

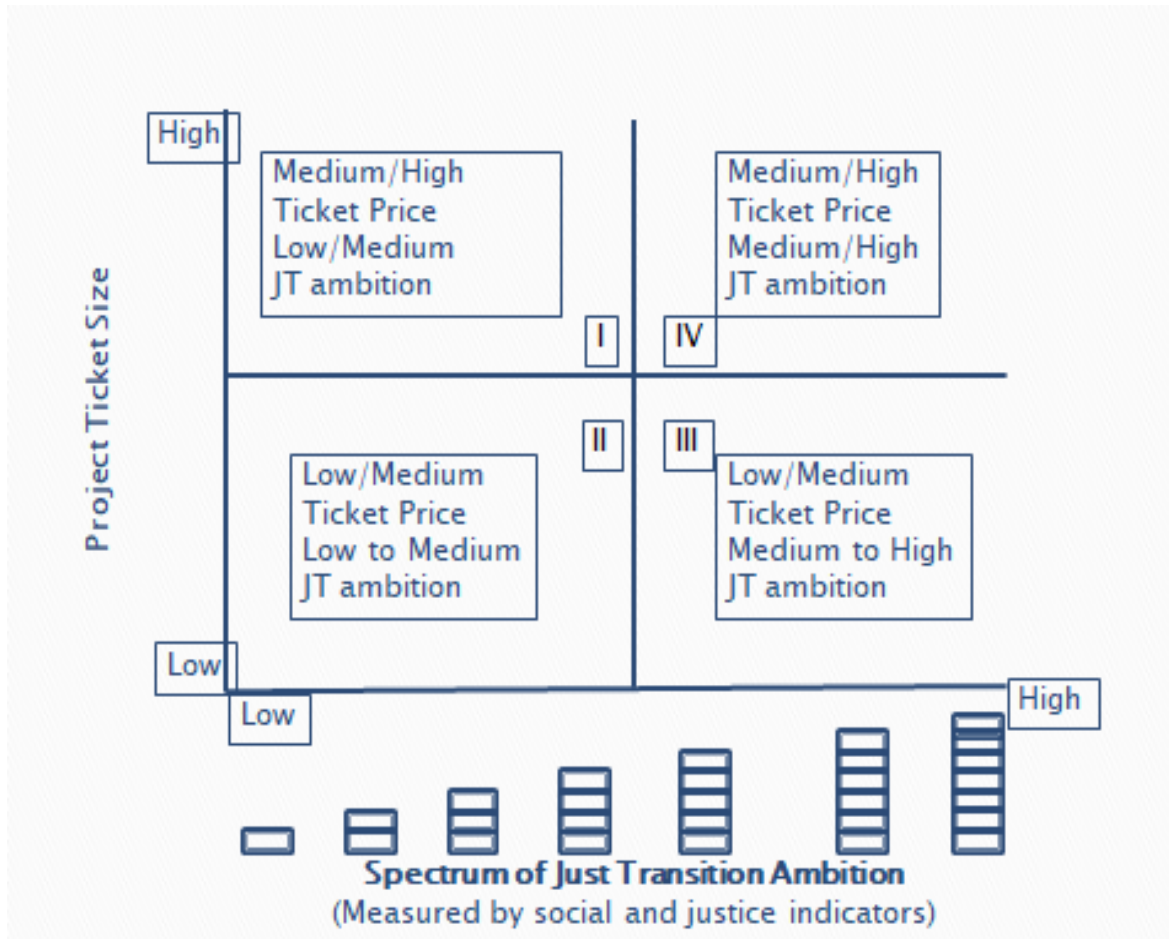
*PROJECT TO DEVELOP  
A CONTRIBUTION TO A JUST TRANSITION FINANCE ROAD MAP*

UNDERSTANDING THE DEMANDS  
A NEW FINANCIAL ECO SYSTEM WILL NEED TO MEET

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# A Framework to think about a universe of place based projects



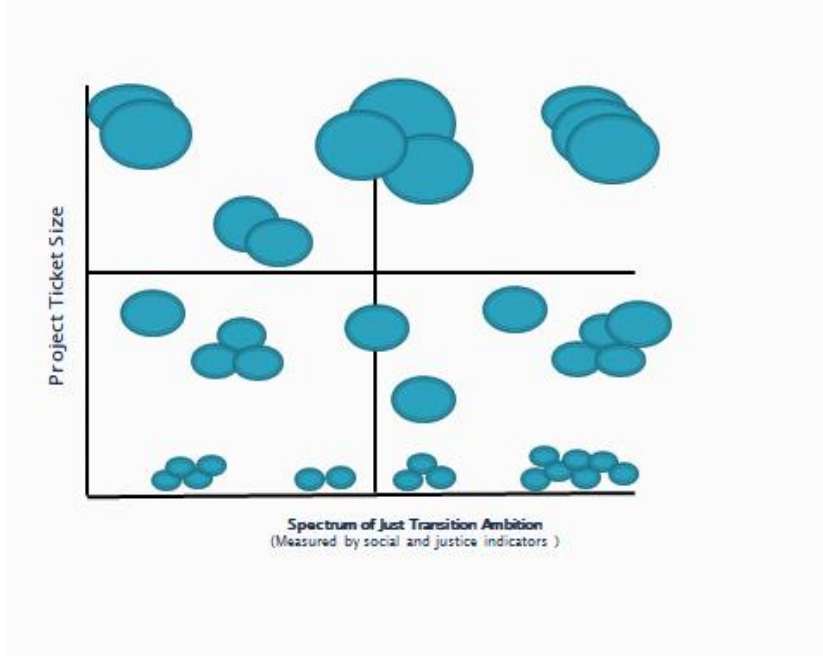
Example: **Low Ambition project** aspires to create alternative decent jobs for displaced workers

**High ambition project** aspires to create decent jobs for displaced workers+ new livelihood opportunities for proximate community+ reskilling and retraining for workers and community+ increased access to services+ increase in community asset ownership +rehabilitation of environment

**Ticket Price:** identified as the most basic variable that a financial institution initially considers when presented with an investment opportunity (*crucial impact on transaction cost*)

**Spectrum of Ambition:** identifies a project's aspirations in terms of procedural, distributive and restorative justice. *Aspirations will be measured in terms of social indicators and possibly justice indicators. Indicator work is forthcoming End September.*

# Financing a Just Transition: Spectrum of Opportunities



**Scope:** Projects that contribute to the diversification of the Mpumalanga economy and offer employment and livelihood opportunities for workers, SME's and communities impacted by the movement out of coal

**Source:** Mines, Power Utility, big corporates in the province, local authorities, provincial authorities, national government, CSIR, academics , SPV 's such as Investment Catalyst, Mine Water Co-ordinating Body and *GreenCape*

**Project Type:** Green, non brown, mainly mitigation, some adaptation, resilience

## Spectrum of Ambition:

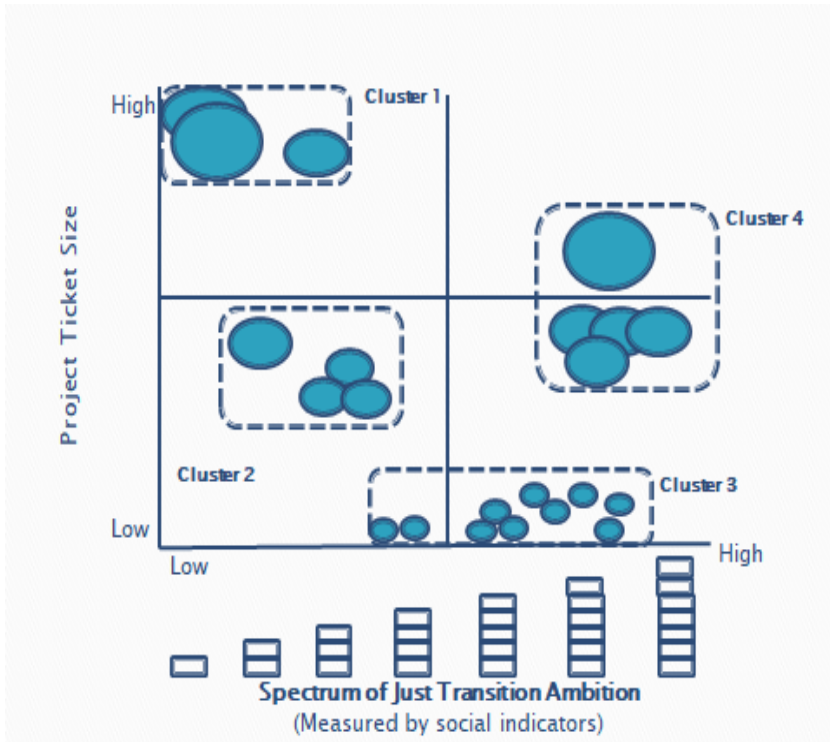
**Low:** Alternative employment for workers directly impacted; decent work as per ILO

**High:** Transformative increase in quantity and quality of social indicators:

- Decent alternative employment with improved salaries and working conditions
- New and sustainable livelihoods for communities
- New asset ownership by communities
- Reskilling and up-skilling of communities
- Empowering meaningful participation in decision making
- Restoration and rehabilitation of land, waterways
- Increased access to services

*This Project is focused on the transition out of coal in Mpumalanga; but findings can be extrapolated for different regions and sectors*

# Financing a Just Transition: Sample of Identified Projects



- **All** projects are important and have a role to play to achieving a just transition
- Some project which *in themselves* have low just transition ambitions characteristics **may lead to important future downstream activities** which have meaningful social and economic impacts for workers and communities in the area and for the environment. *Model weakness that this is not captured. This is not JT washing.*
- Not a preference for higher ambition necessarily given general and youth unemployment in Mpumalanga – mere creation of a decent job must be viewed as a desirable project outcome

# Cluster 1: Possible Power utility ‘on site’ projects

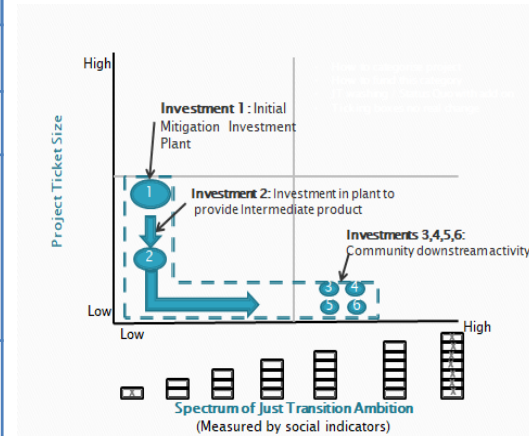
	Cluster 1
<b>Ticket Size</b>	R2-40billion
<b>Just Transition Ambition</b>	Low*
<b>Project Description</b>	<ul style="list-style-type: none"> <li>• Repowering and repurposing Eskom’s decommissioned coal power plants</li> <li>• 5 stations being decommissioned in s/r. EOI issued for Camden, Komati and Grootvlei</li> <li>• If focused on repurposing rather than repowering, business plans must ensure plant AND surrounding brownfield sites are rehabilitated</li> </ul>
<b>Expected Impact</b>	<ul style="list-style-type: none"> <li>• Climate Impact</li> <li>• Modest Job creation</li> <li>• High potential downstream impact (SME opportunities, substantial job creation, enterprise development)</li> <li>• Community consultation</li> </ul>
<b>Technology and Business Model</b>	<ul style="list-style-type: none"> <li>• Relatively well established technology and business models</li> </ul>
<b>Funding Required</b>	<ul style="list-style-type: none"> <li>• \$10billion</li> </ul>
<b>Funding Mechanism</b>	<ul style="list-style-type: none"> <li>• Traditional instruments</li> <li>• Possibly an innovative transaction structuring</li> <li>• Possibly a JT Fund or ring fenced funds</li> </ul>
<b>Funding Source</b>	<ul style="list-style-type: none"> <li>• France, Germany, UK, US, EU in principle agreement to fund 8.5billion Euro’s.</li> <li>• Terms to be negotiated</li> </ul>

*Cluster 1 projects can be funded within the existing financial ecosystem using traditional instruments and mechanisms (albeit possibly through innovative transaction structuring)*

\*does not capture upstream or downstream opportunities

# Cluster 2: Medium and Complimentary Investment Projects

	Cluster 2
<b>Ticket Size</b>	R500m-1.5billion
<b>Just Transition Ambition</b>	Hard to assess but positioned as Medium Ambition
<b>Project Description</b>	<ul style="list-style-type: none"> <li>Projects developed by large listed South African companies operating in either mining or agricultural sector in Mpumalanga. Includes projects aimed at mitigation and some agricultural resilience projects</li> </ul>
<b>Expected Impact</b>	<ul style="list-style-type: none"> <li>Climate Impact</li> <li>New job creation/security of livelihoods</li> <li>Local economic diversification</li> <li>High levels of community and worker inclusion and decision making participation</li> <li>Community asset ownership ( only investments 3,4,5,6)</li> </ul>
<b>Technology and Business Model</b>	<ul style="list-style-type: none"> <li>Novel technologies in local market (international track record)</li> <li>Untested off take usage</li> <li><b>Identified problem:</b> Downstream activities related to core investment (1) are not part of project plan or developers mandate and funding requirements yet investment one identifies as a JT projects. <b>(JT washing?)</b></li> </ul>
<b>Funding Required</b>	<ul style="list-style-type: none"> <li>Mix of scale from : R100 million (1); R90 million (2); R1-5million (3,4,5,6). Must be funded as a suite to ensure JT outcomes</li> </ul>
<b>Funding Mechanism</b>	<ul style="list-style-type: none"> <li>Mix of traditional and new instruments and mechanisms</li> </ul>
<b>Funding Source</b>	<ul style="list-style-type: none"> <li>Private sector subject to DFI de-risking for capital for core project and complimentary investment for downstream smaller projects</li> </ul>



*Investment 1 has sufficient ticket size to be attractive to current financial eco system.*

*Investments 2-6 need concessional capital from DFI's or subsidies to attract private funding*

*Investment 2 is crucial to provide inputs for investments 3-6*

*To ensure Just Transition, the SUITE of projects need to all be funded*

# Cluster 3: Small Projects with High Just Transition Ambitions

	Cluster 3
<b>Ticket Size</b>	R1.5-20million
<b>Just Transition Ambition</b>	Medium to High
<b>Project Description</b>	<ul style="list-style-type: none"> <li>• Land and water rehabilitation, which create opportunities for community based livelihood projects</li> <li>• Waste re-use and re-purposing projects ( circular economy)</li> </ul>
<b>Expected Impact</b>	<ul style="list-style-type: none"> <li>• Climate Impact</li> <li>• Small number of direct jobs (up to hundreds)</li> <li>• New livelihoods for communities proximate to mines and power plants</li> <li>• Strong Community consultation and co-creation</li> <li>• Community asset ownership</li> </ul>
<b>Technology and Business Model</b>	<ul style="list-style-type: none"> <li>• Novel technologies</li> <li>• New business models</li> <li>• Low bankability</li> <li>• Small ticket size relative to transaction cost</li> <li>• Pre commercial – requires technical assistance</li> <li>• Stakeholders with limited or no track record</li> </ul>
<b>Funding Required</b>	<ul style="list-style-type: none"> <li>• Unlikely to be funded by current financial eco system</li> </ul>
<b>Funding Mechanism</b>	<ul style="list-style-type: none"> <li>• New Just Transition financial instruments and mechanisms to be created. Could include increased use of fund of funds, impact investing, blended finance, increased use of grants, new deployment mechanisms</li> </ul>
<b>Funding Source</b>	<ul style="list-style-type: none"> <li>• Currently not available at a system level</li> </ul>

*Includes projects from: Mine Water Co-ordinating Body, Impact Catalyst, local municipalities and district LED units, local chambers of commerce, CSIR, some initial ideas from Power Utility*

*Purposefully designed to achieve high just transition ambitions*

*Experts believe projects with this cluster's characteristics are **likely to dominate the just transition pipeline in the future**. The South African financial ecosystem will need to change for this to be achieved.*

# Cluster 4: Just Transition Unicorn Project

	Cluster 4
<b>Ticket Size</b>	R6billion (for complete suite of projects)
<b>Just Transition Ambition</b>	Very High
<b>Project Description</b>	<ul style="list-style-type: none"> <li>• Single intervention with suite of inter related and inter-dependant projects. Suite needs to be implemented as a whole</li> <li>• Originated from large mining house</li> </ul>
<b>Expected Impact</b>	<ul style="list-style-type: none"> <li>• Climate Impact at scale</li> <li>• New livelihoods at scale ( i.e. over a million)</li> <li>• Community central to project</li> <li>• Community asset ownership including massive transfer of land</li> <li>• New and Diversified economic opportunities and new value chains</li> </ul>
<b>Technology and Business Model</b>	<ul style="list-style-type: none"> <li>• Novel technology with limited international track record</li> <li>• Non traditional governance model</li> <li>• Non traditional participants</li> <li>• Off take agreements in place</li> <li>• Some Bankable projects</li> </ul>
<b>Funding Required</b>	<ul style="list-style-type: none"> <li>• Full spectrum of funding requirements from grants to impact investing to commercial.</li> <li>• Staggered timeframes and ownership; lower returns initially; returns increase over time</li> </ul>
<b>Funding Mechanism</b>	<ul style="list-style-type: none"> <li>• New and innovative requirements</li> </ul>
<b>Funding Source</b>	<ul style="list-style-type: none"> <li>• Multiple sources simultaneously</li> <li>• Will need co-ordination and new co-operation</li> </ul>

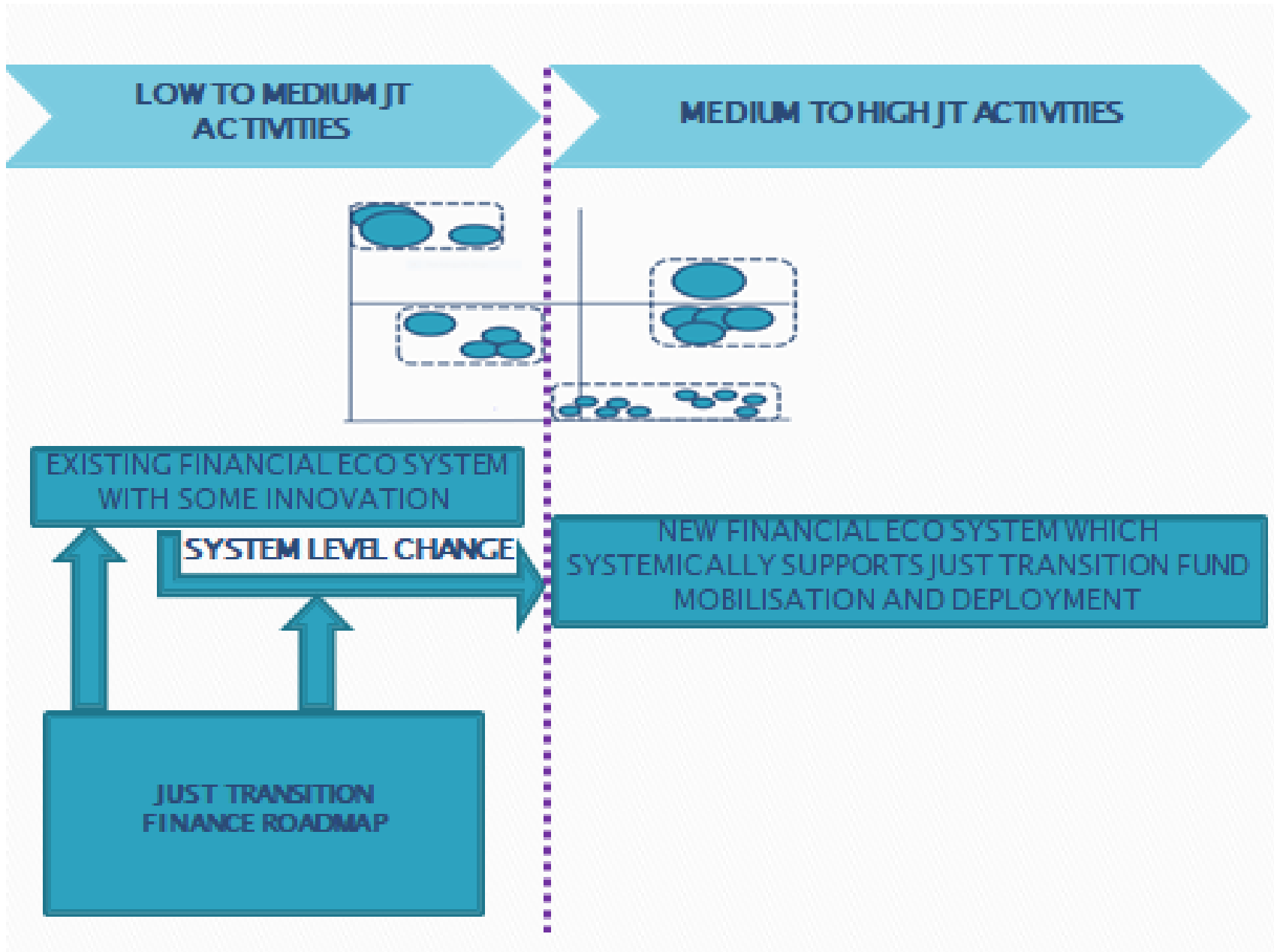
*Known as a unicorn project due to its high ticket size and extremely high just transition ambitions which **will be transformative**.*

*Only one live project of this kind has been identified but hope that through the demonstration effect more may emerge.*

*As with cluster 3, the South African financial ecosystem will need to change in order to support such programmes of work.*



# Implications for the Financial Eco System



# Inputs to consider in drafting a Just Transition roadmap

## The South African financial ecosystem will need to:

- Become involved in project development processes earlier than the current system i.e. **making rather than buying deals**
- Facilitate (or directly provide) increased **financial sector education and capacity building** for non-traditional parties to transactions
- Develop **new approaches** to projects that are inclusive of multiple traditional and non-traditional partners, some of which will have limited (or no) commercial track record
- Provide **increased technical assistance** to support project pipeline development
- Innovate in terms of instruments, mechanisms, facilities and processes including:
  - Increase tenors and extend the role of patient capital
  - Increase deal complexity including to attract grant funding and achieve both impact investing and commercial returns simultaneously
  - Increased use of blended finance and de-risking activities
  - Increased allocation of funding to pre-commercial and SMME-scale activities
  - Improved methods of assessing and pricing technology risk and environmental risk
  - Working with the public sector to create smart subsidies
  - Develop approaches to deal with funding suites of projects with mixed ticket prices
  - New avenues and methods for collaborating with international investors and DFIs
  - Accommodating novel business and ownership models
  - Increased use of fund of funds and new deployment approaches
  - New need for co-ordination and collaboration role across different institutions
- **Develop a set of KPIs and incentive structures to mobilise capital to align with a just transition which are reported on by financial institutions ( public and private).**

# Next Steps

1

## Expert Paper 1:

- Deep dive into financing requirements of sample projects
- Map existing universe of instruments, tools and mechanisms
- Articulate gaps
- Suggest actions to move towards filling gaps

## Expert Paper 2:

- Deep dive into existing financial eco system players to understand their views on the just transition and specifically the hurdles they face in addressing the identified needs of a JT
- Co-create possible solutions

## Expert Paper 3:

- Unpack the issue of scale and replicability in order to understand options to deal with challenges of deploying funds to the dominant scale of projects (cluster 3 small projects under R20 million)

## Expert Paper 4:

- Identify social indicators and possibly justice indicators for horizontal axis of framework
- Suggestion that said indicators will change over the time horizon of the transition ( when the power plant or mine closes; medium term and long term)

## Case Studies

- Instruments and Funds ( possibly international and local)
- JT Type projects (e.g. Sere Wind farm, Anglo community project in Mpumalanga, REIPP)

2

**ENGAGEMENT**

3

**DRAFT OF CONTRIBUTION TOWARDS ROADMAP**