, the Invest EU Advisory Hub will support the development of a robust pipeline of projects for pillars 2 and 3 of the mechanism.

Canada

Canada has two complementary financial mechanisms to support just transition:

- The Canada Coal Transition Initiative is a CA$35 million (R430 million) fund, with a five-year funding envelope (April 2018-March 2023), to support skills development and support communities adapting to a low-carbon economy. Funding is typically provided for activities such as capacity-building, entrepreneurship support, business start-up and expansion, and supply chain development.
- The Canada Coal Transition Initiative – Infrastructure Fund is a CA$150 million (R1.9 billion) fund which aims to help communities move away from coal by investing in infrastructure such as replacing water and sewerage infrastructure and repairing roads. Funding has been allocated over a five-year period between August 2020 and March 2025.

For both initiatives, funding is provided to public agencies that are responsible for supporting economic growth in the specific regions affected by the reduction in coal-based activity. These agencies use their existing modalities to deliver the new funding. This means that issues such as recipient eligibility, activity eligibility, and assessment criteria are aligned to those used for existing economic diversification programmes.

[31] https://ec.europa.eu/regional_policy/en/funding/jtf/just-transition-platform/opportunities. This might be extended to further DFIs in future.

As of September 2021, CA$28.7 million (R351.5 million) of the Canada Coal Transition Initiative funding had been disbursed across 50 projects, implying an average project size of CA$0.57 million (R7 million); by the same date CA$41.4 million (R528.4 million) had been disbursed by the Canada Coal Transition Initiative – Infrastructure Fund across 17 projects, implying an average project size of CA$2.4 million (R29.4 million).

In 2022, the Office of the Auditor General of Canada reviewed the approach of the Canadian government to support the Just Transition,[32] including the performance of these two funding mechanisms. It heavily criticised the government's approach across a number of dimensions, including:

- The failure to develop an implementation plan, supported by stakeholder consultation, for the Just Transition. As a corollary, it also criticised the absence of effective governance mechanisms surrounding the government's programme.
- It identified weaknesses in the reporting of the use of funds, with agencies not always able to demonstrate that funded projects supported a just transition for the affected communities; reporting was not focused on relevant indicators; and/or was not always provided in a timely manner in relevant public outputs.

[32] https://www.oag-bvg.gc.ca/internet/English/parl_cesd_202204_01_e_44021.html