itf impact taskforce

JUST TRANSITION FINANCE

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

ACTIONS FOR ASSET MANAGERS

UK Government

G7 United Kingdom 2021

GSG Driving real impact

impact investing institute

Actions for asset managers

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 asset managers 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.

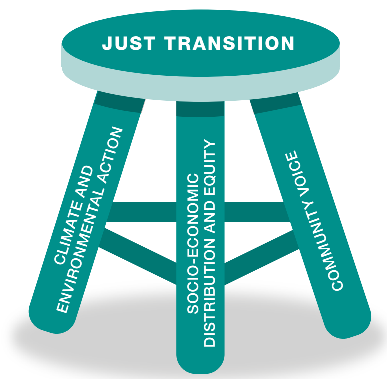
A JUST TRANSITION NEEDS TO CONSIDER:

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



Why asset managers are key to the Just Transition

- Asset managers can design, deliver and manage investment vehicles that can accommodate large-scale investing to support a Just Transition
- In particular, they can launch pooled investment funds that offer a familiar means for institutional investors such as pension funds, insurers, foundations and family offices to deploy capital around the world
- The local, on-the-ground expertise often held by asset managers is particularly important for directing capital to emerging markets – where some of the biggest and most critical opportunities for achieving the SDGs and a Just Transition lie[1]

What asset managers can do to advance a Just Transition

ACTION 1: BRING JUST TRANSITION PRODUCTS TO MARKET TO ACCELERATE PRIVATE CAPITAL MOBILISATION

Over the past decade, asset managers have broadened the range of 'responsible', 'sustainable' and 'impact' investment funds available to both institutional and retail investors. But with the bulk of institutional capital still sitting on the sidelines, that activity should be stepped up.

Asset managers are invited to design and deliver investment vehicles that incorporate the three Just Transition Elements identified by the G7 Impact Taskforce: Advancing Climate & Environmental Action, Improving Socio-economic Distribution and Equity, and Increasing Community Voice.

The Impact Taskforce report details the actions that each Just Transition Element involves and the investable opportunities/strategies that investment vehicles might focus on to achieve them. The relative prominence of the individual Elements will depend on the respective strategy or funded initiative being pursued. But regardless of the primary area of priority, all three Elements should be present to qualify as a Just Transition investment.

To move markets towards the SDGs, asset managers and owners are invited to move beyond a siloed focus on climate/environmental or social considerations and instead integrate them, alongside giving a voice to communities affected by investments, within portfolios across all asset classes. See the Impact Taskforce report for further details on the Just Transition Elements.

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: FOCUS ON MARKETS AND ASSET CLASSES THAT ARE CRITICAL TO ACHIEVING THE SDGS AND 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 listed above. Asset managers are encouraged to focus on these areas when developing Just Transition investment vehicles.

Principal areas of asset manager focus for a Just Transition		
Emerging markets Emerging markets present the biggest gap in funding a Just Transition – but also some of the biggest opportunities. These are also the markets where impact of climate change is – and will be – the most acute.	**Private investments** 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.	**Public fixed income** Fixed income meets investor demand for familiar products that can deliver an attractive, reliable yield and good liquidity.

ACTION 3: ADOPT THE JUST TRANSITION BLUEPRINT FOR VEHICLE DEVELOPMENT

The Just Transition Blueprint is a tangible starting point illustrating how Just Transition considerations can be integrated into every stage of vehicle creation and management. The Blueprint can inform the design of any institutional-grade investment vehicle – providing consistency and clarity to asset managers while maintaining full flexibility to design vehicles across any asset class or risk-reward profile.

The Just Transition Blueprint for investment vehicles		
1. Ambition The vehicle's ambition is grounded explicitly in the three Just Transition Elements and in local context and needs.	**2. Investment Strategy** The vehicle's strategy is Just Transition relevant and investable by institutional investors in terms of e.g. risk/return profile, size and diversification.	**3. Outcomes Framework** The outcomes framework has an integrated focus on the three Just Transition Elements and fosters transparency and accountability.
4. Structure The structure, terms and choice of asset classes enable the capital invested to advance a Just Transition and allow for institutional investor participation.	**5. Governance** The governance structure holds the vehicle fully accountable to its Just Transition ambition and enables broad participation relevant voices.	**6. Operations** Just Transition ambitions are incentivised among staff and integrated across policies and procedures.

As well as providing a foundation for new vehicles, existing vehicles can undertake adjustments (in some cases modest) to be aligned with the Just Transition Blueprint.

ACTION 4 : INCORPORATE TOOLS TO ENCOURAGE PRIVATE CAPITAL PARTICIPATION

A number of barriers hold institutional investors back from investing into emerging markets, including real and perceived macro risks, lack of liquidity and lower credit ratings. Alongside diversification benefits offered by pooled investment vehicles, asset managers can help overcome these barriers by incorporating existing and familiar tools and instruments into investment solutions, such as those provided by concessional capital providers.

Examples of tried-and-tested tools include:

- By combining private capital with other types of capital willing to accept different terms, **blended finance can direct private sector capital into impact investment** opportunities in developing countries that would otherwise be sidelined
- The integration of guarantees, insurance and subordinated capital layers can **provide risk mitigation and protection** at a portfolio or vehicle level
- To address lack of size and available pipeline, fund-of-fund structures (or similar platforms) can **aggregate smaller vehicles into a combined portfolio** would enlarge and diversify transactions

In this way, asset managers can help to develop risk propositions that are acceptable to a much wider range of institutional investors.

To encourage private capital participation, asset managers should pursue partnerships with parties that can provide the structuring tools to build products, including investment banks and other transaction intermediaries.

ACTION 5: BUILD PARTNERSHIPS TO FURTHER IMPACT INVESTING

Unlike responsible or sustainable investment, impact investing seeks to achieve clearly defined and measurable social or environmental impacts, rather than simply avoiding negative externalities. For mainstream asset managers, moving into impact investing can open new sets of opportunities to attract capital from institutional investors. Partnerships between impact specialists and mainstream managers can further increase the appeal of impact propositions.

Such partnerships can include asset managers working with public or quasi-public organisations such as multilateral development banks and development financial institutions, harnessing their status, networks and ability to provide de-risking support through blended finance.

ACTION 6: DEMONSTRATE BEST-IN-CLASS TRANSITION INVESTMENTS

Expanding the volume and pace of capital towards a Just Transition requires all parties to know where the money is flowing and what is happening as a result of capital being invested. Like all other actors, asset managers are invited to commit to collective and consistent transparency, including by:

- Providing examples of what ‘best-in-class’ Just Transition investments look like in practice
- Publishing results of investment activity detailing how targeted SDG and Just Transition outcomes are being achieved
- Sharing performance and other data to help improve the flow of reliable information to support creation of follow-on funds

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)

Concerted and coordinated action is required from asset managers, asset owners and all the other actors that support them – to use existing pathways or create new ones to enable institutional capital to flow to where it can have the most impact. Asset managers are invited to adopt a Just Transition approach in their investment products, as a means to materially increase the amount of capital funding a Just Transition and the SDGs.

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/