Just Transition Finance

Online Seminar, 26th October 2022

© Photo: IISD/ENB

Presented by:

CFAS CLIMATE FINANCE ADVISORY SERVICE

With support from:

giz Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH

Agenda

1. **Introduction**

   Mr. Raju Pandit Chhetri, CFAS/Prakriti Resources Centre

2. **Input on Just Transition Finance**

   Mr. Michel Köhler, the greenwerk.
   Mr. Jannik Landwehr, the greenwerk.

3. **Expert reflections on Just Transition Finance**

   Peter Tarfa - Landmark Centre for Environment and Development (LCEDev), Nigeria
   Charlene Watson - Overseas Development Institute (ODI)
   Catlyne Haddaoui - World Resources Institute (WRI)

4. **Q&A**

1 | Introduction

© Photo: IISD/ENB

1 | Introduction

Climate Finance Advisory Service (CFAS)

- Launched in 2013 and managed by the Climate & Development Knowledge Network (CDKN), in collaboration with a consortium of climate finance experts from developed and developing countries:

- **Objective:** build up the capacity of negotiators, Board members, advisors and other delegates helping them to effectively participate in the complex global climate finance negotiations ► focus on LDCs, SIDS and African States

- **Activities:**
  - ✓ Technical support to strategic partner countries
  - ✓ Real time support to additional negotiators and Board/Committee members ("Friends of CFAS")
  - ✓ Meeting summaries of the Green Climate Fund (GCF), Standing Committee on Finance (SCF) and Adaptation Fund Board (AFB)
  - ✓ Analysis of finance related themes ahead of international climate change negotiations (CFAS Policy Briefs – supported by GIZ)

2 | Just Transition Finance

CFAS

© Photo: IISD/ENB

2 | Background

- **Just Transition (JT)**: Concept born by trade unions to reconcile **environmental** and **social** concerns
  - Support jobs negatively affected by environmental protection policy
  - In Climate Change context: Decent work and quality jobs included in paradigm shifts
  - Provision of new job opportunities as a proxy for “justice”

- But: No **commonly agreed definition** of JT
- **Various aspects** subordinated: inequalities, social dialogue, distributive and procedural justice, alternative development pathways

- **Scope** has extended **beyond workers** and workers’ rights to include communities, rights of marginalised social groups, gender considerations

- **Strong focus** on decarbonisation of few sectors (**domestic energy transitions**) and technological solutions, reflect interests and concerns of the Global North

Photo credit: Iron & Earth

- This Policy Brief looks **beyond JT in domestic energy transitions,** from the perspective of lower-income, **commodity-dependent developing countries**

2 | JT in commodity-dependent developing countries

Commodity-dependent developing countries (CDDCs):

- Countries that derive **at least 60%** of their merchandise **export earnings** from commodity sectors
- Main commodities in developing countries: **extractive industries** (**fossil fuels**, minerals, ores, metals) and **agricultural production** (agricultural raw materials and forestry)

Accelerating **climate crisis** imposes twofold challenges on CDDCs:

1. Efforts to achieve the Paris Agreement targets imply **transition risks** to energy related commodities:
   - mitigation strategies adopted by fossil-fuel-importing countries affect CDDCs' commodity exports
   - natural resources, particularly in the energy sector, are likely to be stranded
2. Climate change impacts can impose **significant physical risks** on commodities, particularly **agricultural products and the AFOLU sectors** within CDDCs

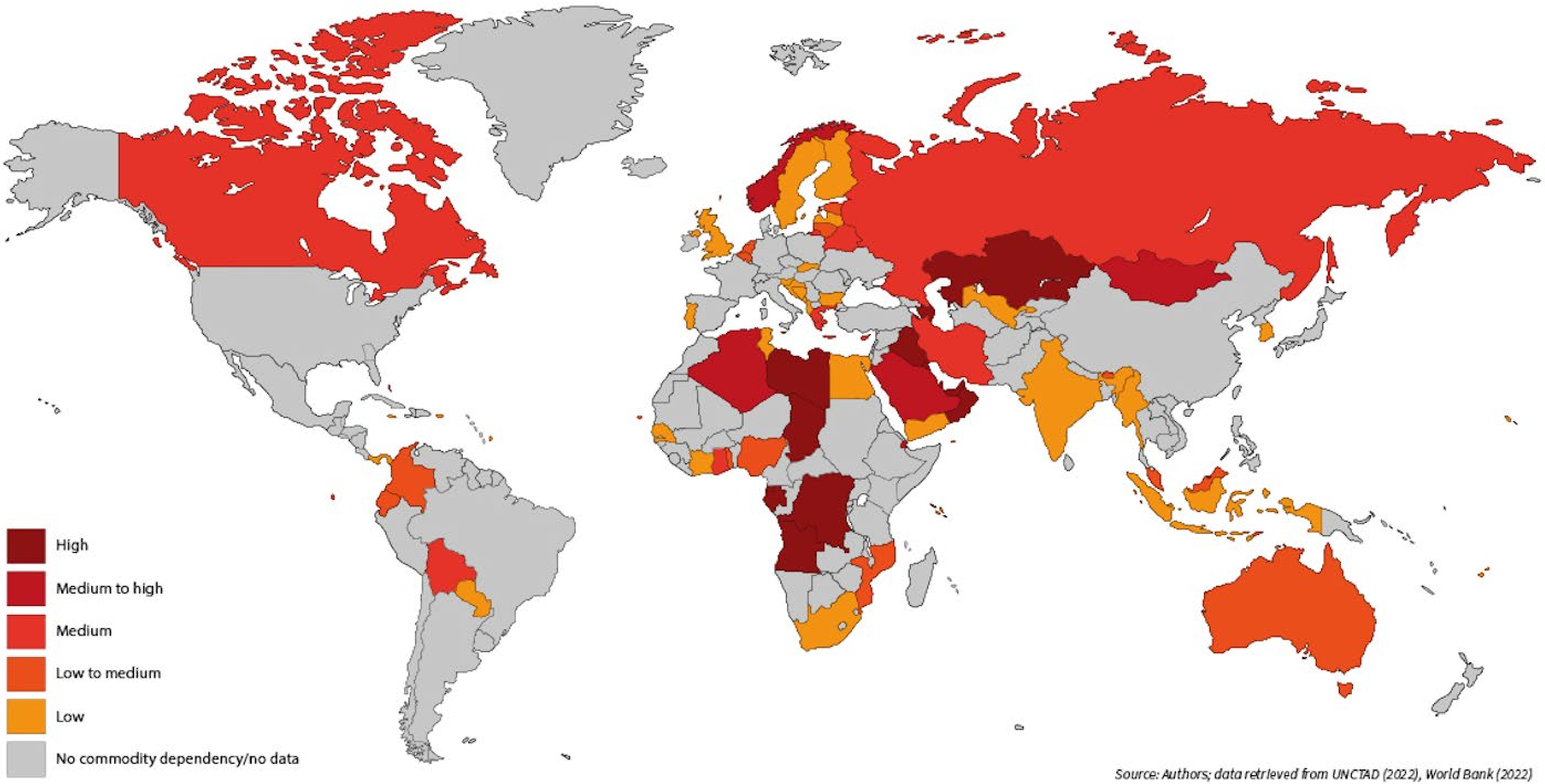
Countries in Latin America, Central Asia, and Africa are therefore experiencing important changes regarding domestic usage and export opportunities:

- in their **extractive industries**
- in their **agricultural production**

→ Increases **vulnerability** of **economy, national income (GDP) and social security** signficantly

2 | Countries dependent on energy exports

Figure 1: Countries dependent on energy commodity exports (low to high dependency on energy exports)

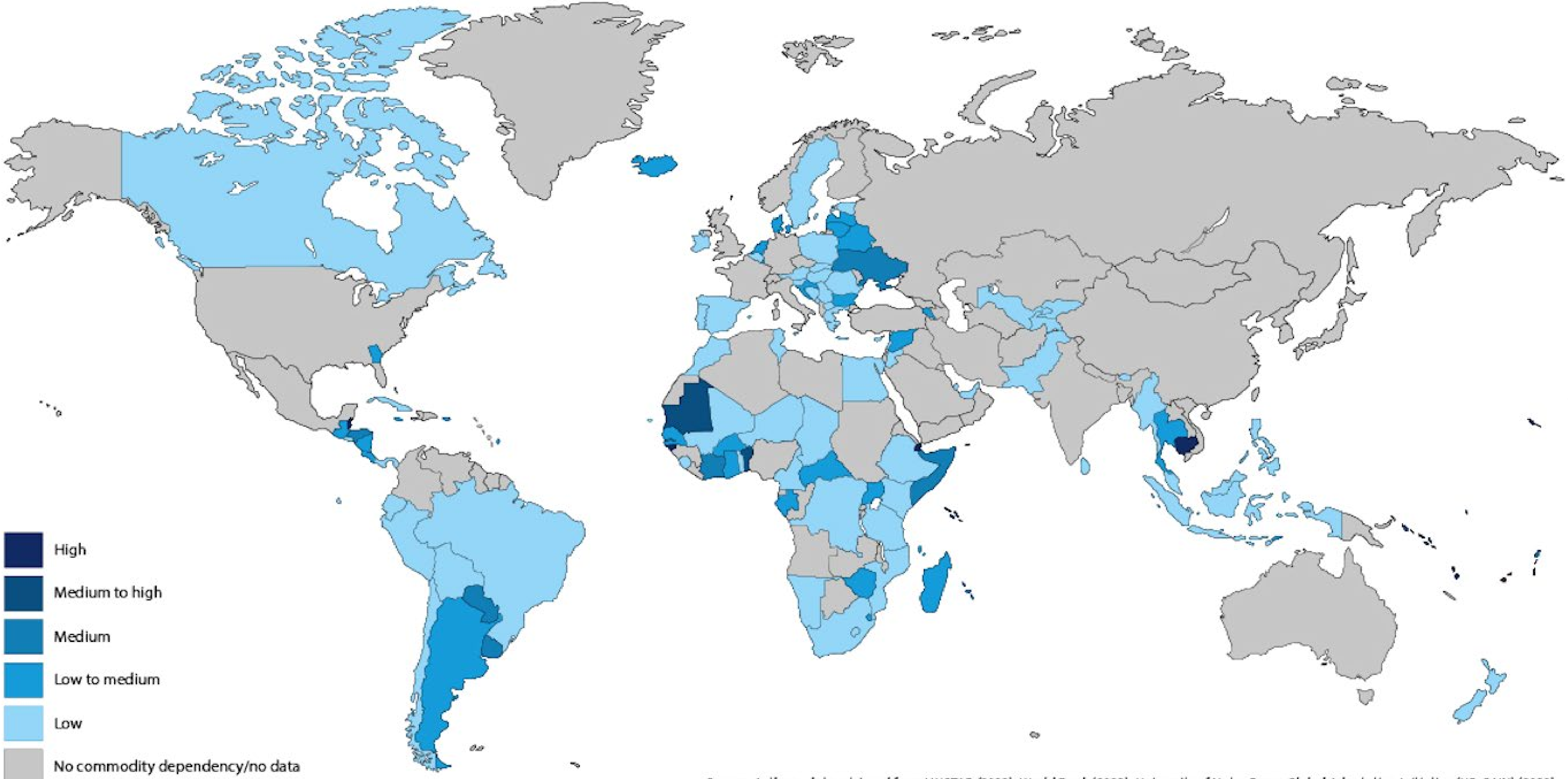


Source: Authors; data retrieved from UNCTAD (2022), World Bank (2022)

Applied equation:
Energy commodity export dependency (by UNCTAD 2022)
x
Importance of exports on GDP (by WB 2022)

2 | Countries dependent on agriculture exports

Figure 2: Countries dependent on exports of agricultural commodities vulnerable to climate change (low to high dependency and vulnerability)



Source: Authors; data retrieved from UNCTAD (2022), World Bank (2022), University of Notre Dame Global Adaptation Initiative (ND-GAIN) (2022)

Applied equation:
Agriculture commodity export dependency (by UNCTAD 2022)
x
Importance of exports on GDP (by WB 2022)
X
Vulnerability index of agricultural production and water supplies (by ND-GAIN 2022)

2 | Countries dependent on commodity exports

Dimension and relevance of climate change impacted commodity exports on developing countries:

- **87% of all commodity-dependent countries are developing economies!**
- **The 10 countries most vulnerable to climate change in 2017 were all CDDCs!**
- **Of the 40 most climate change vulnerable countries, only three are not dependent on commodity exports!**

2 | Socioeconomic vulnerabilities and JT needs

CFAS

(I) Paris Agreement global warming target imposes transition risks for energy CDDCs:

- To keep temperature increase **below 2°C**, a **third of oil reserves**, **half of natural gas reserves**, and more than **80% of current coal reserves must stay in the ground** by 2050 (IEA);
- Decreased consumption of fossil fuels in emerging and developed economies will **affect the entire value chain**, including the underlying fossil fuel production in CDDCs;
- In short- to medium turn, **CDDCs may be worse off economically** with the implementation of the Paris Agreement (UNCTAD): Negative impacts on economy, state income and capabilities and labour markets

(II) Just Transition to minimize socioeconomic vulnerabilities:

- CDDCs must **transform and decarbonise commodity sectors**, as well as diversifying their economies in order to **prevent the stranding** of their natural resources;
- If CDDCs want to prevent economic and social collapse of the energy production sectors, resulting from both economic transformations and stranding, this will require an **immense transitioning of jobs** and employees' **skill sets** and considerable strengthening of **social safety nets**;
- Shift from carbon-intensive sectors towards low-carbon activities requires a **comprehensive, well-aligned social transition, sufficient time and financial resources**.

2 | Socioeconomic vulnerabilities and JT needs

CFAS

- **(I) Climate impacts and physical risks for AFOLU commodities:**

- Climate warming has **significant negative effects on AFOLU sector**, e.g. crop production reduced, forests are damaged, higher mortality in livestock production. Increased heat and rainfall extremes, reducing yields of main crops by 5–20% in Western Africa (IPCC 2022);
- About **~1 billion people in agricultural sector** (mainly in CDDCs, many smallholders) facing changes;
- Because of the climate vulnerability of many AFOLU sector commodities, CDDCs face increasing economic losses: Significant **negative impact on domestic economies, GDP and foreign exchange earnings** expected.

(II) Just Transition to minimize socioeconomic vulnerabilities:

- Existing **CC adaptation measures** help to foster a **climate-resilient transition,** are **positive** for workers/smallholders, but CDDCs face significant **capacity gaps** to properly finance, develop, enforce and implement those;
- Adaptation might have **limitations** regarding the potential **transition of AFOLU sectors**;
- Thus, existing adaptation approaches can form only a part of any comprehensive just transition strategy for the agricultural sector of CDDCs. Solutions **beyond "classical adaptation"** might be required.

2 | Challenges for CDDCs to achieve JT

Successful economic transition in CDDCs can only be achieved if it is complemented by a **social transition:** JT approaches are needed. Barriers and challenges to achieve Just Transition in CDDCs:

1. **Informality:** more than 60% of the world's employed population are in the informal economy, undocumented and without social support and benefits;
2. **Awareness:** little consensus of JT approach implications, creating barriers to understand, accepting and introduce policies;
3. **Limited local expertise and international best practices** how the JT concept can be applied in developing countries. Few best practice examples and no one-size-fits-all approach;
4. **Political capacities and cooperation:** inconsistencies between countries' climate targets and development agendas, government departments frequently operate in silos, capacities for JT are limited;
5. **Lack of data:** lack of labour market data to inform the political decisions and measures;
6. **Limited resources:** limited levels of public resources constrain social safety net policies and the state's capabilities to strenghten workers' skills;
7. **Lack of appropriate international support:** ODA/climate finance often focuses on techno-economic transitions, lack of international opportunities and support for JT finance (beyond JETP). Requires a clearer definition/approach that is integrated into the international climate finance landscape.

2 | Approaches to achieve Just Transition

1. Social dialogue and stakeholder engagement
2. Strengthening data collection and research
3. Capacity building and coordination – need to strengthen the understanding of the Just Transition concept
4. Coherent just transition policy framework
5. Involving the private sector
6. Identify just transition invetsmnet needs and funding mechanisms

2 | Just Transition Finance – Private Sector

Challenges to private sector engagement

- Literature focused on developed country examples on the decarbonisation of the energy sector
- Private investment is currently almost non-existent in lower-income countries
- Non-conducive circumstances such as high degree of informality of the labour market, the absence of land rights, and the challenging socioeconomic situation

Enhancing private sector engagement

- New public policies and regulatory frameworks to re-orienting private finance to support the Just Transition
- Developing taxonomies for sustainable finance and transition finance
- Incorporate climate-related physical and transition risks into financial systems and reporting - transparency in disclosing those risks
- Better consider **stranded asset risks** (and more: ‘stranded workers’ and ‘stranded communities’)
- Public-private sector collaboration in the development of just transition initiatives can enhance commitment

2 | Just Transition Finance – Public Sector

CFAS

Development Banks

- Declaration of 450 development banks: 'take into account the imperative of a just, inclusive and rights-based transition
- African Development Bank has launched a just transition initiative to consult African stakeholders and build consensus on a working definition of a just transition approach
- Need for exploring how finance for just transition can be systematically unlocked and effectively channelled beyond acknowledgement and willingness

Multilateral initiatives

- Just Energy Transition Partnership
- Developed country initiatives: e.g. the Just Transition Mechanism in the EU
- In the Global South: only initiatives exist that promote a just transition approach through research and knowledge exchange.

Many developing countries will have difficulty raising adequate financing (public and private) for needed just transition efforts and will depend on the support of climate finance.

Climate finance should support the socioeconomic transition process along with GHG emissions mitigation and climate impact adaptation

2 | Just Transition Finance under the UNFCCC

CFAS

First acknowledgement of the need of Just Transition approaches in the preamble of the Paris Agreement

At COP26 Just Transition truly gained momentum

- Just Transition Declaration
- South Africa Just Energy Transition Partnership

Adaptation finance and Just Transition

- What just transition elements are covered by adaptation finance?
- Where are limitations of adaptation finance for financing a Just Transition?

2 | Just Transition Finance under the UNFCCC

To achieve global climate justice, it is key to make just transition more prominent in climate negotiations and mechanisms under the UNFCCC:

- Developing countries should communicate more about their just transition needs
- Just transition strategies should be included in the NDC development
- Facilitate enhanced technology transfer
- Just Transition Finance integrated into other elements of the Paris Agreement (NCQG and Reporting under article 13)

→ The UNFCCC itself recognises that sustainable development, which should be the ultimate goal of climate finance, comprises three dimensions: the economic, the environmental, and the social dimension

→ To fulfil the imperative of a just transition, which is that no one is left behind in the shift to a climate-resilient, low-carbon economy, climate finance flows must integrate the social dimension to increase the overall quality of financing provided.

3 | Expert discussion

© Photo: IISD/ENB

4 | Q&A

© Photo: IISD/ENB

© Photo: IISD/ENB

Many thanks for your participation!

The policy brief is available on the CFAS website:
https://www.cfas.info/en/publication/process-proposal-defining-new-collective-quantified-goal

Presented by:

CFAS CLIMATE FINANCE ADVISORY SERVICE

With support from:

giz Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH