T20 Policy Brief

G20 BRASIL 2024

T20 Brasil 2024 Let's rethink the world

Task Force 02

SUSTAINABLE CLIMATE ACTION AND INCLUSIVE JUST ENERGY TRANSITIONS

Navigating A Just Transition: Enhancing Fairness and Equity in the Just Energy Transition Partnership for Global Coal-Reliant Countries

Wildan Al Kautsar Anky, Researcher, Institute for Economics and Social Research (LPEM), Faculty of Economics and Business, Universitas Indonesia (Indonesia)

Arifa Tariqa Imani, Research Assistant, Institute for Economics and Social Research (LPEM), Faculty of Economics and Business, Universitas Indonesia (Indonesia)

Fikri Muhammad, Senior Analyst, Climateworks Centre, Monash Sustainable Development Institute (Australia)

Alin Halimatussadiah, Head of Green Economy and Climate Research Group, Institute for Economics and Social Research (LPEM), Faculty of Economics and Business, Universitas Indonesia (Indonesia)

TF02

Abstract

The connection between burning coal in power plants and injustice to local communities is evident. As the urgency to avoid a climate catastrophe grows, the call to "end coal" has become pivotal in climate movements and policies. However, the transition's broader socio-economic impacts cannot be ignored, especially in the Global South, where coal reliance persists. By 2022, Southern countries led 70 percent of global coal production, with India, Indonesia, and China producing over 6,057 million metric tons annually. These regions face significant challenges transitioning away from coal, including risking exacerbating existing injustices if not managed appropriately. Thus, a just transition is crucial, focusing on enhancing impacted communities' adaptive capacity.

The Just Energy Transition Partnership (JETP) aims to expedite such a transition through multilateral financing. So far, four nations (two of them members of G20) have entered into JETPs. While the mechanism is unprecedented, it’s not without criticism. One central concern, which will be the focus of this brief, deals with justice where is not addressed adequately. This policy brief addresses this important issue by briefly assessing the available comprehensive investment and policy plan, seeking to clarify elements that must be considered in order to improve the fairness and equitability of JETP.

Keywords: Coal Lock-In; Just Energy Transition Partnership; Renewable Energy Transition; Justice

Diagnosis of the Issue

It has been widely understood that transitioning to a low-carbon economic system in an effort to combat climate change, needs to be just. While decarbonizing the energy system yields social benefits, it can also disproportionately burden vulnerable communities (Cha 2020; Setyowati 2021; Ullman and Kittner 2024). Governments, especially in coal-dependent countries like Indonesia, South Africa, and Vietnam, must acknowledge and manage the transition deliberately to mitigate negative consequences.

As Muhammad and Christi (2023) noted, financing is incredibly challenging to realize an energy transition that is just for all, especially in emerging countries. Climate mitigation actions, like early retirement coal-powered plants and renewable energy investment, require massive financial resources. Adding justice to the equation, encompassing workforce and economic diversification programs, new business development, and direct compensation, magnifies the financing needs (Pai, Harrison, and Zerriffi 2020; Carley and David 2020). Concerted efforts will be essential, particularly through support from developed countries with greater financial resources, assisting emerging countries.

The Just Energy Transition Partnership (JETP) is one of the most recent and innovative mechanisms designed to support this goal. Pledged by the International Partners Group (IPG), and primarily driven by G7 members, JETP commits to mobilizing funds to expedite a just transition in developing countries. Four partnerships have now been launched: In South Africa, Indonesia, Vietnam, and Senegal, all sharing the same vision of equitable and inclusive transition.

Each country must develop an investment plan aligned with principles of justice. To date, three countries, except Senegal, have created plans. This brief aims to bridge the academic framework of the just transition with financing under existing investment plans. Later, we provide some recommendations to improve the justice aspects of the JETP initiative.

Is the current JETP initiative sufficient to expedite a just transition?

The first climate finance pledge to support developing countries emerged during the 2009 UN Climate Conference, undertaking to mobilize US$100 billion annually by 2020. This commitment was reiterated in Paris in 2015, with a new goal of at least US$100 billion annually by 2025 (Pauw et al. 2022). However, the reality fell short, as Carty, Kowalzig, and Zagema (2020) noted, estimating delivery to be US$ 19 – 22.5 billion annually between 2017 and 2018.

The JETP Initiative is innovative and unprecedented. Between 2021 and 2023, the IPG made four pledges to mobilize around US$46.5 billion within three to five years, to four countries. This value surpasses that of the world's largest climate fund, the Global Climate Fund (GCF), with a portfolio of US$42.8 billion, including co-financing of US$31.4 billion, between 2015 and 2022 (GCF, 2023). It includes private financing directly from private players, employing various financing instruments through Glasgow Financial Alliance for Net Zero (GFANZ). The initiative also directly addresses the most critical aspect of climate mitigation actions (Minxk et al. 2024): phasing out coal power. Yet, there remains a question of whether it adequately addresses justice issues requiring 'beyond climate mitigation' projects.

Zadek (2018) asserted that just transition financing enables "balanced, sustainable growth" through productivity-enhancing and wealth-creating investments, providing alternative, sustainable livelihoods for affected communities and workers. Carley and David (2020) suggested that financing just transition needs to enhance adaptive capacity to help burdened frontline communities cope with economic, social, and cultural changes. Examples of just transition financing beyond climate mitigation include financing for economic sector diversification, workforce training, capacity building, and supporting infrastructure (Muhammad and Christi, 2023).

These principles are elaborated in the investment plans that South Africa (Chapter 2), Indonesia (Chapter 6), and Vietnam (Chapter 5) have developed. However, we argue that the principles are not sufficiently reflected in the IPG public finance allocation shown in *Figure 1*.

Figure 1 was developed based on the allocation outlined in each investment plan compared against the definition of 'just transition'. 'Mitigation' refers to financing renewable energy generation, coal phase-out, energy efficiency, transmission, storage, and other related programs. 'Just transition' is financing beyond climate mitigation, as previously mentioned. 'All' denotes a project accommodating mitigation and beyond mitigation activities, while 'To be defined' refers to a financing mechanism not yet earmarked.

In Indonesia and Vietnam, a large percentage of financing will be allocated to mitigation activities; only a small portion is allocated for activities beyond climate mitigation. A considerable percentage allows for various activities, but it depends on stakeholders' interests, meaning it will not necessarily address justice.

At first glance, the amount of financing mobilized under the JETP initiative seems considerable. However, looking at actual financing needs, the figures still fall substantially short. For instance, South Africa's JETP will only fill 9.5 percent of the total Just Energy Transition Investment Plan requirement of US$98.7 billion between 2023 and 2027. For the electricity sector alone, Indonesia needs US$500 billion by 2060 (Damuri et al. 2023). Similarly, Vietnam's Resource Mobilization Plan noted that it requires US$134.7 billion by 2030 for its electricity sector.

Furthermore, the volume of grants and concessional financing, which are preferable, remain relatively small (See *Figure 2*). In Indonesia, this amounts to US$158.3 million and US$6.9 billion, respectively, comprising 33.6 percent of total JETP funding. Vietnam will receive US$321.5 million in grants and US$2.7 billion in concessional loans, constituting only around 19.1 percent of total funding. The total for grants and concessional financing is relatively large in South Africa, as the first phase excludes private financing from GFANZ.

Clearly, financing needs greater preferential treatment: As many have mentioned, it presents one of the most significant hurdles in addressing climate change (Zadek 2018), especially for developing countries. The JETP initiative represents an innovative, unprecedented, and supportive financing mechanism for realizing a just transition in emerging economies. Nevertheless, a number of actions are needed to improve its justice aspect.

Recommendations

Ensuring people-centered and place-based transition planning

In planning the JETP, it will be crucial to prioritize pathways that center on the frontiers' needs, emphasize inclusive decision-making and foster meaningful social dialogue. In South Africa, the Presidential Climate Coalition (PCC) was established to facilitate broad stakeholder engagement to formulate the country's just transition frameworks, aiming to provide input and benefits to all stakeholders. For instance, the PCC organizes workshops in coal communities to address issues like community health impacts from coal mining and misconceptions surrounding renewable energy. Moreover, it promotes community involvement in just transition dialogues through accessible communication methods and knowledge sharing (Elliott et al. 2024).

All JETPs should adopt a place-based planning approach, recognizing varied impacts across regions. For instance, heightened attention is needed to safeguard workers from job losses and shield communities from economic decline in coal-dependent areas like East Kalimantan, where coal contributes 44 percent to local GRDP. The EU and Scotland have already embraced place-based planning through their Territorial Just Transition Plans and Just Transition Planning Framework (Muhammad and Kresnawan 2024). This approach could be applied in coal-dependent regions in Indonesia and Vietnam by assisting them in developing local transition plans.

The crucial strategy is implementing a bottom-up approach, where the central government defines activities and regions eligible for assistance, while local governments tailor their planning documents corresponding to planning guidelines. In this case, the subnational governments are crucial in closing the knowledge gap between the central government and the frontiers.

Broadening the 'beyond climate mitigation' portfolio

A just transition is as critical as climate mitigation and therefore deserves adequate funding. Acknowledging that just transition finance encompasses far reaching social and economic dimensions which extend beyond climate mitigation finance is also crucial. Establishing an enabling framework is prerequisite to mobilizing private capital for the just transition (Calice et al. 2023), which cover economic sector diversification, workforce training, capacity building, and supporting infrastructure.

Regarding South Africa's JETP, there are concerns the innovative African framework relies on philanthropic organizations to finance and execute the justice aspects of the energy transition (Wemanya and Opfer 2022). While philanthropy can strongly complement JETP budgets, it is crucial that philanthropic contributions are supplementary, and not substitutions for 'just' financing from international public sources (Wemanya and Opfer 2022).

Climate mitigation remains a critical global priority, and any reduction in funding for these activities could undermine progress towards meeting international climate targets. While increased allocations for climate mitigation are needed, additional funding should also be earmarked specifically for facets of just transition which lie beyond climate mitigation. Consequently, there is a pressing need for increased funding at scale, so that JETP can ensure a comprehensive approach to addressing both climate change and social equity concerns.

Expanding climate finance contributors to bridge the gap for a just climate transition

It is important to note that public finance in the JETP would not be enough to satisfy financing needs, as also noted by Nguyen (2024). Utilizing additional public funds from other countries to mobilize private finance further could accelerate the transition.

In addressing the need for greater climate finance mobilization, the exploration of a new, collective and quantified goal presents an opportunity to engage additional parties. Broadening the scope of contributors offers a sound strategy for bolstering the pool of climate finance.

Notably, the roster of countries obligated to provide climate finance under the UNFCCC has remained unchanged since 1992 (Pauw et al. 2022). It thus omits significant emerging economies, particularly those in G20 fora including China. For example, China reported extensive South-South cooperation between 2011 and 2015 in numerous countries (Pauw et al. 2022). This exclusion also overlooks contributions from other G20 nations like Russia, South Korea, and Saudi Arabia.

This case demonstrates that there are countries outside Annex 2 that possess the resources necessary to participate in climate finance mobilization for developing countries. Therefore, reforming the list of countries in Annex 2 is essential to maximize the resources available to aid the acceleration of the transition in developing countries.

The G20 plays a crucial role in addressing the challenge of climate finance mobilization. With recognition of the urgent need for concerted action, the G20 is expected to deliberate on this issue and encourage its affluent members to formalize their financial contributions for official recognition. Specifically, affluent nations within the G20 could prioritize directing their financial resources towards emerging economies within the group. The Green Finance Study Group (GFSG), established under the auspices of the G20, provides a promising platform for advancing this effort. Moreover, this initiative aligns with the G20 Brazil Roadmap's focus on fostering sustainable finance practices among its member states (Netto, Rizzo, and Feitosa 2023).

Diversifying innovative climate finance

The imperative for financing climate and just transition projects necessitates innovative strategies to secure enough to fill the funding gap.

The appropriateness and efficacy of financing mechanisms varies, depending on the unique circumstances of individual countries. However, developing nations generally exhibit a preference for grants over loans (Pauw et al. 2022). As *Figure 2* shows, grant instruments currently constitute less than 4 percent of the JETP Financing Instrument - demonstrating a critical need to diversify, particularly those pertaining to grants.

Given that low-income countries allocate five times greater funding to debt servicing than to climate adaptation whilst small island developing states spend 18 times more on debt repayment than they receive in climate finance (Jubilee Debt Campaign 2021), the ‘debt-for-climate’ swap could be an innovative grant solution to address the debt crisis while simultaneously enhancing climate spending. This concept has the potential for broader implementation, as similar initiatives were introduced in the 1980s through the debt-for-nature agreement in Bolivia (World Economic Forum 2024). This mechanism has already been implemented in Indonesia in 2009, the nation committed to conserving the tropical forests of Sumatra in exchange for a debt swap of USD$30 million from the United States.

In our context, we suggest redirecting debt swaps to finance just transition initiatives, creating a more sustainable and equitable system. The G20, through the GFSG, could play a vital role in this process by exploring innovative financing solutions like debt-for-climate swaps. By facilitating these swaps among its members, the G20 could exchange debt for climate-related investments or initiative. The G20 could exchange debt for climate-related investments or initiatives by facilitating these swaps among its members, fostering a faster transition.

Summary of recommendations

Incorporating aspects of justice into the energy transition implies a significantly increased funding requirement for the energy transition, extending well beyond the needs of climate mitigation alone. Unfortunately, current climate mitigation financing remains relatively minimal, falling far short of the $100 billion target. There is a risk that integrating justice aspects, which go beyond climate mitigation, could reduce the allocation for climate mitigation itself. Therefore, the recommendations in this policy brief are crucial to consider, as they aim to achieve justice without compromising climate mitigation efforts.

TF02

References

Calice, Pietro, Stefano Battiston, Dimitrios G Demekas, Victor Fitzpatrick Duggan, and Irene Monasterolo. 2023. ‘Mobilizing Finance for the Just Energy Transition in the European Union’. Washington, DC: World Bank Group. https://doi.org/10.5167/uzh-252848.

Carley, Sanya, and M. Konisky David. 2020. ‘The Justice and Equity Implications of the Clean Energy Transition’. *Nature Energy* 5 (8): 569–77. https://doi.org/10.1038/s41560-020-0641-6.

Carty, Tracy, Zan Kowalzig, and Bertram Zagema. 2020. ‘Climate Finance Shadow Report 2020: Assessing Progress towards the $100 Billion Commitment’. Oxford, UK: Oxfam. https://doi.org/10.21201/2020.6621.

Cha, J. Mijin. 2020. ‘A Just Transition for Whom? Politics, Contestation, and Social Identity in the Disruption of Coal in the Powder River Basin’. *Energy Research & Social Science* 69: 101657. https://doi.org/10.1016/j.erss.2020.101657.

Damuri, Yose Rizal, Novia Xu, Riyadi Suparno, Eva Novi Karina, Stella Kusumawardhani, and Bayo Andhika Putra. 2023. ‘Risks and Challenges of the Just Energy Transition Partnership (JETP) Indonesa’. Jakarta, Indonesia: Centre for Strategis and International Studies (CSIS) and Tenggara Straegics.

Eliiott, Cynthia, Clea Schumer, Rebecca Gasper, Katie Ross, and Neelam Singh. 2024. ‘SouSouth Africa Establishes an Inclusive Process Toward a Just Transition, with Broad Stakeholder Engagement’. *World Resources Institute* (blog). 2024. https://www.wri.org/update/south-africa-establishes-inclusive-process-toward-just-transition-broad-stakeholder.

Jubilee Debt Campaign. 2021. ‘Lowe Income Countries Spend Five TImes More on Debt Payments That Dealing with Climate Change’. Debt Justice.

https://jubileedebt.org.uk/wp-content/uploads/2021/10/Lower-income-countries-spending-on-adaptation_10.21.pdf.

GCF. 2023. *Progress Report - GCF's first replenishment period 2020-2023.* https://www.greenclimate.fund/document/gcf-1-progress-report

Minxk, Jan C, Jerome Hilaire, Finn Múller-Hansen, Gregory Nemet, Francesca Diluiso, Robbie M Andrew, Ceren Ayas, Nico Bauer, Stephen L Bi, and Leon Clarke. 2024. 'Coal Transitions—Part 2: Phase-out Dynamics in Global Long-Term Mitigation Scenarios'. *Environmental Research Letters* 19 (3). https://doi.org/10.1088/1748-9326/ad24cd.

Muhammad, F. & Christi, P. (2023, May). From 'Climate Financing' to 'Just Energy Transition Financing.' India's Think 20 policy brief series. https://t20ind.org/research/from-climate-financing-to-just-energy-transition-financing/

Muhammad, Fikri, and Muhammad Rizki Kresnawan. 2024. 'Tak Cuma Sektor Energi, Indonesia Perlu Transisi Industri Yang Matang Demi Meraih Transisi Berkeadilan (Eng: Not Only the Energy Sector, Indonesia Needs a Mature Industry Transition to Achieve a Just Transition)'. *The Conversation* (blog). 2024. https://theconversation.com/tak-cuma-sektor-energi-indonesia-perlu-transisi-industri-yang-matang-demi-meraih-transisi-berkeadilan-219631.

Netto, Maria, Lucca Rizzo, and Cíntya Feitosa. 2023. 'A Roadmap for Brazil's G20 Presidency on Sustainable Finance'. CEBRI. https://cebri-revista.emnuvens.com.br/revista/article/view/170/238.

Nguyen, Trang. 6 February 2024. *One year into the Indonesia and Vietnam's Just Energy Transition Partnerships*. Lowy Institute, https://www.lowyinstitute.org/the-interpreter/one-year-indonesia-vietnam-s-just-energy-transition-partnerships

Pai, Sandeep, Kathryn Harrison, and Hisham Zerriffi. 2020. 'A Systematic Review of the Key Elements of a Just Transition for Fossil Fuel Workers''. Clean Economy Working

Paper Series WP 20-04. Smart Prosperity Institute. https://justtransitionforall.com/wp-content/uploads/2022/09/transitionforfossilfuelworkers.pdf.

Pauw, W. P, U Moslener, L. H. Zamarioli, N Amerasinghe, J Atela, J. P. B Affana, and et al. 2022. 'Post-2025 Climate Finance Target: How Much More and How Much Better?' *Climate Policy* 22 (9–10): 1241–51. https://doi.org/10.1080/14693062.2022.2114985.

Setyowati, Abidah B. 2021. 'Mitigating Inequality with Emissions? Exploring Energy Justice and Financing Transitions to Low Carbon Energy in Indonesia'. *Energy Research & Social Science* 71: 101817. https://doi.org/10.1016/j.erss.2020.101817.

Ullman, Amanda N, and Noah Kittner. 2024. 'Are Global Efforts Coordinated for A Just Transition? A Review of Civil Society, Financial, Government, and Academic Just Transition Frameworks'. *Energy Research & Social Science* 108: 103371. https://doi.org/10.1016/j.erss.2023.103371.

Wemanya, Amos, and Kerstin Opfer. 2022. 'Principles for Just Energy Transition Partnerships in the African Energy Context'. Position Paper. German Watch. https://www.germanwatch.org/en/87617.

World Economic Forum. 2024. 'Climate Finance: What are debt-for-nature swaps and how can they help countries?'. https://www.weforum.org/agenda/2024/04/climate-finance-debt-nature-swap/

Zadek, Simon. 2018. 'Financing a Just Transition'. *SAGE Journal* 32 (1). https://doi.org/10.1177/1086026618794176.

Appendices

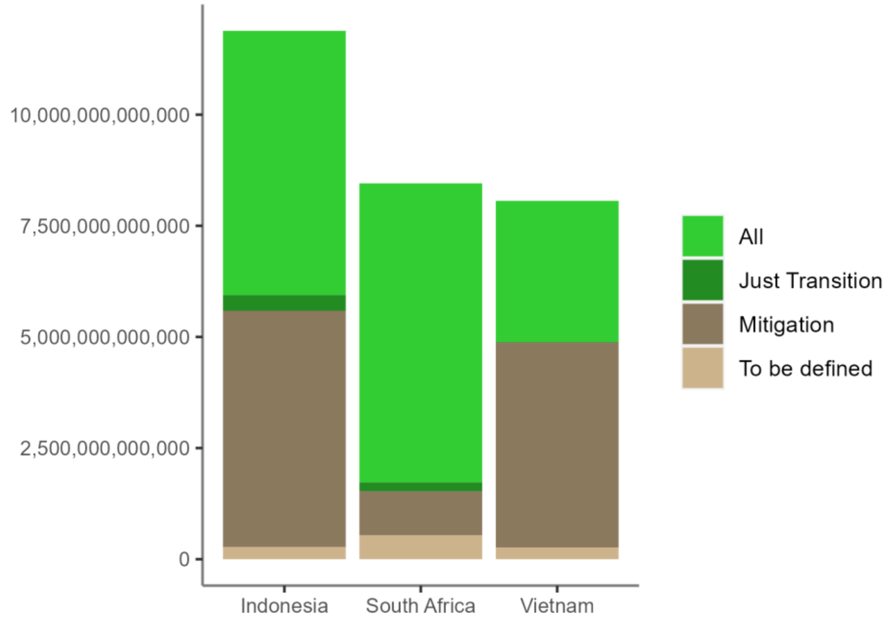

FIGURE 1. Allocation of the IPG Public Funding

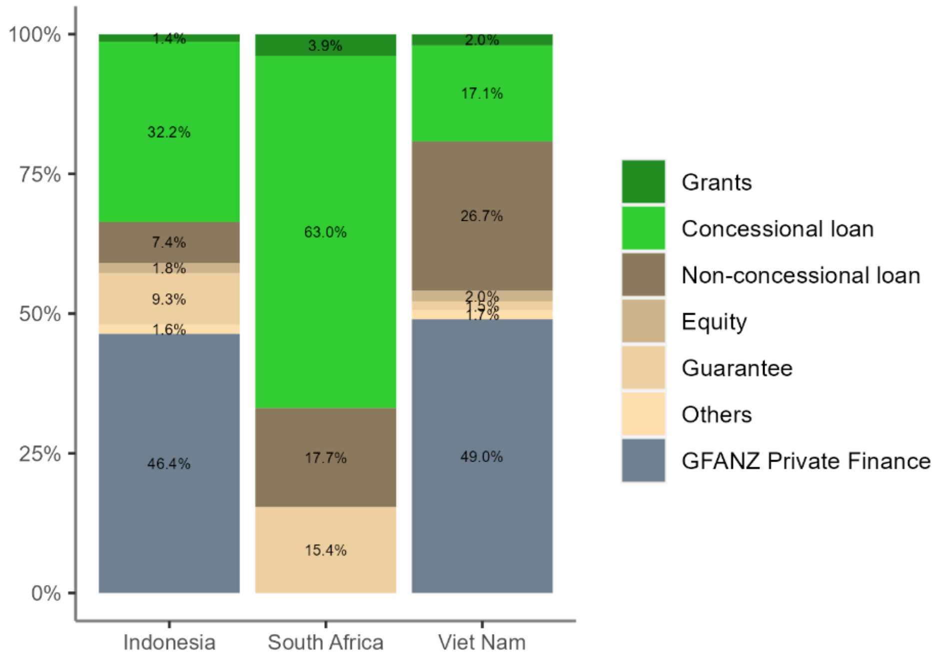

FIGURE 2. Financing Instruments of the JETP Initiative.

Source: JETP Investment Plan

G20 BRASIL 2024

BUILDING A JUST WORLD AND A SUSTAINABLE PLANET

T20 Brasil 2024

Let's rethink the world

Let's rethink the world

CEBRI Rethink Tank

FUNDAÇÃO ALEXANDRE DE GUSMÃO

ipea Instituto de Pesquisa Econômica Aplicada