# Financing just and equitable transitions

*Workshop on Advancing Just and Equitable Energy Transition: Legal, Policy, and Financial Dimensions for Developing Countries*
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# Premise for this work

**A just transition:**

- Must centre workers and people
- Extends beyond only the energy sector – including transport, food, agriculture and so on. It includes the whole economy.
- Focuses on supporting the deep structural transformation required to move the economy towards a climate-resilient and green growth path.

**Existing JET-IP in South Africa:**

- Myopic focus on energy transition
- Favours profit over people
- Relies heavily on private sector and international funding.

# Centring a socially owned transition

- Provides the mandate for policy reform
- Outlines demands per sector and structural demands

**Structural demands address**

- The economic system and institutions of the country
- The socioeconomic rights of workers
- Addressing poverty, inequality and unemployment
- Allows for inclusive and sustainable economic growth.

**Three sub-groups**

- (1) Support for workers, and people over profit
    - linked with employment creation, upskilling and reskilling existing workers, the relocation of workers, funding decent work packages including health and retirement benefits, and financing a basic income grant to bridge the gap for those unable to transition to new jobs initially.
- (2) The equitable use of land, water and energy
    - focused on the provision of land and access to basic services such as water and electricity.
- (3) Governance
    - focused more on the enabling mechanisms to ensure funding is available, such as ending corruption, dealing with debt distress and using fossil fuel based and environmental taxes for financing the just transition and ending budget austerity measures.

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# Fiscal policy

**Austerity in SA** since 2015 and a narrative of unsustainable debt underlines the focus on private sector financing for JET.

**But this means**

- Private ownership of infrastructure built for the transition - not the people of South Africa
- No guarantee investment in the green economy will be linked with social and economic justice
- Private sector will recoup the costs through high user fees - to recover costs and make profits. Leading to higher debt and taxes.

**Instead**

- Repurpose existing fossil fuel based and environmental tax to JT and climate
- Reduce onerous debt through relief and restructuring
- Address leakages through corruption, IFFs and inefficient spending

# Monetary policy

**Regulation, governance and ways of working**

1. Does the mandate of the central bank support a green structural transformation and socially just transition?
2. Standardise understanding of terminology and agreed methodology for financing the just transition through a green finance taxonomy
   - Integrated with other policies and standards - not separate
3. Prevent regulatory arbitrage through
   - Holistic regulation of all financial institutions and transactions
   - Ensure investments withdrawn from carbon-intensive activities and directed to low-carbon, green projects.
   - Without these - easier for non-banking financial institutions to continue financing fossil fuel-based activities
4. Improve understanding and measurement of climate-related risks
   - Currently lacking from most stress tests and financial modelling applications
   - CB should apply greater focus on including these in its own models, and require banks, insurers and investment firms to undertake these over the short, medium and long-term
   - Implement mandatory disclosure of firm-level emissions data and detailed transition plans assist in:
     - managing financial risks and instability
     - identifying existing workforce's skills and training needs
     - extent of consultation on impact of climate and the process of transition.

# Monetary Policy contd.

**Credit allocation to counter the risk-averseness of financial institutions**

1. Green-differentiated capital requirements
    - Minimum amount of capital held by an institution - ensures availability of liquidity during a crisis.
    - Lower capital requirements for institutions financing green transition sectors decreases cost of borrowing and increases amount of credit available for green transition projects.
    - Higher capital requirements must simultaneously be applied to ensure policy effectiveness.
2. Interest rate-based recommendations
    - Use interest rates to incentivise investment in specific, transition-compliant sectors:
        - directly or through refinancing agreements
        - reduced interest rates for asset-backed loans - with limited, to no reduction for dirty assets.
        - penalties in cases of default on loans - greater leniency for transition compliant investments.
3. Asset-based recommendations
    - Prescribe the percentage of investment by institutions in transition-compliant sectors both in country and offshore.
    - Determine terms and conditions based on collateral provided - dirty assets would then have higher repayment requirements.

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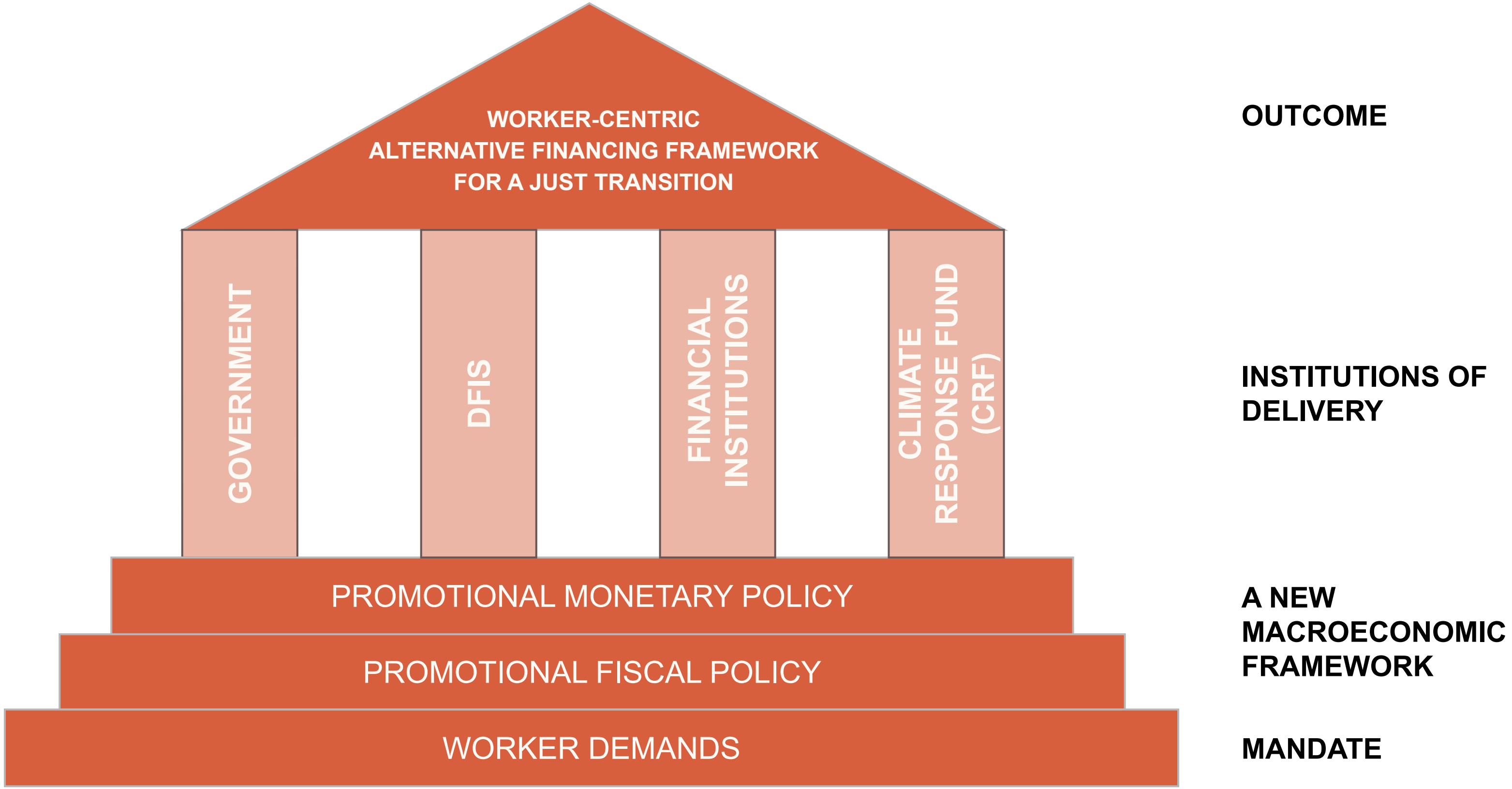
# Development Finance Institutions

## DFIs - including public banks and national public banks

- Purpose is to  finance gap between public and private funding
  - Riskier projects that are socially beneficial
  - Provide patient capital over longer timeframes

- Need to be interrogated for their alignment to JT goals
  - Sources of capital
  - Ways of lending
  - Governance

# An Alternative Financing Framework



# Conclusion

- Paramount the country's, and its peoples' domestic goals are not misplaced, silenced or ignored
- Existing levels of finance, and instruments are failing to meet expectations and requirements
- An alternative financing framework provides an avenue for redress of JETP and can be amended as things change
    - Regulating private finance
    - Climate and gender responsive budgeting
    - Impacts of changing adaptation and mitigation requirements on financial stability and funding
- Framework extends beyond JET
    - Guiding industrial policy and investment in infrastructure and energy while addressing the social risks associated with the transition
    - Presenting an opportunity to build a new growth trajectory

The Institute for Economic Justice (IEJ) is a progressive economic policy think tank committed to advancing economic justice, systemic change, and the equitable distribution of resources to ensure rights realisation and planetary wellbeing.

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