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Researching Capital Markets and Financial Services

Thought leadership

Framing the concept of "transitioning in" and "transitioning out"

On 31 August 2022, South Africa's presidential cabinet adopted the Just Transition Framework (JTF), developed by the Presidential Climate Commission (PCC). The adoption of the JTF signals South Africa's commitment to the just transition movement, ensuring that the costs and benefits of climate action are shared equitably. Transitioning to a low-carbon economy, although widely recognised as a significant employment catalyst, carries substantial societal risks. This is especially the case for South Africa's economy, primarily dependent on fossil fuels. Risks arise from potential job losses during transitions within the energy and automotive sectors, coupled with climatic threats to agricultural and tourism employment. In a context marked by persistent inequality, income poverty, and structural unemployment, jobs in these sectors often serve as economic lifelines for a wider network of dependents through remittances to labour-sending areas.

To this end, South Africa's JTF lays out a shared vision, guiding principles, policies, and governance structures to navigate South Africa's transition to a low-carbon economy, ensuring fairness and equity for all stakeholders (PCC, 2022). The framework's guiding principles of distributive, restorative and procedural justice advocate for the equitable sharing of risks and opportunities inherent in the transition.

This all needs to be financed. The cost of the just energy transition in South Africa alone is estimated at a net present value of R8.5-trillion (according to the World Bank) in the next three decades. This is approximately 180% of GDP and will require collaboration and partnership from various sources of capital along the financing spectrum if South Africa is to raise the financing needed for a just transition.

It is in this context that we introduce a dual lens to conceptualise the types of support, coordination and (in particular) financing required in planning and implementing just transition initiatives, namely "transitioning in" and "transitioning out".

Financing the just transition at scale in South Africa and beyond

Intellidex has worked extensively on just energy transition (JET) with clients in banking, asset management, development institutions, philanthropy, and policymaking. Some of our projects include work with the Impacting Investing Institute, the Africa Climate Foundation, the Presidential Climate Commission and the World Bank.

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> To deliver on the just transition imperative, South Africa must allocate funding at an unprecedented scale. Accordingly, framing what types of activities need financing is essential to support and accelerate the mobilisation of funding for specific just transition activities.

"Transitioning out" and "transitioning in": decoding the concepts

Our earlier work (Intellidex, 2023) on the funding of social justice elements in the energy transition split just transition activities requiring funding into "transitioning out" and "transitioning in" (see also Institute for Human Rights and Business, 2021). Given our understanding of the just transition and, specifically, the need to ensure that the risks and opportunities are shared equitably, the bifurcation of just transition processes helps ensure equal attention is given to both ends of the transition. Additionally, identifying activities as either part of "transitioning out" or "transitioning in" can aid in setting priorities, focusing resources and developing tailored strategies for different aspects of the transition.

Transitioning out

The protective measures designed to ensure that workers and communities that significantly rely on the fossil fuel value chain are not adversely affected by decarbonisation efforts. This includes targeted initiatives to promote social justice while transitioning from coal. The transitioning out process represents a transition from fossil-fuel-dependent activities and jobs but also a larger shift towards sustainable and socially just practices.

Economic impact

The transition out will have significant economic impacts, leading to job losses in sectors such as coal and petroleum, car manufacturing, and their associated supply chains. This economic transformation will require careful planning to prevent the immediate impoverishment of workers and societal instability.

Social justice & equity

The transition out process also has deep implications for social justice. The execution should avoid placing an unfair burden on workers and communities reliant on fossil fuel-dependent sectors. Livelihood-protecting initiatives like retraining, temporary cash transfers, and early retirement provisions will be vital.

Spatial focus

Transitioning out processes will likely be confined to specific geographical economies with a high dependency on fossil fuels, such as the Eastern Cape (automotive nodes) and Mpumalanga (coal mining nodes). Transitioning out initiatives should therefore target these regions, preventing further unemployment and promoting social stability.

Inclusivity

Transitioning out should not just be about shutting down coal and petroleum sectors but also about creating new, inclusive economic opportunities. It is about laying the groundwork for a sustainable future where every citizen can participate and benefit.

Transitioning in

Embodies the proactive measures to foster social justice within the emerging low-carbon economic sectors, including activities related to the planning and development of a new low-carbon economy. It entails the development of sustainable and renewable energy sources but also considers the broader social, economic and labour market adjustments required to support this transformation. Critical to this process is a focus on social justice, specifically ensuring that opportunities arising from the low-carbon economy are equitably distributed.

In particular, these activities strive to empower historically marginalised communities or individuals, equipping them with the skills, resources, and opportunities to fully participate in and benefit from the low-carbon economy.

CASE STUDY | TRANSITIONING IN

Empowering women in the low-carbon economy: the Renewable Energy Specialisation Skills Development Programme

Together, the Energy and Water Sector Education and Training Authority (EWSETA) and Power Africa launched the Renewable Energy Specialisation Skills Development Programme in Mpumalanga to boost women's participation in the Just Energy Transition (JET) programme. The programme targets the upskilling of the workforce in line with a decarbonised economy. It supports 100 unemployed young women and 15 Technical Vocational Education and Training (TVET) College lecturers to undergo training towards a National Certificate in Electrical Engineering: Renewable Energy. This alignment with South Africa's greenhouse gas reduction and low-carbon development goals represents a significant step towards gender equity in the energy sector.

The programme is designed to provide participants with the skills and knowledge they need to work in the renewable energy sector. The training will cover topics such as solar photovoltaics, wind power, and energy efficiency. Participants will also receive training on soft skills, such as communication and teamwork.

Expected benefits of the programme

+ Increased participation of women in the renewable energy sector.
+ Improved skills and knowledge of the workforce.
+ Increased gender equity in the energy sector.

Financing the just transition

In the context of the sheer scale and duration of funding needed for the just transition, the transitioning in and out framing is particularly useful to help financiers identify the most appropriate areas they can get involved in. It helps eliminate some ambiguity related to financing for the just transition, especially when coupled with criteria developed by the Impact Investing Institute. The criteria intend to help capital allocators classify just transition investments and include advancing climate and environmental action, improving socio-economic distribution and equity and increasing community involvement.

Different just transition activities will require different types of financing from funders across the entire spectrum of capital – from public grant funding for non-bankable activities to catalytic philanthropic funding and concessional DFI financing to help de-risk activities and create opportunities to attract commercial capital at scale. While many of the transitioning in activities can be financed by commercial investors, including, for example, the development of new renewable energy power plants, many activities are not bankable and, therefore, will not attract funding from mainstream investors without de-risking.

Catalytic capital has emerged as a vital source of financing that can bridge the gap between projects that are not immediately bankable and commercial investment. Catalytic capital is flexible, patient, risk-tolerant and often concessionary, designed to stimulate interventions to achieve sustainable development goals (SDGs) (Tideline, 2019). In the just transition context, where introducing new strategies and innovative solutions is essential, catalytic capital emerges as a particularly significant financing mechanism, filling the gaps where transitional commercial finance may fall short in fully supporting the transition.

Catalytic capital can play multiple roles in the just transition, which include:

Seeding
The deployment of catalytic capital to new or innovative funds or investment vehicles, including those managed by new investment managers[1]. These vehicles might be involved in pioneering new technologies, services or business models critical to the transition towards low-carbon economies.

Scaling
Catalytic capital can also play a key role in helping to bring effective, proven solutions from niche to mainstream[2]. This could include helping scale up successful pilot projects or facilitating businesses' growth by providing crucial energy transition services.

Sustaining
Finally, certain areas in the market have an ongoing need for catalytic capital. This type of funding is used to serve hard-to-reach beneficiaries or geographies and to support not commercially viable strategies[3]. In the context of JET, this could include initiatives that benefit marginalised communities or remote areas.

In the context of transitioning in initiatives, catalytic capital can play a seeding or scaling role, supporting the growth of new industries and services that align with a low-carbon economy. Alternatively, transitioning out projects requires the sustaining role of catalytic capital, as they may involve long-term support for communities and workers affected by the transition from carbon-intensive industries.

Financiers can use the transitioning in and out framing to understand better what they can and cannot finance, as well as explore ways to partner with concessional financiers to blend capital so that the appropriate risk is mitigated to crowd in commercial investors.

1. Courageous Capital Advisors, FSG. May 2022. Advancing Practice in Catalytic Capital Guidance Note 1 – The Seeding Role.
2. Courageous Capital Advisors. November 2022. Advancing Practice in Catalytic Capital Guidance Note 2 – The Scaling Role.
3. Courageous Capital Advisors. December 2022. Advancing Practice in Catalytic Capital Guidance Note 3 – The Sustaining Role.

Using a dual lens

Importantly, the majority of just transition projects will likely contain elements of both the transitioning in and transitioning out dimensions. Nevertheless, this conceptual framework enables us to categorise and better comprehend and plan for the various activities involved in a just transition.

01

Facilitates comprehensive planning

This framework provides a systematic approach to identity and address all the aspects of the transition. It helps policymakers, businesses, and other stakeholders plan and implement both the phasing out of the old energy systems and the introduction of new, sustainable ones.

02

Promotes a balanced consideration

By bifurcating the process into transitioning out and transitioning in, it ensures that equal attention is given to both ends of the transition. This helps prevent an overemphasis on one aspect at the expense of the other, leading to a more balanced transition.

03

Simplifies communication

This dual lens can simplify the complex topic of just transition into more relatable terms, enhancing communication of the concepts and initiatives to a wide range of stakeholders - from policymakers to the general public.

04

Prioritisation and resource allocation

Identifying activities as either part of transitioning in or transitioning out can aid in setting priorities, focusing resources, and developing tailored strategies for different aspects of the transition.

05

Highlights social justice

Conceptualising in this way helps highlights the social justice elements of the energy transition, helping ensure that the needs and interests of all stakeholders, particularly the most vulnerable, are considered and addressed.

Talk to us about how we can help you.

Our team delivers research-led consulting services, including policy and political analysis, primary market research, macroeconomic capital markets and strategy research. We partner with organisations across the spectrum of capital, from hedge funds to philanthropies, helping them understand the opportunities and risks that arise from the Just Transition.

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