

TECHNICAL NOTE

Support for the just dimensions of the energy transition in South Africa

- AFD is pleased to announce the extension of a €400 million policy-based loan to National Treasury in support of the just dimensions of the Just Energy Transition (JET).
- The Just Transition Framework reaffirmed that distributive, restorative, and procedural justice is at the centre of South Africa's transition to a low-carbon economy.
- This innovative policy dialogue is the result of extensive research and analysis conducted by AFD in collaboration with the National Treasury, the Presidential Climate Commission, the JET Project Management Unit within the Presidency, government departments, academic institutions, think tanks, local communities and civil society organisations.
- This second policy-based loan is a continuation of AFD's operational strategy to reduce poverty, unemployment and inequality, and ensure the achievement of the social outcomes of the energy transition.
- AFD is committed to collaborating and enhancing coordination with other development finance institutions (DFIs) to maximise the social outcomes of the JET.
- This operation is the second project linked to the Just Energy Transition Partnership (JET-P), and enables France to reach €700 million of its €1 billion commitment to accompany the South African government in its low-carbon transition.

1

South Africa's Just Energy Transition (JET)

As one of the world's most carbon-intensive economies, South Africa is particularly vulnerable to the social risk associated with the energy transition. Over the past five years, the JET has emerged as a major development policy framework for the country's transition to a low-carbon economy, while at the same time creating jobs, reducing poverty and generating sustainable and inclusive economic growth.

The JET is the backbone of government's strategic planning and is aligned with both the global 2030 Agenda and the National Development Plan (NDP). Chapter Five of the NDP highlights the need to transition to a low-carbon economy and take major steps to mitigate climate change. Specifically, it notes that South Africa must reduce its dependency on carbon "while balancing this transition with the objectives of increasing employment and reducing inequality", and that the poor and vulnerable must be "protected from the transitional costs associated with mitigation".

In 2021, the South African government reiterated its commitment to a low-carbon transition when it published a revised and more ambitious text of its Nationally Determined Contribution (NDC). The NDC specifies that international contributions from partner countries will be necessary for South Africa to achieve its objectives. Consequently, the JET partnership between South Africa, France, Germany, the United Kingdom, the United States and the European Union was signed at COP26 in 2021. The €1 billion French commitment to this partnership will be channelled through Agence Française de Développement (AFD). The role of DFIs in the JET is critical because it will have a catalytic effect on other sources of public and private funding.

This was followed in 2022 by South Africa's adoption of the Just Transition Framework, which highlighted the necessity of a common vision towards a low-carbon and climate-resilient economy. The JET Implementation Plan, endorsed in December 2023, aims to define short- and medium-term outcomes in six portfolios of projects to catalyse financing for investment in the energy transition.



2

The AFD Group in South Africa: Tackling the triple social challenges and supporting the energy transition

This year marks the 30th anniversary of the AFD Group's partnership with South Africa. Since 1994, AFD has provided extensive technical cooperation tools and a wide range of financing solutions in support of South African development investment. AFD's operational activities are guided by its national priorities, including the objectives set out in the NDP, specifically the elimination of poverty, the reduction of inequality, and the establishment of a transformed and inclusive economy.

- Research partnerships on reducing inequalities, built up over almost seven years with research centres (TIPS, CSIR) and universities (University of Cape Town, University of Johannesburg, University of Witwatersrand, University of Stellenbosch);
- Collaboration with the DBSA to fund social infrastructure;
- Several interventions at municipal level to improve access to basic services;
- Ongoing work with the Steve Tshwete Local Municipality in Mpumalanga to develop a localised and contextualised JET strategy;
- The organisation of an international research conference on inequalities in November 2023, in cooperation with the EU and in partnership with the Presidency;
- The coordination, in collaboration with GEAPP, of the "just and skills" working group set up as part of the implementation of the JETP; and
- Support for the JET Labour Centre, the first JET trade union research centre.

Building on these extensive operations, analytical work and research activities with key South African partners, including the Presidency, National Treasury, government departments, local stakeholders from Mpumalanga province, civil society organisations, academia, think tanks, and public development banks, AFD's country strategy adopted in 2023 proposes to expand its operational activities to include support for the just dimensions of the JET.



3

Policy-based loan focusing on the just dimensions of the JET

Based on the extensive policy dialogue conducted by AFD with various key stakeholders, NT approached AFD with a request for €400 million in finance, specifically to support the just elements of the JET and ensure the achievement of its social outcomes.

This innovative policy-based loan to support the just dimensions of the JET has been developed in collaboration with the Presidential Climate Commission, the JET Project Management Unit in the Presidency, National Treasury, government departments, academic institutions, think tanks, local communities and civil society organisations.

This loan seeks to maximise the positive social outcomes of the energy transition and will enable ongoing work by the South African government on the JET. It builds on a previous collaboration between AFD and National Treasury in 2022 to provide a public policy loan of €300 million for the transition.

This financing is made available to National Treasury and will be drawn down in two tranches, in 2025 and 2026, following the attainment of key milestones set by National Treasury.

The next few years will be crucial for South African public policies and investments to turn ambition into achievements. South Africa and France are committed to a long-term partnership to address these challenges and AFD Group stands ready to support the transition. AFD will continue to be a fierce advocate for social justice in the energy transition because of its significant potential to generate opportunities for local job creation as well as a means to redress socioeconomic inequality and injustices.

