itf impact taskforce

JUST TRANSITION FINANCE

MOBILISING INSTITUTIONAL CAPITAL TO DELIVER A NET ZERO WORLD WHERE NO-ONE IS LEFT BEHIND

ACTIONS FOR ADVISORS

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Actions for advisors

Fulfilling the UN Sustainable Development Goals (SDGs) and transitioning to a world of Net Zero carbon emissions at the pace required – and in a way that's just and inclusive for all – requires trillions in capital every year.

A global transition to Net Zero that is inclusive and socially beneficial – i.e. a Just Transition – can only be achieved with a fundamental shift in financing. This summary highlights key actions that advisors can take to help achieve a global Just Transition, based on the findings of the Impact Taskforce's report, 'Mobilising institutional capital towards the SDGs and a Just Transition'. The Impact Taskforce's recommendations build on consultations with over 170 finance, policy and thought leaders representing over 110 organisations in 38 countries.

WHAT IS A 'JUST TRANSITION' – AND WHY DOES IT MATTER?

The climate crisis is one of the defining challenges of our time. But there is growing consensus that a single focus on achieving net zero emissions is not enough.

↳ To be successful, climate action also needs to address the socio-economic impacts of moving to Net Zero – from potential job losses to rising household energy prices.

↳ It needs to be recognised that the impacts of climate change tend to disproportionately affect those in poverty and can exacerbate existing inequalities.

↳ To gain support and avoid social tensions or unrest, the transition to Net Zero needs to be fair – and seen to be fair – across regions and across the socio-economic spectrum.

A JUST TRANSITION NEEDS TO CONSIDER:

1 **Different climate transition and planet preservation strategies across sectors.**

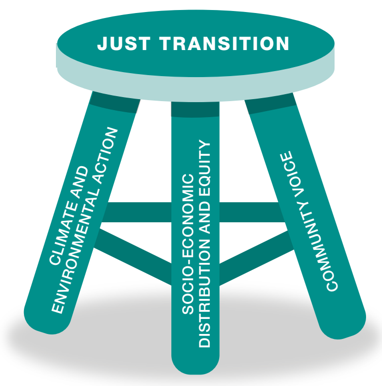
2 **Geographic disparities, needs and priorities at international, regional and national levels.**

3 **Affected, underserved and marginalised communities, households, workers and enterprises.**

THE THREE JUST TRANSITION ELEMENTS

Given the considerations above, there are three critical drivers of a Just Transition applicable across geographies, sectors, policies and investments. To be aligned with a Just Transition, actions should:

- Advance Climate and Environmental Action
- *AND* Improve Socio-economic Distribution and Equity
- *AND* Increase Community Voice



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Why advisors are key to the Just Transition

- Attracting the trillions in private institutional capital that are needed to help fund a Just Transition to Net Zero will require systemic change in global financial markets, delivered through concerted, focused action by all market participants
- Those professionals who advise major investors – including consultants, auditors, investment banks and other intermediaries – are critical to persuading them to move from a sole focus on (often short-term) financial gain to using capital to deliver long-term social and environmental change as well
- By gaining a deeper understanding of Just Transition principles and putting them at the heart of their advisory activities, advisors can give institutional investors the comfort and confidence to move off the sidelines and deploy capital in areas that may initially be unfamiliar
- Adopting a Just Transition approach offers a differentiation opportunity for advisors, as support on the integration of economic and social objectives is increasingly sought after by institutional investors

What advisors can do to advance a Just Transition

ACTION 1: RECOGNISE THE IMPERATIVE OF A CLEARLY-DEFINED JUST TRANSITION, INTEGRATING BOTH ENVIRONMENTAL AND SOCIAL OBJECTIVES

A successful and sustainable global transition to Net Zero requires a clear and shared understanding by all market actors as to what constitutes a Just Transition. It also requires market actors to break down the traditional silos that exist between social and environmental action, and invest in ways that integrate both simultaneously.

The Impact Taskforce identified three critical Elements of a Just Transition, applicable across all geographies, sectors, policies and investments. To support a Just Transition, initiatives should include the three Elements of advancing Climate and Environmental Action; improving Socio-economic Distribution and Equity; and increasing Community Voice. The Impact Taskforce's report details the actions that each Just Transition Element involves and the investable opportunities/strategies that investment vehicles might focus on to achieve them.

By collectively subscribing to these Just Transition Elements, advisors will be powerfully positioned to help institutional investors to focus on deploying capital to those areas where action is most urgently required.

To move towards a Just Transition, it is essential for advisors to help institutional investors move beyond a siloed focus on climate/environmental or social considerations and integrate them, alongside giving a voice to communities affected by investments.

ACTION 2: FOCUS ON THE MARKETS AND ASSET CLASSES THAT ARE CRITICAL TO ACHIEVING A JUST TRANSITION

All asset classes are important for achieving the SDGs and a Just Transition. However, the Impact Taskforce report identifies principal areas of investment that are likely to be most effective in delivering the Just Transition Elements identified above. Advisors are invited to focus on these areas when supporting investors.

Principal areas of investment focus for a Just Transition		
Emerging markets	**Private investments**	**Public fixed income**
Emerging markets present the biggest gap[1] in funding a Just Transition – but also some of the biggest opportunities. These are also the markets where the impact of climate change is most acute.	Private equity, debt and infrastructure offer a powerful means to achieve social and environmental objectives, given the greater influence and control they offer investors compared to public equity and debt.	Fixed income meets investor demand for familiar products that can deliver an attractive, reliable yield and good liquidity.

Being less transparent and less liquid, investing in emerging markets and private asset classes can require specialist support. However, advisors should be mindful that this extra effort doesn't result in a prohibitive 'complexity premium' that can deter institutional investors.

By helping to build deeper data and insight in these markets, advisors can help to reduce the required effort (and therefore cost) to participate in transactions over time.

Alongside identifying three Just Transition Elements (see above), the Impact Taskforce's report also provides a Just Transition Blueprint. The Blueprint sets out principles to inform the design of Just Transition investment vehicles – from strategy to structure to governance and operations. Advisors are encouraged to use this Blueprint (alongside asset managers, investors and regulators) to support the development of Just Transition financing vehicles.

1 The UNEP Finance Initiative estimates the funding gap for achieving the SDGs in emerging markets at USD 3.5 trillion per year, compared to USD 0.1 trillion in advanced economies.

ACTION 3: SUPPORT THE INSTRUMENTS AND TOOLS THAT CAN HELP TO DE-RISK JUST TRANSITION INVESTMENTS

A number of real and perceived risks deter institutional investment into the areas where it is most needed to deliver a Just Transition. This notably includes investments in emerging markets. However, many of these risks can be addressed by incorporating certain tools and instruments into transactions and investment vehicles. For example:

- **Subordinated capital** can provide an important de-risking mechanism as senior-ranking tranches are protected by junior tranches, typically held by impact investors, which absorb losses first

- **Insurance** can be used to cover specific risks – such as political, trade credit or non-payment – so that institutional investors are able to participate in an investment vehicle that would otherwise not fit within their risk budgets

- **Securitisation** allows loans to be packaged up into securities paying cashflows with varying risk-return profiles – enabling institutional investors to align income streams with their risk profile

- **Loan syndication** enables a lead investor such as a multilateral development bank (MDB) to parcel out part of a loan to third-party investors, enabling the latter to benefit from the MDB's sourcing capabilities, emerging market experience and preferred creditor status

By working closely with other market actors including asset managers, asset owners, and regulators – and by building their own understanding of these instruments – advisors can help Just Transition investing to become a viable proposition for many more mainstream institutional investors.

Investment banks play a key role in structuring large-scale vehicles that can encourage institutional investor participation in emerging markets using the instruments detailed in the Impact Taskforce's report. All sell-side institutions are encouraged to see how their expertise can be used bring investors with different risk-reward requirements together to help fund Just Transition projects and structure relevant investment vehicles.

ACTION 4: BE PART OF AND CONTRIBUTE TO BUILDING AN ECOSYSTEM OF SUITABLE INTERMEDIARIES

There is a growing number of advisors and consultants and investment banks seeking to support investors aiming to deliver targeted social and environmental impact. But their numbers need to be far greater to give more the institutional investor community the confidence it needs to deploy capital at the scale now required. At the same time, a Just Transition approach offers an opportunity for differentiation to advisors, in response to the increasing demand for support on the integration of economic and social objectives by institutional investors.

All professionals in an advisory capacity are therefore invited to build their understanding of a Just Transition and what constitutes a Just Transition investment – and commit to work with their peers to help develop the framework of expertise necessary to support and facilitate investors on their journey.

Examples of Just Transition investments

There are multiple examples of investments aligned with a Just Transition already on the market. Detailed case studies of select investment propositions, as well as further examples of investments on the market, are available here.

Asset class hierarchy			Vehicle	Case study	Examples
Alternatives	**Private equity**	**Private equity** (Note: Forestry included herein, however, often included in real assets depending on investor allocation buckets)	**Private equity fund** (direct)	**LeapFrog**: Emerging Consumer Fund III	• **DPI**: African Development Partners III • **New Forests**: Tropical Asia Forest Fund • **TPG**: Rise Fund II
			Fund of funds	N/A	• **AllianzGI**: AfricaGrow Fund • **Credit Suisse**: Climate Innovation Fund
	Private debt	**Private debt**	**Private debt fund**	**Ninety One**: Africa Credit Opportunities Fund 2 **responsAbility**: Access to Clean Power Fund	• **FMO/NNIP**: Emerging Markets Loans Fund • **BlueOrchard**: InsuResilience Investment Fund • **Triodos IM**: Triodos Microfinance Fund
	Real assets			**Actis**: Energy Fund 4	• **Ninety One**: Emerging Africa Infrastructure Fund • **Africa Finance Corporation**: Infrastructure Climate Resilient Fund
		Real estate	**Real estate fund**	**IHS**: IHS Fund II SA	• **Divercity**: Urban Property Fund • **Schroders**: Schroder Capital UK Real Estate Impact Fund
Fixed income		**Bonds**	**Bond fund**	**BlueOrchard**: Schroder International Selection Fund BlueOrchard Emerging Markets Climate Bond fund (CBF)	• **Amundi/IFC**: Amundi Planet Emerging Green One • **IFC**: Masala bond programme (Note: Alternative structure)

All actors in global financial markets are invited to work together to achieve a Just Transition, and design and deliver financial solutions that fund the necessary social and environmental actions in the urgent timelines now required. By taking the actions listed here, advisors such as consultants, auditors, and investment banks can support investors, whatever their starting point, in deploying capital to the investment solutions that will help build a more sustainable and inclusive world for all.

For other Just Transition Finance Action Summaries in this series and case studies of financing vehicles that can help deliver a Just Transition, visit www.impactinvest.org/just-transition-finance/

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