itf impact taskforce

JUST TRANSITION FINANCE

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

ACTIONS FOR POLICY MAKERS AND REGULATORS

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Actions for policy makers and regulators

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 policy makers and regulators 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.**

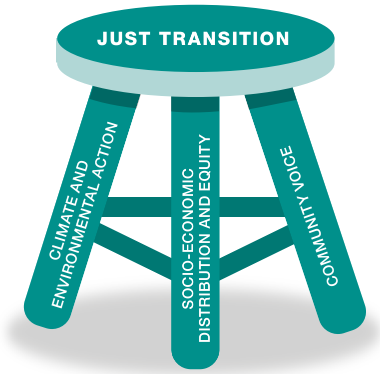
2 **Geographic disparities, needs and priorities at international, regional and national levels.**

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 policy makers and regulators are key to the Just Transition

- Public funds will not be enough to finance a Just Transition. Alongside their own funding activities, governments are invited to help mobilise private capital too
- This requires changes in capital markets and institutional investment (e.g. pension fund) legislation and coordination at the global, regional, and national level
- National governments and regulators are essential to creating an environment in which their country's institutional investors are supported, incentivised (and even mandated) to deploy capital at scale and on an ongoing basis to meet challenges facing society as a whole
- Countries will have different starting points and trajectories to achieving a Just Transition. National regulators are best placed to assess development priorities when designing financing solutions – e.g. modernising energy infrastructure, meeting energy demand, providing employment and addressing inequalities

What policy makers and regulators can do to advance a Just Transition

ACTION 1: PROVIDE REGULATION TO SUPPORT JUST TRANSITION

Financing a Just Transition and the SDGs requires creating suitable investment vehicles in which to deploy capital at scale. These vehicles should incorporate the three Just Transition Elements identified in the Impact Taskforce Report – namely: Advancing Climate & Environmental Action, Improving Socio-economic Distribution and Equity, and Increasing Community Voice. See the Impact Taskforce's report for further details on the Just Transition Elements.

Policy makers are invited to ensure that their country provides an enabling regulatory environment where viable investable opportunities for Just Transition vehicles can flourish. For example, professionally managed infrastructure project tenders targeting Net Zero require clear rules of engagement and tariff structures to create investor comfort and enable such projects to become viable pipeline deals. The same applies to public procurement tenders for social investments (e.g. affordable housing, healthcare facilities, education etc).

ACTION 2: REVIEW AND ELIMINATE REGULATORY BARRIERS RESTRICTING POTENTIAL INVESTMENT IN JUST TRANSITION FINANCING VEHICLES

Priority areas for Just Transition finance may be traditionally associated with negative elements from the point of view of regulation for institutional investment, including perceived higher risk or limited liquidity. This is particularly true in emerging markets, which present the biggest gap in funding a Just Transition (an estimated $2.5 trillion a year[1]) and where institutional capital is not flowing at the scale required.

Regulators are encouraged to examine and address all barriers restricting participation by domestic institutional investors, particularly pension funds and insurance companies, in investment vehicles that advance the SDGs and a Just Transition, particularly those in emerging markets. For example:

- Industry regulators should ensure that definitions of fiduciary duty are not a barrier to investors considering the impact of investments on society and the environment
- Regulation should encourage and support institutional investment in emerging markets and private investments (private equity, debt, real estate and infrastructure), acknowledging in particular the illiquidity these investments involve and the longer time commitment they require from investors

Action to support a Just Transition is not only needed by policy makers in developed economies. Continued effort is needed by governments and regulators in emerging markets to develop and strengthen their legal and regulatory systems so these markets can be regarded as reliable and accessible for institutional investors – both domestic and international.

ACTION 3: INCORPORATE A JUST TRANSITION APPROACH INTO NATIONAL DEVELOPMENT PLANS

National Development Plans (NDPs) and similar policy planning documents are used by a number of countries to set out their short to medium-term plans for national infrastructure spending – including plans to meet climate action pathways. These in turn often inform the infrastructure investment activities of major institutions such as pension funds. By incorporating Just Transition goals integrating climate action with social objectives and community empowerment into development plans, policy makers can help direct capital to where it is most needed. NDPs can also be highly relevant for Just Transition financing vehicles that are seeking public monies – e.g. as part of a public-private blended transaction.

Alignment with NDPs is one of the most powerful ways to support the growth of a green economy, with better outcomes for all stakeholders through, for example, decreased levels of pollution or climate-aligned job growth.

1 UNEP Finance Initiative (2018): Rethinking impact to finance the SDGs

ACTION 4: MAKE CAPITAL MOBILISATION A KEY OBJECTIVE OF PUBLIC OR QUASI-PUBLIC INSTITUTIONS

Sovereign wealth funds (SWFs), development finance institutions (DFIs) and multilateral development banks (MDBs) play an essential role in achieving a global Just Transition. By having the risk capacity to go where the private sector cannot, they are able to create investable pipelines and functioning markets so that private capital can ultimately follow.

Governments are often the sole shareholders of their SWFs and DFIs, as well as joint shareholders of MDBs. They can therefore drive greater ambition and commitment at these institutions to help finance and deliver Just Transition outcomes, including mobilising private institutional capital. To help do this they can:

Mandates and incentives	Emerging markets	Investments
• Amend the mandates of DFIs and MDBs to make mobilisation of private capital an objective of equal weight to balance sheet investment • Structure targets and incentive mechanisms so every mobilised dollar receives at least the same recognition as every dollar invested on the institution's own account	• Strengthen, with funding support, the role MDBs and DFIs play in developing local market infrastructure in emerging markets and in assisting market actors to establish new investment vehicles • Provide additional funding to strengthen pipeline development and generation of primary investable opportunities in emerging markets	• Expand the investment tools within SWFs, DFIs and MDBs to address the risks (real or perceived) faced by institutional investors in Just Transition investments • Support DFIs' and MDBs' ability to provide concessionary capital to help catalyse institutional investment • Encourage MDBs and DFIs to package and sell strongly-performing assets within their portfolios to institutional investors to stimulate participation and catalyse secondary market activity

ACTION 5: ACT AS JUST TRANSITION CONVENORS

Governments can act as a convener to achieve a Just Transition. At the national level, they can push for transparent and standardised reporting on environmental and/or social outcomes. They can (as many already are) also support the development of international impact reporting standards, helping activity and progress to be more easily compared by country, sector or company.

Regulators and policy makers have a central role to play in ascertaining how investment activity is (or isn't) advancing the development agendas of countries and regions. By providing clarity around who is being served and who is being left out of a particular investment opportunity set, they can understand and spotlight which needs and opportunities still need to be addressed. This also help them to understand where funding gaps are, build additional opportunities and distribute funding to projects where it can have the most impact.

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 private capital to support a Just Transition cannot be achieved – or sustained – without full policy and regulatory support from developed and developing countries. By taking the actions listed here, policy makers and regulators can help institutions to deploy capital at the scale and pace required to address the moment's environmental and social challenges.

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/