How can the G7 and G20 improve Just Energy Transition Partnerships?

Taking stock of Just Energy Transition Partnerships (JETP)

Briefing
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Key findings and recommendations

1 This briefing draws preliminary lessons from the four concluded **Just Energy Transition Partnerships** and discusses how they can be **improved in the context of global challenges**.

2 **The G7 must strengthen the just dimension in JETPs** in collaboration with the partner country, making them a clearly visible pillar in the investment and policy plans. Moreover, civil society participation must be improved in JETPs, by enshrining minimum standards in the political agreements.

3 **The G7 should ensure that finance is new and additional.** They should improve the transparency of funding, by reporting committed funding in terms of grant equivalents.

4 **The G7 should focus their funding on expanding the institutional capacity in the partner state** by inter alia providing capacity training as well as directly funding the development of institutions.

5 **The G20 should establish a platform for exchanging best practices for and ways to support just transitions,** including the experiences from the JETP and strengthen its **commitment to skills training, capacity building, and community support.**

“Mini-lateral” climate cooperation to accelerate change

Recent multilateral climate negotiations under the United Nations Framework Convention on Climate Change (UNFCCC) have not yielded sufficient progress to put the targets of the Paris Agreement within reach. Some progress on climate finance and the establishment of a fund for loss and damage was achieved at COP27 in Sharm-el-Sheik in late 2022, but progress on ratcheting up mitigation efforts in Nationally Determined Contributions (NDCs) and Long-Term Strategies (LTS) has been slow.[1] To limit the increase in the global mean temperature by 2100 to “well below 2°C” and even achieve stabilization below 1.5°C, increased mitigation effort is required.

The UNFCCC plays an important role as a forum to secure high-level commitments, to collect information, and establish institutional structures, for instance for the disbursement of finance. However, the breadth of issues covered and the fact that they are negotiated as package deals render negotiations complex and make it difficult to achieve consensus among the 196 parties to the UNFCCC. For this reason, “mini-lateral” approaches that bring together a small number of countries for more effective bargaining have been proposed to complement the complex multilateral process. According to Falkner, such approaches “can create club benefits that strengthen mitigation strategies and help reduce the dangers of free riding for so-called coalitions of the willing. And they can help re-legitimate the global climate regime against the background of profound power shifts that have slowed down progress in the multilateral negotiations”.[2]

One form of mini-lateral approaches[3] that has gained considerable traction in recent years are Just Energy Transition Partnerships (JETPs). Four JETPs have recently been concluded between an international group of donors centred around G7 countries (the International Partners Group) and South Africa, Vietnam, Indonesia, and Senegal respectively. JETPs aim to kick-start and accelerate the energy transition in emerging economies and fast-growing developing countries that are particularly relevant for global climate action. A specific emphasis is on phasing out coal and power sector decarbonisation.

This policy brief takes stock of the existing JETPs and draws some preliminary lessons. Moreover, it discusses some of the challenges JETP face and how JETPs may be improved. Lastly, we outline some recommendations for the G7 and G20.

JETPs as a new form of climate cooperation

JETPs emerged as a new form of cooperation in 2021, when the UK, a major driver of the initiative, had both the G7 as well as the COP Presidency. In the global context, JETPs can be seen to respond to demands for strategic support to Global South countries on climate and other critical development issues, a more assertive approach with regards to international co-operation to counter China’s rising ambition, and perceived lack of progress in the UNFCCC.

JETPs can be seen as instruments to address these developments: They are measures to deliver on the G7’s pledge to step up their efforts in supporting developing countries transition to zero-emission economies. JETP could become a steppingstone for further international

[1] Michael Jakob et al., 2022: Climate Diplomacy in Turbulent Times. Taking stock of major climate developments in 2022. Berlin: Ecologic Institute. Available at: https://www.ecologic.eu/19065

[2] Falkner, R. (2016). A minilateral solution for global climate change? On bargaining efficiency, club benefits, and international legitimacy. Perspectives on Politics, 14(1), 87-101.

[3] Another form of mini-lateral approaches are so-called “climate clubs”, which endow specific advantages, such as improved access to the markets of other club members, to countries with ambitious climate policies.

support required to ramp up climate policies to be fully Paris Agreement-aligned. They should also contribute to deliver on the pledges on increasing infrastructure investments.[4] And finally, they can be interpreted as part of the G7's strategy to offer an alternative to Chinese development finance and as part of a geopolitical strategy.

Four JETPS have been concluded since 2021: with South Africa at COP26, with Indonesia at the 2022 Bali G20 summit, with Vietnam at the EU-ASEAN commemorative summit in December 2022 and with Senegal at the Summit for a New Global Financing Pact in Paris in June 2023. The status quo of the four partnerships is described in the text box below.

JETPs are partnerships between a group of donors, the International Partner Group (IPG) and a recipient country. The IPG is made up of the G7, the EU, individual EU countries, and, in some cases, international financial institutions and funds. The JETPs with Indonesia and Vietnam also include private actors, in the form of the Glasgow Financial Alliance for Net Zero (GFANZ).[5]

Most JETP partner countries share several characteristics. They are all middle-income countries. They are or are expected to be high-emitting economies due to their rapid economic growth and large populations. Consequently, they are highly relevant for global climate action. Moreover, they all have a large fleet of coal-fired power plants, i.e., an energy sector highly relevant for global climate action. At the same time, they all have high renewable energy potential. A notable exception is Senegal, to which many of these characteristics do not apply.[6] In any way, a crucial precondition, moreover, is the willingness to act ambitiously on climate.

A novel aspect is also the plurilateral approach among donors. Whereas most climate finance is delivered via multilateral funds the JETP approach tries to combine the financial might of large donors to coordinate the climate cooperation with one partner country. The hope is that through this plurilateral approach, partnerships can become more ambitious and have greater impact. The plurilateral approach also improves the bargaining position of the donor countries (although this effect may be remedied by the coordination needs within the IPG).

All existing JETPs share three common objectives. First, their focus lies on accelerating the energy transition in the partner country, with a particular emphasis on the power sector. Second, they have developmental aims as they want to contribute to sustainable development and the emergence of an alternative, clean economy.[7] Finally, they want to ensure a just transition for workers and communities, especially those directly affected by the transition away from fossil fuels. In addition, they all have context-specific objectives. The JETP with South Africa, for example, has the goal to improve the management of the state-owned utility ESKOM, including its precarious financial situation.

[4] Most notably the Build Back Better World (B3W) initiative that was launched in 2021 (in 2022 relabelled as Partnership for Global Infrastructure and Investment (PGII)), which aims to address the infrastructure investment gap in low- and middle-income countries.

[5] GFANZ is an initiative that aims to raise ambition among global financial institutions. The coalition develops common tools and methodologies to help companies, banks, insurers, and investors to adjust their business models and allow them to develop credible plans for the transition to net-zero (see https://www.gfanzero.com/).

[6] The JETP with Senegal was only concluded when the drafting of this policy brief was at an advanced stage. Senegal has neither a large fleet of coal-fired-power-plants, nor a very high potential for renewable energy. Initiating talks with Senegal over a JETP was a Franco-German initiative, partially driven by political motivations but also the aspiration to support a least developed country to pursue a zero-emission development path from early on.

[7] See also: Saliem Fakir (2023): The Just Transition Energy Partnership in South Africa: Vehicle for Reform and Economic Transformation?; in: The Fletcher Forum of World Affairs, Vol. 47:1.

To achieve these objectives, they draw on various measures and instruments, centred around conditional financing but also on technical support and capacity building. In return for climate policy commitments from the recipient country, the IPG provides financial support, including grants, concessional loans, commercial loans, and guarantees. The funding is distributed in different ways, from sovereign loans and direct budget support to project-based finance and loan guarantee facilities to leverage private finance. From the perspective of the IPG, JETPs and the funding they provide are meant to act as catalysers: the policy reforms and initial investments enabled by JETPs will accelerate the transition to net zero by triggering private sector investments and important policy reforms.

Status quo of the four JETPs

Four JETPs have been concluded since COP26 in 2021. They are at different stages as of now:

- The JETP with **South Africa** was the first of its kind. It aims to mobilise US$ 8.5 billion for power sector decarbonisation, just transition for coal communities, and the creation of new economic opportunities. In contrast to the other JETPs, which are still at an initial stage, for South Africa a Just Energy Transition Investment Plan has already been developed and approved by all parties. Moreover, the JETP Secretariat was established. Several regulatory reforms have been passed and announced in the context of the Investment Plan, which targets the liberalisation of the electricity market and incentivising investments in renewable electricity generation. However, since the establishment of the JETP, the state-owned utility, ESKOM, which is instrumental for the energy transition, has been in permanent crisis due to corruption scandals, financial mismanagement, and insufficient investment in infrastructure, which have resulted in frequent power cuts.
- The JETP with **Indonesia** was concluded at the Bali G20 summit in 2022 with a total financial commitment by the IPG of US$ 20 billion, half of which is to be delivered by GFANZ. Its political declaration includes transparent quantitative targets. It brings forward the peaking of power sector emissions to 2030 by seven years at an absolute value of 290 MT CO_2, down from an original value of 357 MT CO_2. Moreover, it aims for net-zero emission in the power sector by 2050 and aims for RES to account for 34% of power generation by 2030. The focus of Indonesia's JETP is on the early retirement of its relatively young fleet of coal-fired power plants. The JETP Secretariat was established early in 2023 and the investment plan is supposed to be finalised in the summer of 2023.
- The JETP with **Vietnam** was concluded in December 2022 with a total financial commitment by the IPG of US$ 15.5 billion, half of which is to be delivered by GFANZ. The agreement aims to bring forward peak emissions of all GHG from 2035 to 2030. It also aims to reduce the peak annual power sector emissions. Moreover, it aims to limit Vietnam's peak coal capacity further and increase the renewables share in the electricity mix to at least 47% by 2030, eleven percentage points higher than the original target. The JETP Secretariat is currently being established and the investment plan is expected for later in 2023.
- The JETP with **Senegal** was concluded in June 2023 with a total financial commitment by the IPG of US$ 2.7 billion. The partnership aims to achieve a renewable energy share in Senegal's electric mix of up to 40% by 2030. The JETP explicitly recognizes Senegal's intention to expand the use of its natural gas resources as a bridge fuel. The JETP will also support the development of a long-term emission development strategy by COP28 in late 2023 and the formulation of a Nationally Determined Contributions (NDC) to be published at COP30 in late 2025,

Five preliminary lessons on the JETPs

The first JETP has been launched in 2021. While implementation is ongoing and no definitive conclusions can be drawn about the effectiveness of the new model, we can draw some preliminary lessons about the design and early implementation of the four existing JETPs.

- **The targets included in JETPs are likely not commensurable with 1.5°C pathways**, although they operate within the 2°C global warming limit.[8] The JETP with Indonesia, for example, wants to suspend the pipeline of planned on-grid coal-fired power plants but has no intention to stop plants under construction, likely resulting in an *increase* in coal generation in the coming years. However, while the targets may not be compatible with 1.5°C today, this does not foreclose more ambition in the future. The logic of JETPs is to trigger the systemic transformations needed to make 1.5°C pathways more likely in the future.
- **JETPs focus predominantly on the power sector, with consideration of other sectors lacking**. Most targets relate to energy and specifically the power sector. While these are fundamental for achieving climate neutrality, they neglect strategically important sectors such as transport or land-use.[9] Moreover, by not considering other sectors sufficiently, they may miss harnessing the opportunities of sector coupling and integration.
- The three recipient countries in the JETP are at **different stages in the energy transition**. Vietnam, for example, is much more advanced in its energy transition than Indonesia. Depending on where they are in the energy transition, the recipient countries have different needs and political economy challenges. So far, the JETP model appears flexible enough to accommodate these specificities. The country-driven investment plans ensure that reforms and projects are prioritised that are most relevant to the country in question.
- The three recipient countries have different institutional capacities. **Institutions are not a primary focus of JETPs.** However, they are essential for the successful implementation of JETPs. ESKOM, the South African public utility, is *the* crucial actor in the country's energy transition. However, it has been in a constant state of crisis for months, undermining the prospects of success for the JETP.[10] The public utility in Vietnam, Vietnam Electricity, on the other hand, seems to be in a much more capable state now. However, the state monopoly in Vietnam's power sector is deeply rooted and until now there has been no sign of a transition to a competitive electricity market. So far, JETPs primarily provide funding that is coupled to targets, with less attention on implementation and establishing the institutional capacities to implement transformative change.
- **The "just" dimension of JETPs lacks concretisation**. While it is early in the process, all partnerships have not explicitly stated what a just transition is, who it is for, and how the JETPs can contribute to it. The South African investment plan includes individual projects for coal communities, but there seems to be no systemic consideration of how a just transition is ensured across the partnerships. This also relates to the lack of transparency and the insufficient participation of civil society organisations in

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[8] See, e.g.: Ember (2022): JETP: a reflection of Indonesia's commitment to transform its power sector Available at: https://ember-climate.org/insights/commentary/jetp-indonesia/; Transition Zero (2022): Indonesia's coal retirement conundrum. Available at: https://www.transitionzero.org/insights/indonesias-coal-retirement-conundrum

[9] One may also add that none of the JETPs aims to tackle fossil fuel subsidies, which is fundamental for the transition.

[10] https://www.ft.com/content/ed8887a4-21b2-44db-9a67-bc6801c06a70

the process, that some commentators have criticised.[11] In addition, even with more clearly defined provisions for just transitions in the JETPs, partner countries might lack the capacities and institutions to carry out inclusive and robust stakeholder engagement required for the empowerment of communities.

Future challenges for partnerships

The existing JETPs and future partnerships will need to account for the changed geopolitical context. Russia's attack on Ukraine has firmly established national security, in regarding the dependence on energy imports, as a more prominent objective for policy makers. Increasing tensions between China and the US raise the risk of trade disputes, which could disrupt supply chains for key technologies (such as batteries and renewable energy technologies) and critical raw materials needed to produce these technologies (such as rare earths, lithium, cobalt, and nickel). Finally, the shift towards industrial policy to support nascent emission-neutral industries, for instance by the US Inflation Reduction Act and the EU Net-Zero Industry Act, has turned climate change mitigation into an issue that might provoke rivalry between great powers.

This altered geopolitical landscape means that partnerships that exclusively focus on energy transitions without also taking into account security of supply are unlikely to succeed. For countries at the giving and the receiving ends of such partnerships, different challenges arise. For countries aiming to transform their energy systems, financial assistance alone might be an insufficient incentive. They might rather seek closer political and economic integration to ensure that they have access to key markets to sell their products and source key imports from. Their willingness to join such partnerships may also be crucially influenced by broader geopolitical considerations – i.e., whether they strive to be member of a certain bloc, or rather maintain their status as a non-aligned state. Countries providing financial assistance, on the other hand, are likely not exclusively concerned about the climate implications of the partnership, but also whether it can increase security of supply of e.g., critical raw materials or carbon-free energy (such as electricity or green hydrogen and its derivates) to propel their domestic energy transition. In this regard the JETP with Senegal is also instructive. The initiative emerged in a context where some donor countries had acute energy security concerns after Russia's invasion of Ukraine. The partnership was therefore linked closely with a potential increase in the production and use of natural gas, which was later also reflected in the political declaration.[12]

Another challenge that JETPs face is the credibility of funding.[13] There are doubts about how much of the financial volumes that were pledged will actually be delivered and additional, as some donors use instruments such as loan guarantees and commercial loans to fulfil their commitments. The US, for example, only offered commercial loans to South Africa as part of its JETP. It is unclear what benefit such loans at market rates confer to partners. Likewise, it remains to be seen how much investment will be mobilised by the loan guarantees. For this reason, Vietnam has pushed for an agreement that guarantees that funds will be "on more attractive terms than Vietnam could secure in the capital markets". Nevertheless, no specific definition of how much more attractive these funds need to be is provided. If JETPs are to have a

[11] Amos Wemanya & Mohamed Adow (2022): Implementation of the Just Energy Transition Partnership in South Africa – Lessons Learnt for Civil Society Organisations. Available at: https://www.germanwatch.org/en/87278

[12] Katherine Kramer (2022): Making the Leap. The need for Just Energy Transition Partnerships to support leapfrogging fossil gas to a clean renewable energy future. Available at https://www.iisd.org/system/files/2022-11/just-energy-transition-partnerships.pdf

[13] On financing partnership see also Könneke et al. (2022): Financing climate partnerships: G7 solidarity and infrastructure investments. Available at: https://www.wwf.de/fileadmin/fm-wwf/Publikationen-PDF/Klima/E3G-Briefing-Financing-for-Climate-Partnerships-English.pdf

positive impact in partner countries and become long term partnerships, the funding must be additional and credible. Considering the large climate finance requirements of developing countries, it can be expected that additional support in terms of grants or preferential loans that convey a similar benefit will be needed.

Furthermore, JETPs will need to spell out a plan how they want to mobilise private finance, which will be crucial to leverage the sums needed for the transformation of the energy system. The regulatory changes, loan guarantee facilities, and individual projects included in the JETPs will crowd-in some private finance. The JETP with Indonesia and Viet Nam rely on the GFANZ, who are supposed to mobilise half of the pledged sum. As of yet, there is no clear plan how this private finance will be delivered and on what terms. Moreover, GFANZ and the associated insurers initiative, Net-Zero Insurance Alliance (NZIA), is experiencing an exodus of members.[14] A failure to mobilise the sums pledged by GFANZ as part of the JETP poses a major risk for the survival of the partnerships.

Another challenge relates to the local implementation of the JETP. Initially no concrete reforms or projects are included in the political agreement; they are defined as part of the investment plan. Moreover, as observed above, their implementation relies critically on capable institutions to implement them. What happens if the partner country fails to effectively implement reforms and projects? So far, there are no clear procedures for dealing with non-compliance. It will be crucial for the IPG and the partner countries to find adequate procedures for revising targets and measures in light of the challenges experienced by the recipient country, as well as devising adequate responses in case of grave backtracking from the JETP's objectives.

How can JETPs be improved?

There are several angles on how JETPs could be improved. A straightforward issue concerns the basis on which financial benefits for recipient countries are measured. A clear basis that translates concessional loans into grant equivalents would help provide a clearer picture on what is on offer for recipients. In this context, it also seems likely that in the future JETPs require a large share of grants to pose sufficient incentives to embark on the transformation of the energy system.

Private finance could be mobilised by concretising specific policies that recipient countries pledge to introduce.[15] This would allow the linkage of JETPs and international climate commitments, such as countries' NDCs and LTS. This kind of conditionality – which may become the subject of the financing deal between an alliance such as GFANZ and recipient countries – would establish clear criteria on what policy measures finance is conditional.[16] It could also serve as a commitment device and insulate policy makers in partner countries against political influence aiming to derail climate policy.

To increase long-term credibility of partnerships, it is desirable to offer incentives other than financial commitments – which can easily be terminated – to partner countries. An interesting area in this regard could be supporting the build-up of industries that have a good prospect of sustaining themselves without requiring financial support. Expanding the use of renewable energy, which in many cases is already cost-competitive with fossil energy sources, for domestic

[14] https://www.ft.com/content/1dd66ce1-a720-4c56-96d9-8d47f07f376f

[15] Jan Christoph Steckel, et al. (2017): From climate finance towards sustainable development finance. WIREs Climate Change 8(1) e347. https://doi.org/10.1002/wcc.437

[16] We want to be clear here, that such conditionalities would be limited to climate policies and those framework policies important for the investments in the energy transition. Other conditionalities, such as corporate taxes, in which private finance may have an interest, should not be subject of such conditional finance deals.

energy needs is likely a good candidate in this regard. Donor countries can further support the build-up of green industries in recipient countries by facilitating market access for the respective products, such as green hydrogen or green basic materials.[17]

Provisions for finance and market access will likely need to be complemented with measures to transfer technologies, train workers, and build the administrative capacities to implement the policies required to transform the energy system and ensure socially equitable outcomes. Hence, future JETPs will need to cover a more comprehensive scope of policy areas, with the precise composition depending on the recipient country's requirements. Including all these aspects into a single partnership obviously renders it more complex and raises the need for coordination. Nevertheless, such coordination of different policy areas might be necessary to bring about catalytic cooperation to "shift actors' preferences and strategies toward cooperative outcomes over time".[18]

Finally, when it comes to the long-term success of JETPs, they must be locally driven. To account for the needs of local communities and to engage all impacted stakeholders fairly and equally, inclusive stakeholder dialogues and representation of civil society in the planning as well as the operation stage of the JETP are essential. Such participatory approaches can avoid negative outcomes for vulnerable segments of society and create legitimacy for the partnership. Including safeguards to cushion social hardships constitutes a further element to increase public support for JETPs.

Recommendations for the G7

Going forward the G7 should:

- **Strengthen the just dimension in JETPs** in collaboration with the partner country, making them a clearly visible pillar in the investment and policy plans.[19]
- **Ensure that finance is new and additional**. Moreover, the G7 should improve the transparency of funding, by reporting committed funding in terms of grant equivalents, potentially building on the climate finance reporting of the OECD Rio markers.
- **Explore the possibility of a parallel accession-track** approach with candidates that may soon be partnership countries. Activities in this track could already include technical support for developing preparatory reforms and improving institutional capacity, so that a full JETP will be possible at a later stage.
- **Focus their funding on expanding the institutional capacity** in the partner state by inter alia providing capacity training as well as directly funding the development of institutions.
- **Improve civil society participation and the participation of impacted stakeholders who have commonly had the least power to engage in JETPs**, by enshrining minimum standards in the political agreements, supporting institutional capacity, and emphasising civil society engagement in the development of the investment plans.
- **Establish a permanent working group on just energy transition cooperation.** The priorities of the G7 change every year with the priorities of the presidency, which means there may be less focus on JETPs. In order to ensure the long-term success of

[17] Benjamin Görlach, Michael Jakob, Ramiro de la Vega (2023): Advancing a green hydrogen agenda in the G20. Challenges and opportunities of the G20 as a green hydrogen forum. Ecologic Institute, Berlin. Available at:https://www.ecologic.eu/19230

[18] Thomas Hale; Catalytic Cooperation. Global Environmental Politics 2020; 20 (4): 73–98. doi: https://doi.org/10.1162/glep_a_00561

[19] Amos Wemanya & Kerstin Opfer (2022): Principles for Just Energy Transition Partnerships in the African Energy Context. Available at: https://www.germanwatch.org/en/87617

JETPs and other cooperative activities with the Global South, a permanent working group could be established.

- **Expand JETPs to other countries.** Focusing on the countries who show the political willingness to be ambitious and those most relevant for global climate action. However, the G7 should also consider expanding JETPs to smaller countries, that may not be high emitters but have good prospects for a successful energy transition. Such countries could become exemplary champions for the transition.

Recommendations for the G20

At the G20 level, the politics prove more complicated than at G7. Geopolitical conflicts are dominating the agenda. Moreover, donor, recipient, candidates, and countries that will unlikely have a role in JETPs are all part of G20. Still, there are some measures the G20 can focus on:

- **Establish a platform and format for exchanging and disseminating best-practices** for and ways to support just transitions, including the experiences from the JETP.
- **Strengthen its commitment to skills training, capacity building, and community support**. The G20 can play a role in exchanging good practices and experiences and developing guidance for the community dimension of the just energy transition. This could include a commitment to increasing funding for such activities in development cooperation and as part of partnerships.

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