RABIA
TRANSITIONS

24 February 2024

Presidential Climate Commission
Via email: climate-fin@climatecommission.org.za

Dear Commissioners and Secretariat

COMMENTS ON THE JUST TRANSITION FINANCING MECHANISM DRAFT

We would like to thank the Presidential Climate Commission (PCC) for inviting public comment on its recently published draft Just Transition Financing Mechanism (JTFM) proposal. Rabia Transitions Initiative NPC (Rabia) is a research initiative dedicated towards building “a just and inclusive financial ecosystem that serves the needs of sustainability, climate, and biodiversity responses of our time with dignity”. We respectfully offer our comments on the JTFM in the spirit and pursuit of our mission. Our input covers key aspects of the JTFM and the broader financial ecosystem in which it will be embedded, covering governance, the scope of the JTFM, benchmarking, the broader systemic change that is needed, and the instruments and sources of finance it identifies.

Scope and approach of the JTFM

1. The JTFM states that its purpose is “to provide a cohesive strategy for raising and channelling funds towards the just transition” and that a primary obstacle in the funding of the just transition is that current efforts are fragmented and uncoordinated. It further defines “just transition finance” as a separate category of finance (i.e. “financial investments that focus on both reducing carbon emissions and addressing the social and economic outcomes of moving to a low carbon economy”).

2. We believe that the above underlying premise of the JTFM will directly contribute to further fragmentation and exacerbate the “problem statement” of an “existing financial ecosystem that is not adequately structured to mobilise and allocate finance for the just transition”.

3. The South African and global financial system is already replete with multiple categories for finance and special mechanisms to address climate change, biodiversity and sustainability. Through climate negotiations and efforts since the Brundtland Commission in 1988, a continuous stream of new sustainability-related categories of finance have emerged, such as green finance, climate finance, carbon finance, social finance, adaptation finance, sustainability, and ESG-related finance. A new definition such as just transition finance adds to fragmentation and thus reduces impact.

4. By comparison, post-1994 the financial sector did not require another definition to finance black empowerment deals. A focus, which was lacking in the evolution of the BEE deals was a clear vision and guidance about the systemic impact and quality of the political transition that we desired as a nation. We believe this is where the greater effort of the Presidential Climate Commission should exist, to develop framing and guidance to mainstream just transition into the fabric of finance flows so that every investment places people's livelihood at the centre.

5. All of these special categories of finance are forged and exist "outside" of the mainstream of finance flows, and thus the innovation of new funds was necessary. Present challenges of financing South Africa's development and economic growth path requires closer integration of environmental and social objectives into the fabric of finance flows, where every financial actor is responsible for integrating the just transition into their investments and risk management decisions.

6. The Just Energy Transition Investment Plan (JET IP) identifies a portfolio-based approach to finance, where the essence of a just transition is included in the design of all interventions, and a cluster of projects is considered which has both income and non-income generating dimensions. We believe the JTFM risks dispersing joint responsibility of the Just Transition Framework, which called for all society to integrate the just transition into their policies and processes, and by extension funding programmes.

7. By contrast, a project-based approach may have a short-term impact but will risk a longer-term objective of shifting the economy towards a people-centred and regenerative approach to growth and development, with the financial sector playing a pivotal role. Without a call for finance to integrate the just transition vision, we risk private capital believing its role to solely focus on profitable transition efforts, while the justice elements are left to the state, international institutions, philanthropies, and potentially highly de-risked private sector capital.

8. A portfolio-based approach allows is for a cluster of projects and initiatives to be funded under one umbrella. With an understanding that due to the complexity and systemic nature of a transition, there are various interdependencies, and investments must therefore be sequential, and informed by the existing interlinkages. This requires that there be loss-leading investments particularly as it relates to the justice elements. This does not imply that vetting should not happen on a project level, and the tagging framework as outlined in the proposal is useful and necessary for the functioning of the JTFM. However, the tagging process proposed in the JTFM must align with the National Treasury's work around climate budget tagging within the government. A portfolio-based approach must also be informed by a larger national strategy that aims to mainstream the just transition into broader finance flows.

9. The JTFM has the potential to act as a mechanism through which various actors can pool resources and effectively allocate them. The JTFM should be able to coordinate with other institutions within the state (beyond the National Treasury) to identify and finance just transition efforts based on the specific needs in question and the mandates of the respective government departments. In its current iteration, the JTFM is unable to help reshape the current financial architecture and financing flows. With the danger that it becomes yet another niche mechanism, folded into the existing financial architecture, ill-equipped to address the unique systemic funding challenges facing the just transition in South Africa.

10. The Public Finance Management Act intermediaries that are being recommended to address efficiency and timelines for the JTFM will have an overarching risk management framework. The scope and ambition of the just transition require integrating a risk allocation framework of the transition as opposed to carving out "just transition projects". This is of particular importance given the potential impact the transition requirements will have on the fiscus and equity more broadly, and all stakeholders, including the public at large, need to be assured of an equitable allocation and pricing of risk. This is especially poignant in the austere times we are living in domestically and globally.

Instruments, Sources, and Quality of Finance

11. The quality of finance refers to the conditions which are attached to finance flows, the form in which they are provided, what they are earmarked for, their predictability, and the extent to which they are needs-based. These qualities are critical to the ability of the JTFM (in whatever form is agreed) to contribute to a truly systemic just transition.

12. In the case of South Africa's just transition, a quality of finance is needed that does not increase indebtedness, is predictable, mainstreams the justice transition, and is needs-based, thereby aligning with the country's broader developmental objectives. The JTFM does emphasise the importance and potential of concessional and grant financing, and how this is of particular importance for justice elements that are not as bankable. We note that the proposal does not provide detail on the terms, conditionality, and predictability of the finance flows that are needed, and further financing principles that were highlighted in the JETIP. If this is not accounted for and no direction is provided, there is the risk that even the limited intended impact of the JTFM, and more importantly the JTF will not be realised.

13. Lessons can be drawn from the Black Economic Empowerment (BEE) policy. Even though BEE regulations and guidelines were adopted by the financial sector, there was limited direction given on the quality of finance flows that would be needed to overcome the challenge of a racialised economy. If the JTFM does not specify the quality of finance needed to transition, it will not be in a position to channel finance flows towards justice elements, nor facilitate a just and equitable impact that the finance should have.

14. Any mechanism that is introduced in the financial ecosystem in South Africa should not absolve the private sector of its responsibility and contribution to achieving a just transition, placing people and economic impact accordingly at the centre of such investments. Environmental degradation and inequality in the country are a result of many complex factors, including the interplay of public and private capital. However, the notion of collective responsibility and risk-sharing is outlined in the JTF and JET IP, and many businesses and sectors of the economy are also at risk of financial losses due to climate risks. We need financing strategies and vision, not fragmented options that assign collective responsibility appropriately to the public and private sector, without assuming that the state bears the de-risking role, rather a shift to risk sharing is essential. We believe that the private sector can and is already integrating social elements into their financing considerations, and should be encouraged to do more of this, rather than rely on an external mechanism for this purpose.

Benchmarking

15. In determining the scope and particularities of the mechanism it would be useful if the JTFM proposal authors could clarify and reconsider the use of Canada's Coal Transition Initiative and Infrastructure Fund and the European Union's Just Transition Mechanism for benchmarking. The comparability and relevance of these examples to the South African context is quite remote, given the development and financing needs in the EU and Canada.

16. We would have expected that the JTFM would follow the de-centralised and more dignified approach of India's District Minerals Foundation and the Kenyan Community Trust Funds which offer closer access and autonomy at the community level for managing resources and is fundamentally needs and place-based. Both are disaggregated funds that allow for more direct channelling of finance flows to the communities and institutions that need them, rather than the JTFM's centralised approach. In addition, the Kenyan Community Trust Funds and the Indian District Minerals Foundation, in particular, have mechanisms in place which are designed to facilitate procedural, distributive, and restorative justice.

Governance and Transparency

17. Central to ensuring that the JTFM can help deliver a Just Transition is a governance process from start to finish that is not biased, is transparent, and does not magnify set interests or perspectives. Clarity is needed on the process behind the authoring of this proposal, how were the authors chosen, and what feasibilities and stakeholder discussions informed the current iteration of the JTFM. We note that the private sector appears to play a significant role in the JTFM. We believe that balance and oversight will be essential through community and civil society engagement in the governance, and investment decision processes.

18. The "JET IP Grant Mapping Register" illustrates the need for greater clarity and transparency around the allocation of funds, particularly funds pledged through and for a public purpose. The register shows that by the time the JET Investment Plan was released for comment in November 2022, 89 projects funded through JETP pledged grants had already commenced. Yet the country and its partners were (in theory) still in discussion about whether these funds were to be allocated. This is a tragic occurrence in our view, as the grants were largely disbursed. The register in our view builds the argument that every finance institution, public and private, should embed regenerative, people-centred approaches to originating and financing South Africa's just transition.

19. We appeal to the PCC to also publicly advise how the inputs of stakeholders were incorporated into the initial draft, will the current call for public comments be integrated, and the process by which they will be assessed and weighted.

We thank the PCC for the opportunity to comment on the JTFM. We wish you well as you further refine and engage thereon, and trust our contributions are useful for your deliberations. We are happy to elaborate further and offer concrete propositions. Should you want to engage on any further aspects of our comments please feel free to contact Patrick Lehmann-Grube (Patrick.lehmann@rabiatransitions.org)

Yours sincerely

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