JUST TRANSITION FINANCE

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

G7

ACTIONS FOR G7 POLICY MAKERS

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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 G7 policy makers 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.

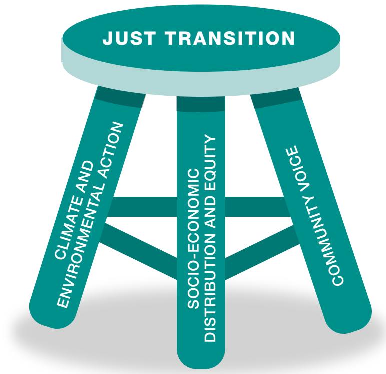
2 Geographic disparities, needs and priorities at international, regional and national levels.

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 G7 policy makers are key to the Just Transition

- Ensuring the transition to a sustainable and inclusive world for all requires conscious, intentional, proactive and concerted action across the world. The Group of Seven (G7) organisation of the world's largest developed economies (UK, US, Canada, Japan, Germany, France and Italy, plus the EU) is a critical convenor for driving co-ordinated action and commitment among the world's wealthiest nations
- G7 governments and the development institutions they control are already allocating billions each year to climate action. But public monies will not be enough to finance a Just Transition that integrates environmental and social objectives. Alongside their own funding activities, G7 nations should help mobilise private capital too.
- G7 governments can support the Just Transition directly and indirectly through allocation of public funding, enabling greater ambition within their development finance institutions and sovereign wealth funds, and through membership of multilateral development banks to deliver the SDGs, and pushing for standardised, transparent reporting on environmental and social outcomes to measure progress.

What G7 policy makers 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. 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 subscribing to these Just Transition Elements and integrating them into dialogue and legislation at all levels, G7 policy makers can collectively make clear what 'good looks like' and therefore help spur concerted, focused and effective action.

> Rapid progress is needed on delivering a Just Transition throughout the world. But particular effort needs to be put on supporting emerging and frontier markets where the funding gaps and needs – and the opportunities for impact – are greatest.[1]

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 2: MAKE CAPITAL MOBILISATION A CORE OBJECTIVE OF DEVELOPMENT FINANCE INSTITUTIONS

G7 nations are the majority shareholders of many of the world's largest multilateral development banks (MDBs) and bilateral development finance institutions (DFIs) – the institutions set up to help fund economic development in emerging markets.

These institutions have made substantial funding commitments towards the SDGs and Just Transition activities. MDBs alone committed $61.6 billion towards climate finance in 2020, for example. But public monies alone will not be enough. MDBs and DFIs can use their status, networks and local market expertise to help mobilise private capital – principally the $154 trillion held by institutional investors globally.

To help make this happen, G7 foreign and development ministers are invited to:

- Amend the objectives of MDBs, DFIs and other development banks and agencies to make capital mobilisation an objective of equal weight as balance sheet investment
- Structure incentive mechanisms so that every mobilised dollar receives at least as much recognition as every dollar invested on the organisation's own account

As the majority shareholders of many MDBs and DFIs, G7 members can provide strategic direction by mandating greater ambition for these institutions around, and commitment to delivering, the SDGs and Just Transition outcomes.

ACTION 3: PROVIDE MORE FINANCING SUPPORT TO MDBs AND DFIs

Making mobilization of institutional capital an objective equal with balance sheet investment will have implications for the business models of MDBs and DFIs. G7 shareholders are therefore invited to provide additional financing and support to:

- Strengthen the role MDBs and DFIs play in developing market infrastructure in emerging and frontier markets and assisting market actors to establish new investment vehicles
- Expand project pipeline development and generation of primary investable opportunities in these markets
- Expand the investment tools within these institutions – especially those that can address the risks (real and perceived) faced by institutional investors in investing in Just Transition opportunities, particularly in emerging and frontier markets
- Expand the ability of MDBs and DFIs to provide concessionary capital that can participate in blended finance solutions alongside institutional investors

By allowing development institutions to adapt their business models to support and collaborate with institutional investors, G7 policy makers can help to increase the flow of capital in pursuit of positive impact exponentially.

To further drive private institutional participation in Just Transition opportunities, G7 policy makers are invited to encourage MDBs and DFIs to package and sell relevant mature and strong-performing assets in their portfolio – whether directly or through securitisation and other instruments. Enabling institutions to acquire proven assets will help stimulate participation and in turn help to build secondary market activity.

ACTION 4: EXPAND THE USE OF GUARANTEES IN EMERGING MARKETS

Guarantees can pay a critical role in Just Transition financing. By protecting against the risk of non-payment, guarantees can, for example, enable a financing proposition to achieve an investment-grade rating. This in turn can make a transaction acceptable to a broader range of investors. Guarantees can also be used to free up capital on an institution's balance sheet, allowing it to extend new loans.

G7 policy makers are encouraged to expand the use of guarantees, particularly for investment in emerging markets where risk mitigation remains a material concern for institutional investors. This can be done by:

- Building on the track record and operational infrastructure of the Private Infrastructure Development Group (PIDG) and invest in other existing and new entities that can provide guarantees
- Strengthening the balance sheets of existing providers of guarantees in the immediate term
- Funding the replication of existing guarantee provider models (e.g., GuarantCo and InfraCredit) in emerging markets, with a target of two such entities a year
- Supporting the use of guarantees in investment vehicles managed by development finance institutions and multilateral development banks of which they are shareholders
- Bolster the balance sheets of existing and new entities to have a minimum guarantee capacity of $1 billion and a target guarantee ratio of five to 10 times that capacity

By enabling guarantees to be integral element of Just Transition transactions – both at the project and vehicle level – G7 policy makers can address many of the key barriers currently limiting the flow of global institutional capital to where it can have the greatest impact.

G7 members are invited to support developing countries in strengthening their own legal and regulatory systems so these markets can be regarded as reliable and accessible for institutional investors – both domestic and international.

ACTION 5: BUILD MOMENTUM TO ACHIEVE THE SDGs AND A JUST TRANSITION

Achieving the SDGs, confronting the climate crisis and meeting the needs of people requires simultaneous and coordinated change. Instead of traditional patterns of sequential change and waiting for others, every party should commit to taking specific action now.

G7 policy makers can help drive momentum by:

- Marking global progress in implementing the recommendations in the Impact Taskforce report at successive G7 meetings, holding all actors of the global system to account
- Collaborating with the global community of National and Regional Advisory Boards of the Global Steering Group (GSG) for Impact Investing to help maintain action
- Pushing for the ongoing development of international impact reporting standards that enable and require activity and progress to be compared by country, sector or company[2]
- Building evidence demonstrating the effectiveness of financing an inclusive and sustainable society for all

2 See the report of the G7 Impact Taskforce's workstream on impact transparency, integrity and harmonisation.

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)

Global mobilisation of capital to support a Just Transition at the pace required to avert an irreversible climate crisis demands full commitment and leadership from the world's wealthiest nations. By taking the actions listed here, G7 policymakers can ensure that commitments and pledges are translated into concrete, effective actions – and that the full combined power of public and private capital is harnessed to deliver a Just Transition to Net Zero globally.

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/