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Risks & rewards of Just Energy Transition Partnerships

Key points:

- Just Energy Transition Partnerships (JETPs) are a pioneering approach that could ensure effective financing for a just transition in global south countries, potentially offering a template for future country-level financing deals
- The South African JETP investment plan is due to be agreed before COP27 and will be seen as a crucial test of commitments made at COP26. India, Indonesia, Senegal and Vietnam are also developing their own JETPs with G7 countries, with pilot projects also announced for Egypt, Ivory Coast, Kenya and Morocco
- The JETP process for South Africa has lacked transparency and adequate civil society engagement, limiting its effectiveness
- To be effective, donors must prioritise grants and concessional financing in JETP deals to fund the most critical elements of a just transition, such as support and retraining for workers
- All JETP countries are seeking to expand fossil gas extraction and power, raising the question of whether donor countries may break the commitments made to end international fossil fuel finance at COP26.

What is a Just Energy Transition Partnership?

At COP26, a [“historic international partnership”](#) was agreed to support a just transition to a low carbon economy in South Africa. This Just Energy Transition Partnership (JETP) saw France, Germany, the UK, US, and EU (the International Partners Group, or IPG) commit to providing USD 8.5 billion over three to five years to support South Africa’s national climate plan. The finance could be provided as grants, concessional loans (with interest rates lower than would be available from commercial banks), through private finance, guarantees or technical support.

The JETP aims to phase out coal and rapidly accelerate the deployment of renewables in [South Africa’s heavily coal-dependent electricity system](#). This would enable the country to reduce its emissions, consistent with [keeping global warming below 2°C](#). A key focus of the agreement is supporting a just transition that protects vulnerable workers and communities – especially coal miners, women and youth – affected by the move away from coal. The partnership also aims to support private sector investment, including through changes to government policy in South Africa.

This agreement has been described as a potential [“new model for climate progress,”](#) a bespoke multilateral agreement developed by and for a single country with greater focus on ensuring a just transition. Even before the implementation plan for the South Africa JETP

had been agreed, the model was replicated – in June 2022, the G7 announced it was “working towards” [further JETPs with India, Indonesia, Senegal and Vietnam](#). Pilot projects to develop JETPs for Egypt, Ivory Coast, Kenya and Morocco were also announced at the [EU-AU summit](#) in February 2022. While the model has been quickly replicated for other countries, serious questions remain about the transparency, consultation and financing model of the South Africa deal.

An investment plan for South Africa’s JETP has been [approved by the South African cabinet](#) and is due to be [publicly released during COP27](#). This implementation plan will play a pivotal role in shaping the financing of the energy transition in South Africa. It could also be seen as a crucial test of this new partnership model and a key milestone in demonstrating progress on delivering on funding commitments ahead of COP27.

The positive impacts JETPs could deliver

Bespoke country-led approach

JETPs could fill a key gap in international climate finance, between broad global-level funder commitments that lack detail and accountability and project-specific financing that does not provide a comprehensive approach to the energy transition. Instead, JETPs are country-led and bespoke – [South Africa’s lead climate negotiator described the USD 8.5 billion package as “groundbreaking”](#) because it was “co-created” by South Africa and donor countries, rather than imposed by wealthy nations.

Linked to this, JETPs are designed to incorporate national policy reforms alongside project financing. These policy reforms should be aimed at removing barriers to the investment and scaling up of clean energy technologies, for example through energy market or domestic subsidy reforms.

Ensuring the energy transition is just

The energy transition has significant social impacts – most acutely on workers and communities that rely on high-emitting industries that need to be phased out. The transition also offers huge opportunities, with investments in renewable energy and infrastructure creating new jobs and economic growth. Significant government and international financing, alongside the right policies, are needed to mitigate the negative impacts of phasing out high emitting industries and ensuring those communities benefit from the shift to clean energy.

A replicable model for the early closure of coal power plants

Ensuring a rapid phaseout of coal-fired power generation is essential to limiting warming to 1.5°C, with richer nations needing to end coal use by 2030 and [a global end to coal power by 2040](#). Coal plants have an average lifetime of 46 years but to align with a 1.5°C goal, plants need to reduce their operational lifetime to an average of [15 years](#). The early closure of these power plants can come with significant financial costs as the high upfront costs are usually paid off over the life of the project. This is particularly acute in the global south where coal fleets are comparatively young and shorter lifespans would further reduce earnings and increase losses.

Proposals for how to finance the early retirement of coal power plants have developed significantly in recent years, including the possibility of running plants for a shorter period

with a lower cost of capital, or buying out existing power-purchasing agreements. JETPs could provide a fully-developed model for financing an accelerated coal phaseout that could be replicated across coal-power dependent countries in the global south.

In parallel with the JETPs, the Asian Development Bank is developing an Energy Transition Mechanism (ETM) for the early retirement of coal power plants. The ETM is currently developing pilots for combining public and private finance to retire or repurpose between five and seven coal-fired power plants in Indonesia, the Philippines and Vietnam.

Deliver on rich countries' climate finance commitments

Climate finance has become a key sticking point in international climate negotiations, with the failure of rich countries to deliver on the USD 100 billion commitment made in Paris a major block to progress at COP26. While pledges of funding have increased, governments in the global south are also keen to see those pledges delivered and flowing to projects and programmes that urgently need funding. Effective delivery of JETPs could show that donor countries are serious about meeting their funding commitments, building trust in the multilateral process.

G7 countries are not the only potential donors for energy infrastructure projects in the global south, with Russia and China also providing project financing. If the G7 countries want to maintain their position and influence as a provider of finance to global south countries, they must deliver on finance, and do it in a way that genuinely meets the needs of the recipient countries.

The challenges JETPs need to overcome

Lack of transparency & civil society engagement

Of the proposed JETPs, South Africa's is the most advanced, yet very limited information about the deal has been released publicly. While the South African government has conducted a countrywide consultation on the just transition, the [consultations on the JETP itself](#) have, so far, only involved the South African government, the IPG and development finance institutions. Apart from two events at COP26 in Glasgow, there has been [no formal civil society consultation](#) on the proposed partnership.

After the initial announcement at COP26, there was no public communication regarding the partnership for six months, until an [update](#) was released by the South African government and the IPG.

The South African government has been working on a proposed investment plan - the core of what the JETP will fund. A draft of the plan was [reportedly](#) sent to the IPG in early October, and was approved by the South African cabinet in mid-October. Unusually, public consultation on the investment plan is only due to take place after it has been agreed by both the IPG and the South African government, limiting the scope for meaningful input.

From the donors' side, the IPG has sent financial offers to the South African government for evaluation - however [these offers remain confidential](#). Again, the lack of transparency on the sources and types of funding proposed by the donors severely limits public scrutiny over the financing of the deal.

This lack of transparency and consultation is a key concern, as consultation and engagement with civil society, communities and trade unions should be a cornerstone of a just transition.

Providing the right kind of finance

A core element of the JETP model is the use of blended finance, where public finance from governments is used to leverage further new private sector investment. This model has been proposed for over a decade and pitched as a way not only of ensuring greater value for money for donor governments and their taxpayers, but creating a greater role for the private sector in the traditionally government-focused world of development finance. However, real leverage rates – the ratio of public finance to private finance – are low. On average, for every USD 1 development banks have invested in low income countries, [private finance has mobilised just 37 cents](#).

Part of the challenge with blended finance has been that public funding has come in the form of loans through development banks that have a mandate to deliver a return on their investment. This means that public finance can end up funding commercially-viable projects, rather than being used to take on greater risk or fund activities that don't generate a return. In other words, the funding does not end up where it is needed most.

This will be a particular challenge for JETPs, as the financing covers a broad spectrum of needs with varying rates of return. These range from renewable energy generation to the costs of supporting communities and workers that need financial support. In order to be successful, public finance should be targeted at zero and low-return needs, which means the majority of the public finance should be provided as grants, guarantees or on highly concessional terms.

Table 1: Financing a just transition - matching financing with needs

	Energy transition component	Capital type needed	Concessionality
Investments	Renewable energy buildout	Private capital	Least concessional
	Flexibility - e.g. storage	Development finance (concessional loans, guarantees / blended finance)	
	Transmission & distribution		
Costs	Green industrialisation	Public grants / Philanthropic funds	Most concessional
	Early retirement of coal plants		
	Climate justice outcomes for workers and communities		

Adapted from [Making Climate Capital work](#): Unlocking \$8.5bn for South Africa's Just Energy Transition by the Blended Finance Taskforce and the Centre for Sustainability Transitions at Stellenbosch University

Recipient countries have publicly stated that they are not interested in taking on more debt at near-market rates. As [South Africa's environment minister has said](#): "We would have no interest in borrowing money that isn't cheaper, what would be the point?"

While the details of the financing for South Africa's JETP remain confidential, early signs are not promising – in the case of funding currently being negotiated by France, reports suggest [only a small portion would be in the form of grants](#), which would only cover research studies. Similarly, in early October the German government announced it had pledged EUR 320 million for the JETP, with [EUR 270 million in low interest loans and only EUR 50 million in grants](#).

A leaked [draft of the financing plan](#) for South Africa indicated that just 2.7% of the total USD 8.5 billion would be provided as grants, with 43% provided as commercial loans or guarantees. These figures were disputed by South Africa's lead official on climate finance, who stated that: "The numbers cited do not reflect the current status of the financing package, details of which will be provided once the plan is released to the public."

Financing fossil gas

Multiple studies have shown that to limit warming to 1.5°C, no further fossil fuel infrastructure can be built. Yet all five JETP countries have plans to significantly increase the use of fossil gas in power generation and Senegal is set to become a major new gas producer. The five countries alone make up [19% of gas power plant capacity currently under development](#) in the world.

In many of the countries, these gas expansion plans are closely linked to the JETPs:

- In South Africa, state utility Eskom's [transition plan proposes](#) 4 GW of gas fired power generation
- The financing of gas projects is a stated [priority of the Senegalese government](#) in JETP negotiations
- Vietnam's JETP is intended to accelerate the country's transition off coal as part of its proposed national power plan, the latest draft of which includes a 337% [increase in gas power generation, to 27 GW](#) from 8 GW today.

During COP26, 39 countries [committed](#) to end new direct international public finance for the unabated fossil fuel energy sector by the end of 2022 – with Japan the final G7 to join the commitment in May this year. However, this commitment contained an exemption to allow fossil fuel funding in limited and clearly-defined circumstances that are "consistent with a 1.5°C warming limit". The commitment was further [weakened at the G7 summit in June](#) in the wake of the global energy crisis driven by Russia's invasion of Ukraine. The group's communique acknowledged that: "Investment in this sector is necessary in response to the current crisis... In these exceptional circumstances, publicly supported investment in the gas sector can be appropriate as a temporary response."

In this context, the JETPs serve as a crucial test of whether the G7 countries will keep to their COP26 commitment to end international fossil fuel financing.

False solutions

There are significant risks that JETP deals could finance 'false solutions' to the energy transition, either wasting scarce resources on unviable technologies or, worse still, financing technologies that actively harm the environment:

- Hydrogen exports – Expanding green hydrogen production and use is a core component of South Africa's ambitions for its JETP, and both South Africa and Senegal have plans to become hydrogen exporters. While green hydrogen can reduce emissions in applications that are hard to electrify, like heavy industry,

shipping hydrogen internationally is likely to be prohibitively expensive and inefficient.

- Biomass co-firing - The Indonesian government has mandated the burning of biomass alongside coal in 52 power stations as part of its phaseout plans. Implementing this could, however, require forest plantations 35 times the size of Jakarta (2.3 million hectares) to provide sufficient biomass, leading to significant risks of deforestation and increasing greenhouse gas emissions.

Annex: Country specific challenges and context for JETPs

South Africa	
Lead partners	UK (with France, Germany, US & EU)
Funding pledged	USD 8.5 billion (public and private, loans, grants & guarantees) <ul style="list-style-type: none"> - Germany EUR 700 million - Climate Investment Funds (World Bank) USD 500 million
Estimated funding needed for transition	Up to USD 250 billion over 30 years
Duration	3-5 years
Status	Governance structures established Investment plan due to be published in November 2022

- South Africa relies on coal for more than 80% of its power, is the world's 13th largest emitter, while state utility Eskom produces [42% of the country's emissions](#)
- Eskom initially proposed [USD 27 billion](#) of energy infrastructure funding to transition away from coal, later proposing that development finance institutions provide [USD 10 billion](#) to shut most of its coal fired power plants by 2050. This then led to the USD 8.5 billion funding commitment for the JETP, announced at COP26
- An estimated [120,000 coal jobs](#) are at risk from the energy transition, at a time when [almost 30% of the labour force are unemployed](#), the highest rate in the world
- Eskom has estimated that the construction and operation of the energy infrastructure in its energy transition plan could generate over [300,000 jobs](#)
- Government views on the role of fossil fuels in the energy transition appear divided, with Mineral Resources and Energy Minister Gwede [Mantashe](#) criticising the commitment to end international public finance for fossil fuels
- There are [reportedly tensions](#) between donors who want the JETP to focus on phasing out Eskom's coal-fired power plants, and the South African government, which is pushing for support to develop green hydrogen and electric vehicle production.

India	
Lead partners	Germany & US
Status	Announced, in progress - no funding or timeline confirmed
Estimated funding needed for transition	USD 160 billion a year between 2022-2030

- India is the third largest carbon emitter in the world, but its per capita emissions remain among the lowest in the world
- [Seventy per cent](#) of India's electricity is powered by coal
- An estimated [13-20 million people](#) in India are dependent on coal mining or coal-based industry for their income. The country is the world's second largest consumer of coal after China. The average age of its coal fleet is [13 years](#), compared

to 30 years for South Africa, greatly increasing the potential costs in decommissioning

- The Indian government planned [USD 60bn investment in gas](#) from 2021 – 2024, increasing the share of natural gas in India’s primary energy from 6.2% to 15% by 2030
- India did not join the Global Coal to Clean Power statement at COP26 and has not set a coal phase-out date
- [India’s Power Ministry has opposed starting negotiations on the JETP](#), saying that coal should not be singled out as a polluting fuel and challenging the framework of the negotiations, according to a source in the Indian government.

Indonesia	
Lead partners	US & Japan
Status	Announced, due to be established by the end of 2022 . No funding confirmed.
Estimated funding needed for transition	USD 25-30 billion between 2022-2030

- The JETP is Indonesia’s second multilateral just transition initiative, following the Asian Development Bank’s [Energy Transition Mechanism](#) (ETM), focused on Indonesia, the Philippines and Vietnam. The goal of the ETM is to leverage public finance to accelerate the phaseout of coal power, while ensuring a just transition
- In 2021, Indonesia committed to end the construction of new coal fired power stations from 2022, and signed the Global Coal to Clean Power Transition statement at COP26. However, it did not sign up to the commitment to end new unabated coal power and, in September 2022, introduced new regulations to [allow the construction of new coal-fired power plants](#) in certain circumstances, including ‘nationally strategic projects’. [Forty new coal power plants](#) are currently under construction or in pre-construction. Indonesia’s lack of progress in ending the expansion of coal-fired power calls into question its commitment to a rapid coal phaseout
- Coal power provides more than [60% of Indonesia’s electricity](#), employs over 100,000 workers and the country remains the [world’s top coal exporter](#)
- In 2022, President Joko Widodo told the G7 that the country needed [USD 25-30 billion](#) to finance the energy transition up to 2030
- The International Energy Agency estimates that energy investment in Indonesia will need to almost triple by 2030, an additional [USD 8 billion a year](#) by the end of the decade
- The cost of retiring Indonesia’s existing coal-fired power stations by 2040 is estimated to be [USD 37 billion](#). This does not include costs for expanding renewable generation, upgrading transmission grids or ensuring a just transition for workers and communities
- [Subsidies](#) to the Indonesian coal industry were worth USD 10 billion in the last 12 months
- The Indonesian government is looking for USD 187 billion of investment to meet its target of [increasing oil production and doubling its gas output](#) by 2030
- An announcement on the details of Indonesia’s JETP is expected in [November 2022](#).

Senegal	
Lead partners	France & Germany
Status	Announced, in progress - no funding or timeline confirmed
Estimated funding needed for transition	Unknown

- Unlike the other JETP countries, coal is not a major part of Senegal's energy system - making up only [9% of its electricity generation](#). Instead, gas is central to Senegal's energy transition following major discoveries from 2014 onwards and the construction of the Tortue gas and LNG project with neighbouring Mauritania
- The financing of gas projects is a stated priority of the [Senegalese government](#) in the JETP discussions and it [plans to rely on the country's gas reserves](#) to achieve its goal of universal access to electricity by 2025
- [Germany has started bilateral talks with Senegal over gas extraction and LNG exports](#), as well as renewable energy projects, as it aims to end its reliance on Russian gas. A Senegalese gas field, [Yakaar-Teranga](#), is due for a final investment decision before the end of 2022, which could supply the European market
- The [French Ambassador to Senegal](#) has also stated in the context of the JETP negotiations that "it seems inconceivable for a country that is a low emitter... not to be able to exploit its [oil and gas] resources and benefit its population"
- Senegal is already at ['moderate' risk of external debt distress](#) and has limited space to absorb shocks, according to the World Bank. This rating is contingent upon a rebound in economic growth and a significant boost to growth and exports from hydrocarbon production over the medium term.

Vietnam	
Lead partners	EU & UK
Status	Announced, in progress - no funding or timeline confirmed
Estimated funding needed for transition	USD 10-11.5 billion a year to 2030 (generation and transmission only)

- At COP26, [Vietnam pledged to end investment in new coal-fired power stations](#), reduce coal use by 30% by 2030 and phase out coal in the 2040s, on the way to achieving net zero by 2050
- Central to achieving these goals is the national energy strategy, currently in draft form as the Power Development Plan (PDP) 8. The JETP "will support Viet Nam to accelerate its transition away from coal as part of the country's commitment to its 2050 net zero target [and their ambitious Power Development Plan \(PDP8\)](#)." However, the latest draft of the PDP includes a 337% [increase in gas power generation to 27 GW](#) from 8 GW today
- There are significant concerns about the repression of environmental activists in Vietnam, including the sentencing of Goldman Prize awardee [Nguy Thi Khanh](#) and three other anti-coal activists to prison terms for alleged tax evasion, sentences that have been widely condemned by human rights and environmental groups