

# Mobilising institutional capital towards the SDGs and a Just Transition

SUMMARY REPORT | WORKSTREAM B

WE ARE GRATEFUL TO OUR FUNDERS FOR THEIR FINANCIAL SUPPORT FOR THE IMPACT TASKFORCE.



# CONTENTS

<b>ACKNOWLEDGEMENTS</b>	3
<hr/>	
<b>EXECUTIVE SUMMARY</b>	
Harnessing the power of financial markets for public good	5
A Just Transition fit for the future	5
Activating markets towards the SDGs and a Just Transition	6
Mobilising capital at scale towards the SDGs now	6
Recommendations	7
<hr/>	
<b>FOREWORD</b>	9
<hr/>	
<b>INTRODUCTION</b>	
G7 context for Workstream B	10
The Impact Taskforce context for Workstream B	10
Workstream B report	11
Who is the report for?	12
<hr/>	
<b>1 WHY DOES MORE CAPITAL NEED TO MOVE FASTER TOWARDS THE SDGs? AN IMMEDIATE OPPORTUNITY TO ADVANCE A JUST TRANSITION</b>	
<b>1.1 Section summary and key takeaways</b>	13
<b>1.2 Harnessing the power of financial markets for public good</b>	15
1.2.1 Leveraging ESG and impact investment for the SDGs	15
1.2.2 Financial market key actors need to move simultaneously	16
<b>1.3 A Just Transition fit for the future</b>	17
1.3.1 Net Zero is a start – but it is not enough	17
1.3.2 A Just Transition	17
1.3.3 Integrated Just Transition Elements fit for the future	20
<b>1.4 The opportunity to finance a Just Transition</b>	21
1.4.1 Public funding towards a Just Transition	21
1.4.2 Private funding towards a Just Transition	21
1.4.3 Possible investment strategies for Just Transition finance	22
<hr/>	
<b>2 WHAT ARE THE UNITS OF ACTION FOR MOVING MARKETS TOWARDS THE SDGs?</b>	
<b>2.1 Section summary and key takeaways</b>	24
<b>2.2 The principal levers and change makers</b>	25
2.2.1 Background to the scope of the report	25
2.2.2 Moving markets towards the SDGs	26
<b>2.3 Institutional investors' key barriers to investing in emerging markets in private transactions – and how to overcome them</b>	27
<b>2.4 The role of blended finance</b>	31
<b>2.5 Instruments and tools for accelerating and increasing flow of capital</b>	32
2.5.1 Subordinated capital	32
2.5.2 Guarantees	33
2.5.3 Insurance	33

2.5.4	Securitisation	33
2.5.5	Local currency financing	34
2.5.6	Performance data and information	34
2.5.7	Partnerships	34
<hr/>		
<b>3</b>	<b>HOW DO WE MOBILISE CAPITAL AT SCALE TOWARDS THE SDGs NOW?</b>	
	ASSET CLASS GUIDANCE FOR JUST TRANSITION FINANCING VEHICLES FOR INSTITUTIONAL INVESTORS	
	<b>3.1 Section summary and key takeaways</b>	36
	<b>3.2 Using familiar vehicles for more effective alignment with the SDGs and to deliver a Just Transition</b>	37
	<b>3.3 Key actors in an investment vehicle</b>	38
	<b>3.4 Just Transition Blueprint for investment vehicles</b>	40
	<b>3.5 Just Transition investment vehicles by asset class</b>	45
	<b>3.6 Just Transition outcomes</b>	46
	3.6.1 Threshold questions	46
	3.6.2 Guidance	47
<hr/>		
<b>4</b>	<b>RECOMMENDATIONS</b>	
	<b>Recommendation 1: Urgent and coordinated movement</b>	50
	<b>Recommendation 2: Environmental and social integration for a Just Transition</b>	50
	<b>Recommendation 3: Mobilisation</b>	51
	<b>Recommendation 4: Transparency</b>	54
	<b>Note on recommendations</b>	54
<hr/>		
<b>5</b>	<b>MAIN REFERENCES</b>	55
<hr/>		
<b>6</b>	<b>APPENDICES</b>	
	<b>6.1 Appendix 1: Individual acknowledgements</b>	57
	<b>6.2 Appendix 2: Abbreviations and acronyms</b>	60
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# EXECUTIVE SUMMARY

The achievement of global priorities – delivering the United Nations Sustainable Development Goals (SDGs) and delivering an inclusive recovery from the Covid-19 pandemic – will require increased cooperation and innovative partnerships between governments, the private sector and communities.

As part of its presidency of the G7 in 2021, the UK Government mandated the Impact Taskforce (ITF)

to support the development of scalable financial vehicles that harness private capital for public good. The result is a set of actionable pathways for greater amounts of capital to invest in solutions that meet the long-term and inextricably linked environmental and social needs of people and the planet. The present summary report highlights key insights from the [full report](#) of the Workstream on Instruments and Policies to Scale Impact Investment (“Workstream B”) of the Taskforce.

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## Harnessing the power of financial markets for public good

The current momentum moving capital towards impact needs to be accelerated. A concerted and urgent effort by all actors is required to move funding – using relevant instruments and vehicles – into the SDGs and transition to a Net-Zero world in which no one is left behind. This applies to investment opportunities across the world and has particular relevance for emerging markets.

Combined, environmental, social and governance (ESG) and impact pools of capital can help realise an inclusive and sustainable world for all. We now

need to see much more of the vast ‘traditional’ capital resources move into ESG and impact. Achieving the SDGs depends on it.

Capital that ignores environmental consequences and social inequity and dislocation will be increasingly vulnerable to performance as well as reputational risk. Conversely, capital that pursues investment strategies in which environmental and social objectives are integrated not only mitigates exposure to risk, but also expands the opportunity landscape for capital to generate positive financial, environmental and social returns.

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## A Just Transition fit for the future

As climate finance is galvanising attention, there is an increasing consensus that a single focus on reducing CO<sub>2</sub> emissions to achieve Net Zero is not sufficient and that a shift in perspective to also include its socio-economic impacts is essential. A Just Transition that pays attention to our planet and its people is needed in order to address climate change and its effects on societies in a fair and inclusive way. This will result in a thriving planet where no one is left behind.

While the Just Transition needs to be universal and global, Just Transition pathways must be grounded in considerations of local needs, capacity and

priorities to ensure that they are inclusive, fair and equitable as well as to avoid poor or disadvantaged populations becoming worse off. The requirement to reflect locally-specific context does not dilute the global relevance, power of, and need for a common understanding of what a Just Transition means in practice.

The report introduces globally applicable Just Transition Elements which, combined with a tailored understanding of local implementation scenarios, will support and drive further alignment across public and private actors. The three Elements – Climate and Environmental Action; Socio-economic Distribution and Equity; and Community Voice –

work together to ensure that capital meaningfully contributes towards a Just Transition.

The Elements make clear ‘what good looks like’. They will allow the global community to speak the same language when pursuing a Just Transition and they invite, encourage and incentivise actions that can have the most impact in local environments. Only through the adoption of consistent Just Transition Elements can we encourage creative and effective investment approaches by private sector actors while fostering

transparent assessment of where and to whom capital is flowing.

Accelerating the flow of capital towards a Just Transition builds on growing public and private market awareness of the need to consider people and the planet, offers tangibility to a concept with positive resonance and strengthens investment behaviour to integrate environment and social considerations. The three Just Transition Elements can be integrated both into existing and new investment vehicles and those yet to be designed.

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## Activating markets towards the SDGs and a Just Transition

There is significant near-term opportunity to mobilise and allocate capital at scale among different investor types across the spectrum of capital to help achieve the SDGs in general, and a Just Transition in particular. This opportunity exists in both developed and emerging markets and across asset classes, within existing investment products and those yet to come to market.

Large-scale mobilisation of capital into emerging markets by institutional investors is one of the most powerful ways of financing (and so achieving) the SDGs and delivering a Just Transition. While a Just Transition offers an immediate and relevant opportunity to mobilise capital at scale, the instruments and tools highlighted in the report have application across the SDGs. They can and should be tapped to accelerate the volume and pace of capital flowing to meet the needs of people and the planet.

Multiple external and internal investor barriers currently limit the flow of this potentially transformational capital. Although it is important to address the barriers that institutional investors face and structure investable vehicles that respond to

their needs, institutional investors themselves need to act for progress to happen at scale.

Many of the barriers holding some institutional investors back can be overcome with existing tools and instruments, often used in combination. Successful approaches and modalities need to be expanded so that more institutional investors can participate and deploy capital. Efforts can, in the first instance, be concentrated on dialling up the many effective existing structures. Perhaps the most promising is the increased use of guarantees and insurance coverage at a portfolio and vehicle level.

Concerted and coordinated action is now required by both asset owners and asset managers – and all the other actors that support them – to use existing, or create, pathways to enable institutional capital to flow at the scale and pace required to where it can have most impact. Regardless of different starting positions among asset owners and managers, everyone can – and needs to – do a lot more to meet the magnitude of the challenges confronting people and the planet. Current barriers to investment must not be an excuse for inaction – they now need to be a catalyst for engagement and, where needed, innovation.

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## Mobilising capital at scale towards the SDGs now

This is the moment for institutional investors to move beyond their comfort zones, utilising and combining the instruments and tools that will enable them to deploy increasing amounts of capital into SDG investments in emerging markets. Multilateral development banks (MDBs) and bilateral development finance institutions (DFIs) play a particularly important role in mobilising private capital at scale and this role should be encouraged and augmented, not only

by the institutions themselves, but also by their shareholders.

The Just Transition Blueprint and accompanying Principles proposed in the report provide a tangible starting point for developing investment vehicles that align with the Just Transition Elements and can help achieve the SDGs.

The Blueprint provides a robust and comprehensive framework to shape a vehicle's ambition, investment

strategy, structure, outcomes' framework, governance and operations. It also offers clear, consistent and accessible means to demonstrate and monitor throughout a vehicle's lifecycle how it is helping to deliver Just Transition outcomes.

A range of investment vehicles already exist (across asset classes) that – while not labelled explicitly as Just Transition vehicles – successfully demonstrate adherence to some, or even most, of the Just Transition Elements and the Principles of the proposed Just Transition Blueprint.

Case studies and examples featured in the full report illustrate how vehicles can pursue bold environmental and social impact and be attractive to institutional investors – at times with the use of blended finance.

The report also shows how an existing vehicle can undertake modest adjustments to be fully aligned with the Just Transition Elements and Principles. It presents ideas that asset managers and owners can use to develop and participate in new vehicles.

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## Recommendations

The report delivers action-oriented recommendations, tailored for different public and private financial sector actors.

We call on all parties participating in and influencing global financial markets to mobilise investment to support the achievement of the SDGs in general, and a Just Transition in particular.

Mobilisation will be through vehicles and structures that can successfully deliver investment at scale. These vehicles and structures will mobilise capital to achieve the SDGs with a significant subset fulfilling the three integrated Just Transition Elements: Climate and Environmental Action; Socio-economic Distribution and Equity; and Community Voice.

We call specifically on G7 Foreign and Development Ministers to amend objectives of MDBs, DFIs and other development banks and agencies to have a capital mobilisation objective of equal weight with balance sheet investment. This entails structuring incentive mechanisms that promote every mobilised dollar as receiving at least as much recognition as every dollar invested on its own account. Making mobilisation a co-equal objective will have implications for the business models of the MDBs and DFIs. Therefore, we call on the G7 shareholders to provide additional financing support: to expand project pipeline capabilities; to expand the investment tools within these institutions; including capital to be used by the MDBs and DFIs for risk mitigation instruments that address the risk (perceived and real) of institutional investors; and to provide concessional capital where needed to expand blended finance solutions.

We call on the G7 Foreign and Development Ministers to significantly expand the use of guarantees, particularly in emerging markets.

Building on the established track record and existing models of guarantee providers, we recommend investing to strengthen the balance sheets of existing providers of guarantees. We also recommend funding new entities at scale to be domiciled in emerging markets to address the specific challenges (e.g., risk barriers, real or perceived) limiting investment of more institutional capital, domestic and international, in those markets including specifically Africa.

We call on asset managers to use the examples offered in the report to design and bring to market more SDG and Just Transition products with the objective of attracting more private institutional capital. If they commit to this, as they have to reducing portfolio carbon footprints by 2030, asset managers have the opportunity to materially increase the amount of capital flowing to investments that seek solutions aligned with the SDGs.

We call on all asset owners to commit to pursuing investments in vehicles that demonstrably integrate environmental and social objectives, including those that integrate the Just Transition Elements. They are also encouraged to increase their exposure to emerging markets.

We call on all parties to take action now. No matter their starting position, each actor can and should do more to participate in the solutions that will build a more sustainable and inclusive world for all. Commitments and pledges now need to be translated into concrete actions.

The table on the next page provides a roadmap for individual actions which, when taken together, can deliver an inclusive, resilient and sustainable future for people and the planet.

	Recommendations	Audience							
		G7 policy makers	National policy makers and regulators	MDBs/DFIs	Institutional asset owners	Asset managers	Impact investors	Advisors	Ecosystem builders
Urgent and Coordinated Movement	Move together at once	✓	✓	✓	✓	✓	✓	✓	✓
	Build momentum	✓							
Environmental and Social Integration for a Just Transition	Recognise the imperative of a Just Transition, integrating environmental and social objectives	✓	✓	✓	✓	✓	✓	✓	✓
	Engage with and apply the Just Transition Elements	✓	✓	✓	✓	✓	✓	✓	✓
Mobilisation	Accelerate private capital mobilisation towards the SDGs	✓	✓	✓	✓	✓	✓	✓	✓
	Demonstrate commitment to the SDGs			✓	✓				
	Strengthen the enabling environment for SDG investments	✓	✓						✓
Transparency	Demonstrate best-in-class Just Transition investments	✓	✓	✓	✓	✓	✓	✓	✓

# FOREWORD



**Dame Elizabeth Corley**  
Workstream Chair



**Laurie Spengler**  
Senior Advisor

In 2021, there has been a transformational shared recognition of the need to address the crises that people and the planet are facing. These include climate change, structural inequity and Covid-19. Even more importantly, there has been a powerful realisation of the interconnectedness between places and people across the globe. Confronting a pandemic in every corner of the world has shown that it is not possible to view people as living in separate, disconnected communities. Can we use this enlightened awareness of our shared experience and needs to achieve positive results for all? Can we invest the effort and resources required to address the root causes of these crises rather than merely treating the most visible symptoms?

The Impact Taskforce (ITF) has accepted the challenge to consider these questions. It is presenting actionable pathways for mobilising greater amounts of capital to invest in solutions that contribute to meeting the long-term needs of people and the planet. In developing these pathways, Workstream B of the ITF has focused its efforts on an area of activity that is galvanising global attention – climate finance. We have challenged ourselves to identify ways to mobilise more capital that advances social objectives as well as reduces carbon emissions. Simply put, unless communities are supportive of climate solutions being advanced, progress won't happen. The needs of communities, and the people, households and businesses that live and work in them, must be front and centre for climate finance to be effective.

The ITF's starting imperatives are two-fold:

- 1 That more institutional capital must be invested in a future that works for all
- 2 That climate finance must deliver equitable and inclusive pathways to a Net Zero world, in which no one is left behind

These imperatives, in turn, reflect two fundamental points:

- Deep, sustained and real inclusivity must bridge the North-South divide as well as power and resource gaps determined by gender, race and other determinants of exclusion
- Climate and environmental solutions meet the needs of the planet only if they address the needs of people, particularly those not always seen or heard

It is key that all actors adopt a simultaneous approach to achieving the SDGs and a Just Transition. No one should wait on others to take the first step. By moving in concert, capital can be unlocked at the necessary scale and pace. What is particularly hopeful about the recommendations of the G7 Impact Taskforce is that the proposed actions are grounded in tangible examples of what is already working to move capital towards the SDGs.

**Dame Elizabeth Corley**  
Workstream Chair

**Laurie Spengler**  
Senior Advisor

# INTRODUCTION

## G7 context for Workstream B

The achievement of global priorities – delivering the United Nations' Sustainable Development Goals (SDGs) and delivering an inclusive recovery from the Covid-19 pandemic – will require increased cooperation and innovative forms of partnerships between governments, the private sector and communities. Many interpret this statement of reality as an opportunity for positive change; others as a way to avoid existential climate, environmental and social risks. Both interpretations lead to the same conclusion – action is necessary, and on a scale and pace not yet seen.

G7 members have been at the forefront of the development of policy and regulatory environments that help increase the flows of private investment in businesses, social sector organisations and projects that aim to generate and deliver positive,

measurable outcomes. In particular, since the launch of the Social Impact Investment Taskforce in 2013, the G7 has highlighted the importance of innovative financial approaches, including impact investment, to achieve better sustainable development outcomes.

Eight years later, in 2021, there is a greater need than ever for governments and investors to collaborate and use policy instruments, and public and private financing, to tackle the climate and environmental crisis and the long-term impact of the Covid-19 pandemic. Mainstreaming sustainable and impact investment would significantly help to address social and environmental challenges. At the same time, the urgency and momentum around the climate crisis create an opportunity to increase – at scale – the amount of capital seeking to achieve a positive environmental and social impact.

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## The Impact Taskforce context for Workstream B

As part of its presidency of the G7 in 2021, the UK Government mandated the Impact Taskforce (ITF) in July to lead action-oriented discussions around two critical and interrelated areas:

- 1 Impact transparency, integrity and trust
- 2 Support for the development of scalable financial vehicles that harness private capital for public good

The ITF was further invited to incorporate three cross-cutting themes (International Development and Development Finance, Green-Social Interdependence and Diversity, Equity and Inclusion) throughout its work and outputs.

To achieve the twin objectives highlighted above, the ITF has divided its work between two Workstreams, under the overall guidance of a Steering Committee

chaired by The Right Honourable Nick Hurd.

- The Workstream on Impact Transparency, Integrity and Reporting (“Workstream A”) has led the work on the critical need to harmonise and increasingly bring transparent and consistent measurement to impact and environmental, social and governance investment pools, and professionally managed capital in general. The Workstream has been chaired by Douglas L. Peterson. [See Workstream A full report.](#)
- The Workstream on Instruments and Policies to Scale Impact Investment (“Workstream B”) has led the work on outlining actionable pathways to mobilise greater amounts of capital to invest in solutions that contribute to meeting the long-term and inextricably linked environmental and social needs of people and the planet. The Workstream has been chaired by Dame Elizabeth Corley.

## Workstream B report

Reflecting the inextricable link between the wellbeing of people and the environment, combined with the size of the financing challenge to achieve the SDGs, Workstream B has adopted a thematic focus on vehicles and structures that can successfully mobilise institutional investment at scale. Within this SDG thematic focus, specific attention has been given to mobilising capital at scale to advance a transition to a Net Zero world that is inclusive and socially beneficial for all. Although this has global applicability, a particular focus is applied to advancing a Just Transition in middle- and lower-income countries, including in Sub-Saharan Africa. This geographic focus is in line with the mandate of the ITF and reflects the paucity of capital flowing to these markets.

In considering the parties to be engaged to move capital at scale, Workstream B has targeted mobilising more capital from institutional investors. As the holders of the largest pools of investable capital globally, increased participation of these investors is path critical. Importantly, mobilising capital from institutional investors catalyses capital flows from both domestic and international investors, and stimulates domestic and international capital markets. And yet, while they are essential players in a successful action plan to finance the SDGs, institutional investors cannot be expected to act alone.

A central message of the report is that achieving the SDGs and accelerating the volume and scale of capital invested in social, climate and human capital assets, will require concerted action from all. The report pays particular attention to how private and public actors can encourage and support institutional investors in playing their pivotal role. The important role in mobilising capital that can be played by development banks as well as bilateral development finance institutions is specifically highlighted.

Momentum builds momentum when galvanising markets. Market initiatives first honed in private markets, ranging from thematic investing to structural innovation, can and should be expected to influence public markets. Similarly, initiatives first developed within the impact investing market with its disciplined approach to risk, return and impact, can and should be expected to influence other parts and players of the global financial markets. These factors of influence, which are highlighted in the report, are already catalysing action. They will also continue to be important for expanding and accelerating flows of capital from institutional investors in pursuit of the SDGs and, in particular, a Just Transition. By a Just Transition we mean a transition to Net Zero and environmental sustainability that is fair and inclusive. A Just Transition offers an immediate and relevant

opportunity to mobilise capital at scale, but the instruments and recommendations put forward in the report have application across the SDGs. Our expectation is that they will be tapped to accelerate the volume and pace of capital flowing to meet the needs of people and the planet.

In the context of investing capital for public good, we can build on the pioneering work contributed by existing impact investing leaders – asset owners, managers, policy makers, practitioners and ecosystem builders – who have created a body of deals and results over the past decade. Their efforts provide a base of tangible activity, examples and best practice on which to build. Their work helps to chip away at familiar reasons that have held back some investors from acting thus far.

Fundamentally, the type of concerted action envisaged for a quantum leap in capital deployed to advance the SDGs invites all parties to take a step forward now without waiting for others.

As the report sets out, actionable pathways to deploy capital at scale are in our sights. We have the map; the invitation is for each of us to take at least one step forward along the path to financing a sustainable, inclusive and resilient world for all people and places.

To achieve these objectives and take up this invitation, Workstream B has produced this evidence-based report and associated implementation recommendations to:

- Identify best practice
- Stimulate more impact financing mechanisms at scale
- Demonstrate to decision makers how to integrate a Just Transition approach into policy and investments

The report first emphasises the importance of structuring and marketing of financial instruments and policies that scale investment which generates positive impact for people and the planet. The report further underlines how this supports a Just Transition. Understanding the different starting points across the globe for achieving a Just Transition, the report places particular emphasis on emerging markets. Importantly, the report introduces an explanation of ‘what good looks like’ for a Just Transition, providing a common understanding based on three integrated core elements – Climate and Environmental Action; Socio-economic Distribution and Equity; and Community Voice. An effective response to these pressing needs will require determined collaboration by all – public and private players, mainstream and impact investors, environmental-first and social-first strategies and managers, and all other actors operating in and influencing the financial system (Section 1).

The report then highlights key features of current market activity – focused on the expanding opportunities to address barriers that limit capital flows to positive impact. The report highlights the tools, instruments and approaches that are being used – and can be used at greater scale – to navigate existing barriers to unlock private institutional capital at scale. More effective use of existing tools and instruments to mobilise capital at scale will enable enhanced collaboration between, and among, actors (Section 2).

Above all, the report is highly practical and showcases tools for mobilising capital at scale. These tools take the form of guidance on how to use existing instruments and ideas about possible new pathways and instruments that would make

it easier for institutional capital to drive integrated environmental and social outcomes. The report provides guidance that is tailored to different asset classes and can be applied to existing and future investment products, with practical examples across these different dimensions. The examples and guidance provide ways to foster more efficient and effective collaboration and so to mobilise more capital at scale (Section 3).

Finally, the report delivers action-oriented recommendations, tailored for the different audiences of the report across public and private sectors. The recommendations provide specific actions each audience can take that strengthen their individual contributions and bolster greater collaboration for positive and lasting outcomes.

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## Who is the report for?

The report has been written for all those who are able to take further action in response to global priorities. These actors are invited to step up and contribute to increasing the volume and pace of capital building a sustainable and inclusive society for all. The recommendations offered are constructively presented, noting near-, mid- and long-term implications. Reflecting a healthy dose of realism (not all actions can be undertaken immediately), the recommendations offer a set of actions that can be undertaken individually by each identified group. Actions taken by each group will have an impact; together, the potential multiplier effect is exponential.

In the first instance, the report provides guidance for:

- **G7 policy makers**
- **National policy makers and regulators**
- **Institutional asset owners**
- **Multilateral development banks (MDBs) and bilateral development institutions (DFIs)**
- **Asset managers**
- **Impact investors**
- **Advisors**
- **Ecosystem builders**
- **All other financial market actors**

To ensure the relevance of the underlying analysis, guidance and recommendations, the report was developed based on extensive engagement (see Appendix 1) with representatives from the above audiences, to whom we would wish to express our appreciation for their generosity in giving time and sharing insights. In total, we have engaged with 170 individuals, representing over 110 organisations.

In particular, we would like to thank the members of the Technical Working Group and Advisory Panel, the participants in thematic roundtables (including asset and fund managers, impact investing National Advisory Boards and ecosystem builders), as well as the stakeholders engaged through bilateral discussions, who have provided review, thoughtful suggestions and expert feedback.

Our hope for the report is that it serves as a tool for engagement to drive real change. The examples shared and actionable pathways presented offer substantive input to be taken up at decision-making tables of all types for those ready and motivated to act now. Moving from talk to action is not about promulgating a single policy or launching a moon-shot investment instrument or introducing a capital allocation algorithm; rather, it is about each of us using the tools we have at our disposal today to bolster the wellbeing of all people and the planet.

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# 1

## WHY DOES MORE CAPITAL NEED TO MOVE FASTER TOWARDS THE SDGs? AN IMMEDIATE OPPORTUNITY TO ADVANCE A JUST TRANSITION

This section outlines why we need to mobilise institutional capital as a matter of urgency if we are to make material progress in achieving the SDGs; why all actors influencing and participating in financial markets need to move beyond their respective comfort zones if we are to achieve the SDGs; and why financing a Just Transition offers a tangible, relevant and urgent opportunity to apply our collective efforts and demonstrate what is possible in financing an inclusive and sustainable future for all.

### 1.1 Section summary and key takeaways

#### **The current momentum moving capital towards impact needs to be accelerated**

Capital currently on the sidelines needs to be stirred into action towards the United Nations' Sustainable Development Goals (SDGs). A concerted and urgent effort by all financial market actors, including investors from across the capital spectrum – mainstream; environmental, social and governance (ESG); and impact – asset managers, rating agencies, financial intermediaries and advisors, regulators and governments, is required to move the vast funding amounts needed into the SDGs.

#### **Action needs to be truly global, spanning developed, emerging and frontier markets**

Rapid progress is needed on the SDGs throughout the world. That said, particular emphasis and effort must be put on emerging and frontier markets, where the funding gaps are most pronounced and needs – and opportunities – are immense (for the purpose of the report the terms 'emerging markets' and 'developing countries' include both emerging and frontier markets).<sup>1</sup>

#### **ESG and impact investors are leading the pack**

Combined, ESG and impact pools of capital demonstrate the potential realisation of an inclusive and sustainable world for all.

#### **Traditional investors need to follow**

The challenge is to move much more of the vast

traditional capital resources into these pools of capital. Where and how these investors will apply and invest those resources will determine whether we achieve the SDGs.

#### **The investment risks from ignoring, and the investment opportunities from embracing environmental and social strategies are real**

Capital that ignores environmental consequences and social inequity and dislocation will be increasingly vulnerable to performance as well as reputational risk. Capital that pursues investment strategies in which environmental and social objectives are integrated expands the opportunity landscape for capital to generate positive financial, environmental and social returns.

#### **The call for 'Net Zero'**

The unprecedented recognition of the climate crisis has increased the global appeal for urgent and immediate action. The call for a Net Zero climate agenda has been gaining traction across the globe in recent years, moving from the fringes to centre stage in politics and has also moved into the limelight in discussions of international financing flows, including both public and private capital.

#### **Recognising the green-social interdependence and resulting need for a Just Transition**

Within the climate discussion there is increasing consensus that a single focus of climate action on Net Zero is not sufficient and that a shift in

<sup>1</sup> Based on the World Bank country classification system, these include upper-middle income countries, lower-middle income countries and low income countries; all other countries are referred to herein as 'developed'. See World Bank (2021): "World Bank Country and Lending Groups"; <https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups>

perspective to also include its socio-economic impacts is essential. A holistic approach to a Just Transition, paying attention to our planet and its people, is needed in order to address climate change and its effects on societies in a fair, inclusive and lasting way – resulting in a thriving planet where no one is left behind.

### **Local context matters**

While the Just Transition Elements are relevant globally, local context will determine how the Elements are put into action. Just Transition pathways must be grounded in local considerations of needs, capacity and priorities to ensure that they are inclusive, fair and equitable, and to avoid poor or disadvantaged populations becoming worse off. The requirement to reflect locally-specific context does not dilute the global relevance and power of, and need for, a common understanding of what a Just Transition means in practice.

### **Introducing foundational considerations of a Just Transition**

The report introduces and explains four foundational considerations that should apply to any solution that aspires to contribute to, and advance, a Just Transition. Any Just Transition action must: be both universal and place-based; apply across all sectors and be sector specific; be all-inclusive and individually socially beneficial; and be dynamic and grounded in the current situation.

### **Introducing three integrated Just Transition Elements**

The report further introduces three global 'fit for the future' Just Transition Elements: advance Climate and Environmental Action; improve Socio-economic Distribution and Equity; and increase Community Voice. The integrated combination of the three Elements provides a common understanding of what a Just Transition requires. This consistent substantive explanation will support alignment across public and private actors and drive concerted and effective action. Making clear 'what good looks like' will allow the global community to speak the same language in terms of pursuing a Just Transition while inviting, encouraging and incentivising actions that can have the most impact in local environments.

### **Concerted Just Transition action is required across relevant actors**

To achieve a Just Transition, simultaneous effort and action across all segments of societies are needed, in particular with respect to key actors in the public sector, the private sector and communities.

### **Just Transition funding needs and opportunities are vast**

By embracing the three Just Transition Elements, there is a real chance to accelerate the effectiveness of public and private finance deployed towards climate and socially positive solutions. Applying the Just Transition Elements invites investors from every part of the spectrum of capital to allocate capital across asset classes in order to contribute to the change we need to achieve our people and planet objectives.

### **MDBs and DFIs must play a leading role advancing Just Transition finance**

Multilateral development banks (MDBs) and development finance institutions (DFIs) can and must continue to go where the private sector currently cannot using their status, market networks and local expertise to create investable pipelines, investment track records and ultimately functioning markets, so that private capital can follow. Their support is further needed at times to provide patient, risk-tolerant capital and capacity-building support in blended transactions.

### **Private investors across the spectrum of capital and all financial market actors need to support integrated environmental and social change and a Just Transition**

Traditional institutional investors, impact investors, asset managers, intermediaries and advisors need to contribute to the change required to achieve our people and planet objectives and a truly Just Transition.

### **Just Transition investment strategies must embrace each of the three Elements**

A Just Transition requires an integrated and intentional financing approach to achieve a global Net Zero economy that leaves no one behind. Strategies can vary and have different areas of priority or emphasis, but all three Elements must be present to qualify as a Just Transition investment.

### **Just Transition investments vary and can span most sectors**

As strategies can be anchored in or led by the climate and environmental or the social Element, the resulting breadth of possible Just Transition investments is substantial. Possibilities go far beyond the (obvious) renewable energy generation projects, energy efficiency investments and sustainable infrastructure; Just Transition investments

can extend, for example, to financial inclusion strategies targeting microfinance investments, fintech and climate adaptation insurance, healthcare strategies that include energy efficiency improvements, green built environment strategies that target educational and other social infrastructure, as well as strategies that target the growing pool of nature-based solutions.

### Outlook

There are many initiatives by investors, asset managers and other financial sector players recognising the importance and urgency of

climate and Just Transition action. Accelerating capital towards a Just Transition builds on growing public and private market awareness, offers tangibility to a concept with positive resonance and strengthens investment behaviour to integrate environmental and social considerations. The high level of good intentions shows that there is widespread acceptance of the need for concerted financing action; the current pace, however, is simply too slow. What are the instruments and tools to accelerate capital at scale and how they can be used across asset classes is the subject of Sections 2 and 3 of the report.

## 1.2 Harnessing the power of financial markets for public good

### 1.2.1 Leveraging ESG and impact investment for the SDGs

**Financial markets need to change. Acknowledging that ‘business as usual’ will not address the climate and social challenges the world faces, all investors and financial market actors need to be prepared to go beyond ‘quick wins’ and push past their respective comfort zones to address seemingly intractable issues of environmental degradation, social inequity, racial injustice, the global North-South divide and more.**

The resources available are potentially immense. The world’s 500 largest asset managers collectively manage over \$100 trillion in assets.<sup>2</sup> Global equity markets amount to close to a staggering \$106 trillion (of which about 38.5% is located in the US, the largest capital market in the world).<sup>3</sup> Global bond markets amount to a further \$128 trillion globally.<sup>4</sup>

Overall, awareness and perception of environmental and social challenges is increasing – as is the recognition of the exciting opportunities that are coming out of action and innovation. People are more actively seeking solutions and expressing their preferences by their consumption and investment choices. As a result, investment that takes into account **environmental, social, and governance (ESG)** criteria has expanded and become much more sophisticated over the past decade. It now includes both **‘responsible investing’**, defined as the use of a negative screen to inform investment decisions, primarily seeking to avoid certain investments that conflict with the investor’s agreed ethical guidelines, as well

as **‘sustainable investing’**, defined as the use of positive screens to seek out investments that score well on ESG criteria. The global ESG investment market, including responsible and sustainable investments, has grown by two-thirds between 2016 and 2020 and is estimated by Bloomberg to hit \$53 trillion in 2025.<sup>5</sup>

**Impact-focused investors** have been investing in climate and social objectives for decades across developed and emerging markets. They have pioneered the integration of intentional impact and support for the achievement of the United Nations’ Sustainable Development Goals (SDGs) into investment decisions.

The result is an **impact investment** universe that is increasingly familiar and attractive to traditional private investors. This approach is related, but distinct from responsible or sustainable investment, as it seeks to achieve clearly defined and measurable social or environmental impact as opposed to simply avoiding negative externalities (see spectrum of private capital in Figure 1.1 on the next page).

Yet the bulk of private capital still sits on the sidelines of the most pressing issues of our day – environmental degradation, social inequity, racial injustice, the global North-South divide – and hesitates to embrace the challenges, and the opportunities, ahead.<sup>6</sup> Together, pools of ESG and impact capital could help realise an inclusive and sustainable world for all.

The need for rapid progress on the SDGs is universal and applies throughout the world. That said, particular emphasis and, importantly, effort must be directed towards emerging markets. This is where the funding gaps are most pronounced and needs – and opportunities – are immense.

<sup>2</sup> Thinking Ahead Institute (2020): “The world’s largest asset managers – 2020”; <https://www.thinkingaheadinstitute.org/research-papers/the-worlds-largest-asset-managers-2020/>

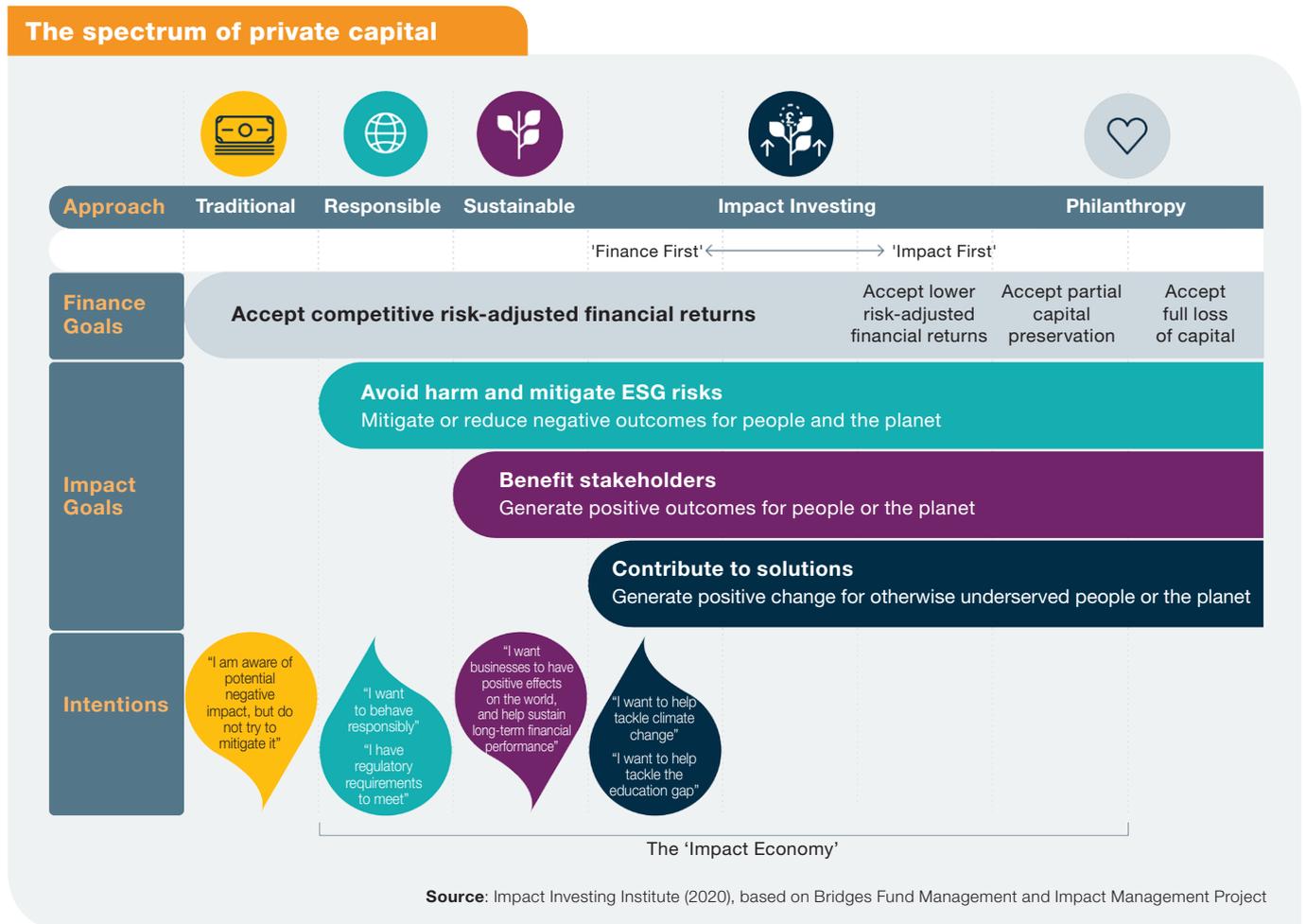
<sup>3</sup> SIFMA (2021): “2021 Capital Markets Fact Book”; <https://www.sifma.org/wp-content/uploads/2021/07/CM-Fact-Book-2021-SIFMA.pdf>

<sup>4</sup> ICMA (2020): “Bond market size”; <https://www.icmagroup.org/Regulatory-Policy-and-Market-Practice/Secondary-Markets/bond-market-size/>

<sup>5</sup> Bloomberg (2021): “ESG assets may hit \$53 trillion by 2025, a third of global AUM”; <https://www.bloomberg.com/professional/blog/esg-assets-may-hit-53-trillion-by-2025-a-third-of-global-aum/>

<sup>6</sup> SIFMA (2021): “2021 Capital Markets Fact Book”; <https://www.sifma.org/wp-content/uploads/2021/07/CM-Fact-Book-2021-SIFMA.pdf>

FIGURE 1.1



### 1.2.2 Financial market key actors need to move simultaneously

Given the amount of capital they control, institutional investors (as asset owners) are a front row audience for the report. Nevertheless, many other actors are needed to accelerate and expand the flow of capital to where it is most needed. Crucially, all actors will need to work together simultaneously to effect systemic change and design and deliver financial solutions that bring the necessary impact within the timelines required.

Key actors in global financial markets that need to engage and drive change include the following:

- **Investors**, including institutional investors; impact investors; governments and related entities such as MDBs, DFIs and sovereign wealth funds (SWFs); individuals (as direct investors or indirectly, e.g., as pension beneficiaries); and other investors such as corporations
- **Stewards of capital**, including asset managers, investment consultants and investment banks (buy-side advisory)
- **Rule setters**, including regulators and ratings agencies

- **Designers and structurers of products**, including asset managers and investment bankers
- **Ecosystem players**, including auditors, legal and other advisers, and corporates

A further explanation of the role of each of these groups is available in the [full report](#).

**Each type of actor plays a unique and critical role in the financial market ecosystem, helping to ensure the smooth running of local and global financial flows. Each of these actors has the immediate opportunity and responsibility to direct their actions beyond generating short-term financial returns. Whether motivated by the reduction of risk or the pursuit of new opportunities, these actions will help deliver a better and more sustainable future for people and planet.**

**The actor types set forth above are active in financial markets across the globe. To increase the likelihood of achieving the SDGs where no one is left behind, these actors are encouraged to increase their focus on emerging markets.**

## 1.3 A Just Transition fit for the future

### 1.3.1 Net Zero is a start – but it is not enough

The climate crisis is one of the defining and universal challenges of our time. The impact on our planet is visible. Sea levels have risen, heat waves have led to extensive droughts across continents, glaciers have shrunk, and plant and animal ranges have shifted.

The Intergovernmental Panel on Climate Change’s 2018 special report rang an alarm bell. It demonstrated that net CO<sub>2</sub> emissions must be reduced to zero by 2050 to stabilise global temperatures and limit global warming to 1.5°C or 2°C to avoid the worst climate impacts.<sup>7</sup>

The call for a ‘Net Zero’ climate agenda has been gaining traction across the globe in recent years, moving from the fringes to centrestage in politics. Net Zero has also moved into the limelight in discussions of international financing flows, including both public and private capital.

However, there is increasing consensus that a single focus on Net Zero is not sufficient. It has generated push-back due to perceived or actual negative social and economic effects of actions resulting from Net Zero commitments, including job losses in affected industries or changes to commodity prices resulting in higher household expenses. These negative socio-economic effects have led to social tensions, dissatisfaction or even unrest across the globe.

A shift in perspective to include socio-economic aspects is paramount. The Covid-19 pandemic

has highlighted the urgent need to design climate solutions that pay attention to our **planet and its people**. A holistic approach is needed to address climate change and its effects on societies in a fair and inclusive way.

### 1.3.2 A Just Transition

The ‘Just Transition’ concept originates in circles linked to trade union and environmental justice action and gained nearly universal recognition when it was incorporated in the historic 2015 **Paris Agreement**, which was signed by 196 nations.

“Core to Just Transition is the recognition that climate success will be contingent on designing a transition that is both fair and seen to be fair across regions and across the socio-economic spectrum.”

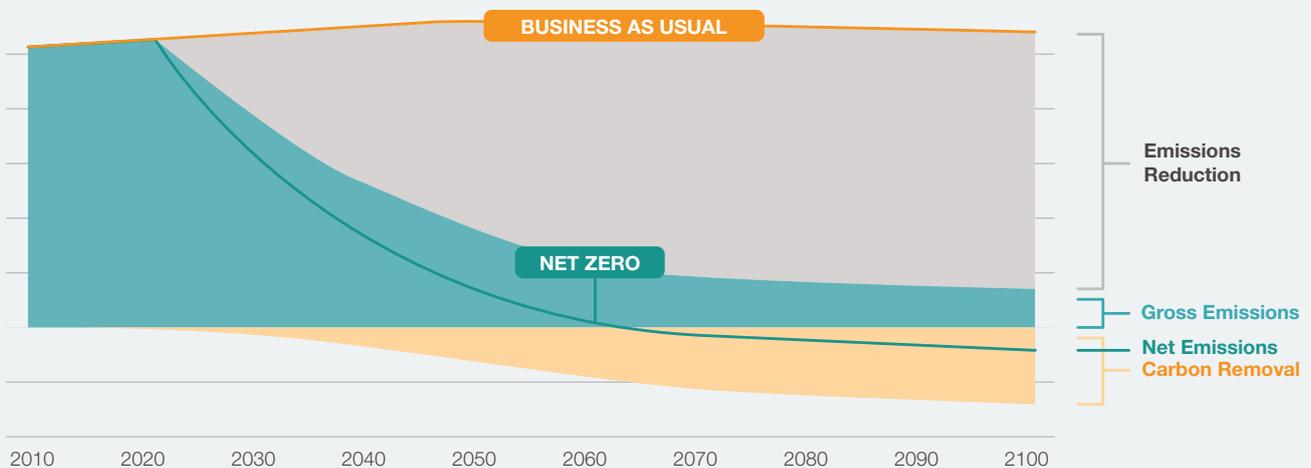
Source: LSE Grantham Institute and University of Leeds (2021): “Financing climate action with positive social impact – How banking can support a Just Transition in the UK”

<sup>7</sup> IPCC (2018): “Special Report on Global Warming of 1.5°C”; <https://www.ipcc.ch/sr15/>

FIGURE 1.2

#### Net Zero by 2050: What does it mean?

Based on research conducted by the IPCC, to limit global warming to 1.5°C vis-à-vis pre-industrial levels (and hence avoid the worst climate impacts), global CO<sub>2</sub> emissions will need to reach Net Zero – or carbon neutrality – by around 2050.



Source: IPCC (2019): “SR15 Full report, Section 2”

Its inclusion was an acknowledgment that decarbonising objectives need to be combined with attention to affected workers in a shift to a resilient economy. The Paris Agreement noted the disparities across countries, regions and communities and the related need for assistance, both financial and capacity building, to countries that are both less wealthy and more vulnerable to the climate crisis. The Just Transition concept was explicitly acknowledged, underscoring the need for different climate transition and planet preservation strategies across sectors, and for different regions and communities.

Since the Paris Agreement, the discussion on a Just Transition has broadened to include a more systemic concept reflecting **green-social interdependence**, its dynamic nature and the need for a holistic approach that breaks down the often-siloed discussions between climate and socio-economic considerations. The more recent discussions recognise that climate action pathways to Net Zero must lead to a thriving planet where no one is left behind. Particular attention needs to be paid to segments of societies which are typically underrepresented and discriminated against as a result of, among other factors, their economic standing, race or gender.

At COP26 a number of western nations signed a Just Transition Declaration, stressing the need to ensure that no one is left behind in the transition to Net Zero economies, recognising that the climate transition will affect those working in sectors, cities and regions reliant on carbon-intensive industries and production most acutely, and recognising that the effects of climate change disproportionately affect those in poverty, and can exacerbate economic, gender and other social inequalities.<sup>8</sup>

Geographic considerations are integral to a Just Transition approach. Climate change is a global problem that will require action across all developed and emerging markets. Implementing an effective Just Transition requires paying attention not only to the universal concept but also to the local context through the use of a place-based lens.<sup>9</sup>

Countries, regions and communities have **different starting points** when it comes to achieving a Just Transition. They will have different emission legacy track records; different levels of dependence on fossil fuels and greenhouse gas emitting sectors and existing energy infrastructure. Different exposure to climate-related risks, demographic footprints and human development indicators will all have an impact. Countries, regions and communities will also have distinct resultant decarbonisation and development **trajectories**. These are influenced by factors that include financial strength, and local capacity and capabilities to address Just Transition imperatives, including access to global finance flows and international support.

Given their respective starting points and trajectories,

countries will have different development priorities which need to be considered when designing solutions, e.g., meeting rising energy demand, expanding access to energy, modernising energy infrastructure, reducing environmental footprint, or, on the social side, providing employment, reducing poverty, and addressing inequalities.

Similarly, sectoral considerations are key to a Just Transition. While transition away from coal and fossil fuel divestment will be essential to achieving Net Zero, a Just Transition must not be limited to activities specifically focused on fossil fuel reduction. Just Transition efforts should span all economic sectors, seeking innovation and changes to business models that improve our climate and planet and advance the livelihoods of our people. Efforts must also reach consumers and become engrained in human awareness and resultant habits and individual choices.

A Just Transition approach to achieving Net Zero should consider:

- 1 Different climate transition and planet preservation strategies across sectors
- 2 Geographic disparities, needs and priorities at international, national and regional levels
- 3 Affected and underserved or marginalised communities, households, individuals, workers, and enterprises to achieve an inclusive and socially beneficial transition

## INTERNATIONAL INITIATIVES

Following the 2015 Paris Agreement, there have been a number of significant declarations, guidelines and reports that underline the need for actions that support a climate transition that is fair and just. These have included those listed below as well as more recent announcements coming out of [COP26](#):

- The International Labour Organization (ILO)'s *Guidelines for a just transition towards environmentally sustainable economies and societies for all* issued in 2015
- The Intergovernmental Panel on Climate Change's 2018 *Special Report on Global Warming of 1.5°C*, a comprehensive "report on the impacts of global warming of 1.5°C above pre-industrial levels and related global greenhouse gas emission pathways, in the context of strengthening the global response to the threat of climate change, sustainable development, and efforts to eradicate poverty"<sup>10</sup>
- The *Solidarity and Just Transition Silesia Declaration*, signed by 50 countries at COP24 in 2018, reaffirming the Paris Agreement, stressing the required paradigm shift and recognising the greater and specific needs of developing countries<sup>11</sup>
- The *ILO Climate Action for Jobs Initiative* at the

<sup>8</sup> European Commission (2021): "France, Germany, UK, US and EU launch ground-breaking International Just Energy Transition Partnership with South Africa"; [https://ec.europa.eu/commission/presscorner/detail/en/IP\\_21\\_5768](https://ec.europa.eu/commission/presscorner/detail/en/IP_21_5768)

<sup>9</sup> Place-based approaches are person-centred, bottom-up approaches used to meet the unique needs of people in one given location by working together to use the best available resources and collaborate to gain local knowledge and insight; see IRISS (2015): "Place-based working"; <https://www.iriss.org.uk/resources/iriss-on-place-based-working>

<sup>10</sup> IPCC (2018): "Special Report on Global Warming of 1.5°C"; <https://www.ipcc.ch/sr15/>

<sup>11</sup> Just Transition and COP24 (2018): "Solidarity and Just Transition Silesia Declaration"

United Nations Climate Action Summit in 2019, under which 46 countries committed to support a just ecological transition and to formulate national plans for a Just Transition through social dialogue, creating decent work as well as green jobs, thus enabling ambitious action toward a sustainable future of work<sup>12</sup>

- The European Union (EU)'s *European Green Deal*, a plan that intends to mobilise at least €1 trillion in sustainable investments over the next decade, including the 'Just Transition Mechanism' targeting a fair and just green transition<sup>13</sup>. This includes a €17.5 billion Just Transition Fund, the first pillar of the Mechanism, which is set to support EU countries as they wind down fossil fuel industries,<sup>14</sup> with at least €100 billion in investments being mobilised over the period 2021–2027 to support workers and citizens of the regions most affected by the transition away from fossil fuels<sup>15</sup>
- The Task Force on Climate, Development and the International Monetary Fund, which recognised “climate change poses significant risks to financial and fiscal stability, poverty and inequality and the long-run growth prospects of the world economy. But climate action presents an opportunity to build a green and just 21<sup>st</sup> century economic infrastructure, adapting to the changing climate while raising levels of prosperity across the world. It is imperative that the global community support climate resilience and transition to a low-carbon economy in a just way”<sup>16</sup>
- The G20 Sustainable Finance Roadmap, developed by the G20's *Sustainable Finance Workstream* (SFWG) and endorsed by the G20 finance ministers and central bank governors in 2021, which highlights the “need to advance the understanding of and support the growth of markets for financing a just climate transition”

Additionally, national initiatives linked to a Just Transition have been launched in many developed and emerging economies across the globe. [A list of select country-level Just Transition initiatives is provided in the full report.](#)

<sup>12</sup> ILO: “Climate Action for Jobs initiative”; [https://www.ilo.org/global/topics/green-jobs/areas-of-work/climate-change/WCMS\\_732060/lang-en/index.htm](https://www.ilo.org/global/topics/green-jobs/areas-of-work/climate-change/WCMS_732060/lang-en/index.htm)

<sup>13</sup> European Commission (2020): “The European Green Deal Investment Plan and Just Transition Mechanism explained”; [https://ec.europa.eu/commission/presscorner/detail/en/qanda\\_20\\_24](https://ec.europa.eu/commission/presscorner/detail/en/qanda_20_24)

<sup>14</sup> Euractiv (2021): “EU lawmakers give final approval to bloc's green transition fund”; <https://www.euractiv.com/section/energy-environment/news/eu-lawmakers-give-final-approval-to-blocs-green-transition-fund/>

<sup>15</sup> European Commission (2020): “The European Green Deal Investment Plan and Just Transition Mechanism explained”; [https://ec.europa.eu/commission/presscorner/detail/en/qanda\\_20\\_24](https://ec.europa.eu/commission/presscorner/detail/en/qanda_20_24)

<sup>16</sup> Task Force on Climate, Development and the International Monetary Fund (2021): “Toward Development-Centered Climate Change Policy at the International Monetary Fund”; [https://www.bu.edu/gdp/files/2021/10/TF\\_Strategy-Report\\_FIN.pdf](https://www.bu.edu/gdp/files/2021/10/TF_Strategy-Report_FIN.pdf)

## FINANCIAL ACTORS' INITIATIVES

There has also been a significant show of interest and commitment by asset owners, asset managers and the DFI community to Just Transition opportunities. Significant initiatives include:

- The *Joint Declaration of All Development Banks in the World* at the Finance in Common summit in 2020, which confirmed that just transition is an integrated part of international development and development finance efforts<sup>17</sup>
- The *Net Zero Asset Managers Initiative*, launched in December 2020, is recognised by the United Nations Framework Convention on Climate Change (UNFCCC) Race to Zero campaign and now has 128 signatories that manage approximately \$43 trillion of the more than \$100 trillion asset management industry<sup>18</sup>
- The *Statement of Investor Commitment to Support a Just Transition on Climate Change* included 161 investors, representing \$10 trillion, endorsed Just Transition;<sup>19</sup> and the *Global Investor Statement to Governments on the Climate Crisis* included 587 investors, representing \$46 trillion<sup>20</sup>
- The announcement of the *Glasgow Financial Alliance for Net Zero* (GFANZ), a consortium of 450 financial firms across 45 nations, to align their own businesses and their lending and investing activities with Net Zero goals<sup>21</sup>

Individual institutional investors are also taking relevant actions, and there are important supporting initiatives, driving greater disclosure and transparency about impact in companies' and investors' performance and reporting. The most notable of these initiatives is the November 2021 announcement by the IFRS Foundation of the establishment of the International Sustainability Standards Board. Impact transparency, integrity and reporting are specifically addressed in the [report of Workstream A](#) of the G7 Impact Taskforce.

<sup>17</sup> Finance in Common (2020): “Joint Declaration of All Public Development Banks in the World”; <https://financeincommon.org/sites/default/files/2020-11/FICS%20-%20Joint%20declaration%20of%20all%20Public%20Development%20Banks.pdf>

<sup>18</sup> Net Zero Asset Managers initiative (2021); <https://www.netzeroassetmanagers.org/net-zero-asset-managers-initiative-announces-41-new-signatories-with-sector-seeing-net-zero-tipping-point>

<sup>19</sup> PRI: “Statement of Investor Commitment to Support a Just Transition on Climate Change, originally endorsed by 161 investors”; <https://www.unpri.org/download?ac=10382>

<sup>20</sup> UNEP Finance Initiative (2021): “Global investor statement: Investors urge governments to undertake five priority actions before COP26”; <https://www.unepfi.org/news/industries/investment/nearly-600-investors-urge-govts-to-undertake-five-priority-actions-before-cop26/>

<sup>21</sup> GFANZ (2021): The Glasgow Financial Alliance for Net Zero – Our progress and plan towards a net-zero global economy

### 1.3.3 Integrated Just Transition Elements fit for the future

The Just Transition concept is used by governments, labour groups, investors, businesses, civil society, and multilateral agencies to better understand who will be affected by climate action and where the effects of related systemic shifts will be felt. It is pivotal, therefore, that these stakeholders embrace a shared view of what constitutes a Just Transition.

The **foundational considerations** of a Just Transition are that it should:

- Be **universal** and **place-based**
- Apply **across all sectors** and be **sector-specific**
- Be **all-inclusive** and **individually socially beneficial**
- Be **dynamic** and **grounded in the current situation**

Building on the foundational considerations above and the need to integrate environmental and social objectives to achieve a sustainable and inclusive transition for all, and drawing on current discussions and thinking, this section sets out the future-fit ‘Just Transition Elements’.

The Just Transition Elements integrate three critical drivers of a Just Transition applicable across geographies, sectors, policies and investments.

Actions will only be considered as advancing a Just Transition if they meet all three of the integrated Elements: advance Climate and Environmental Action; improve Socio-economic Distribution and Equity; and increase Community Voice. Only by adhering to a common understanding of a Just Transition can we ensure that equitable and inclusive pathways to Net Zero and a thriving planet are realised and not left to rhetorical aspirations.

By introducing the Just Transition Elements, we can make clear what ‘good looks like’, which in turn is likely to spur concerted and effective action.

**Ensuring the transition to a sustainable and inclusive world for all requires conscious, intentional, proactive and concerted action across the world, from both public and private actors. Embracing common Just Transition Elements across all groups will strengthen efforts under way and encourage new efforts with sharper clarity and focus. Every global movement invites moments of collective clarity to inspire action. By introducing the integrated Just Transition Elements that build on what has come before, we are contributing to this clarity which, in turn, will galvanise action.**

Further guidance on the Just Transition Elements, as well as a [Blueprint for inclusion in financing vehicles across asset classes](#), is provided in the full report.

FIGURE 1.3

#### The integrated Just Transition Elements

##### Advance **Climate and Environmental Action**

- 1 Greenhouse gas emission mitigation, reduction and removal
- 2 Adaptation and resilience
- 3 Biodiversity and natural capital and climate and environmental effects
- 4 Reduction of pollution or degradation of the natural environment

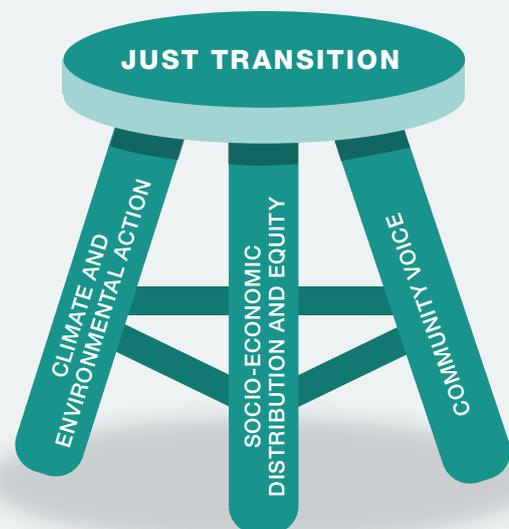
##### AND improve **Socio-economic Distribution and Equity**

- 5 Fair distribution of climate change costs and benefits between developed and developing countries and between regions and communities within countries, based on a place-based lens
- 6 Inclusive opportunities for decent jobs (including re-skilling where jobs are lost), delivering fair income, security in the workplace and social protection for families
- 7 Accessibility and affordability of products and services
- 8 Livelihood enhancement and social justice for all across regions, communities and individuals, including marginalised and underserved groups
- 9 Biodiversity and natural capital and socio-economic effects

##### AND increase **Community Voice**

- 10 Social dialogue and stakeholder engagement through a participatory voice and inclusion in decision making for those affected and those frequently excluded and/or marginalised, including communities and people

#### The three Just Transition Elements



## 1.4 The opportunity to finance a Just Transition

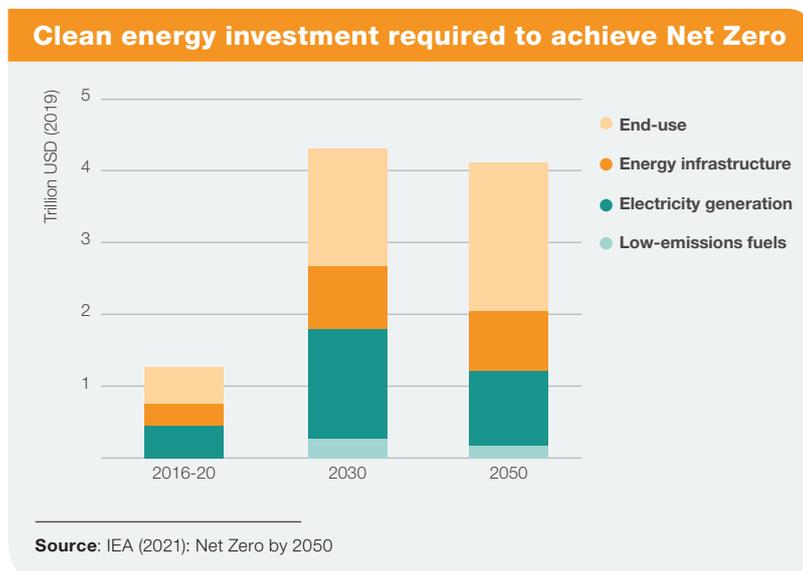
There is a growing awareness that funding the transition to Net Zero represents a significant economic opportunity. At a global level, the New Climate Economy initiative estimates that “bold action could yield a direct economic gain of \$26 trillion through to 2030 compared with business-as-usual”.<sup>22</sup> Similar studies have been conducted at national level.

Just Transition goals can only be met with a fundamental shift of global financing, and with widespread adoption of investments that support and accelerate a Just Transition. The full range of financing tools is required, including both public and private funding across asset classes to obtain the vast funding amounts needed.

In addition to the concerted effort of industrialised countries to support developing countries, their **multilateral development banks** (MDBs) and bilateral **development finance institutions** (DFIs) are needed to expand funding and accelerate Just Transition-relevant projects, enterprises, and financing vehicles. At the Finance in Common summit 2020, public development banks<sup>24</sup> delivered a Joint Declaration of All Development Banks in the World, confirming that Just Transition is an integrated part of international development and development finance efforts.

MDBs and DFIs play an essential role towards achieving a global Just Transition. MDBs alone committed \$61.6 billion towards climate finance in 2020. In addition to these important capital allocations, MDBs and DFIs can and need to continue to go where the private sector currently cannot, to create investable pipelines, investment track record and ultimately functioning markets, so that private capital can follow. They can help de-risk investment by providing patient, risk-tolerant capital and capacity-building support and creating transactions that ‘blend’ public or other impact-first capital with private institutional capital.

FIGURE 1.4



### 1.4.1 Public funding towards a Just Transition

**Governments** have been called to action to achieve long-term Net Zero objectives and are developing roadmaps to meet these. In addition to climate action at the national level, in Copenhagen in 2009, developed countries jointly promised to increase their annual climate-related finance support to developing countries to \$100 billion per year.

At COP21 in Paris, developed countries confirmed their intention to continue and increase their collective support of developing countries with respect to climate mitigation, adaptation actions and implementation of transparency to enhance the provision of urgent and adequate finance, technology and capacity-building support, considering developing countries’ respective needs and priorities. At the conclusion of COP26 the Glasgow Climate Pact reconfirmed the need to significantly increase support for developing countries beyond \$100 billion per year.<sup>23</sup>

### 1.4.2 Private funding towards a Just Transition

Despite substantial funding commitments from governments, MDBs and DFIs, public monies will not be enough to meet the funding needs to achieve a global Just Transition. **Private capital** across the spectrum of capital is required, including both risk-tolerant pioneering capital from impact investing capital providers and the transformative large amounts of capital that are held by institutional investors, estimated at \$154 trillion as of end 2020.<sup>25</sup> All investors need to embrace the push towards a global transition that is just and fair for all.

In 2020, in a joint *Statement of Investor Commitment to Support a Just Transition on*

<sup>22</sup> The New Climate Economy (2019): “Unlocking the Inclusive Growth Story of the 21st Century”: Accelerating Climate Action in Urgent Times; [https://newclimateeconomy.report/2018/wp-content/uploads/sites/6/2018/09/NCE\\_2018\\_FULL-REPORT.pdf](https://newclimateeconomy.report/2018/wp-content/uploads/sites/6/2018/09/NCE_2018_FULL-REPORT.pdf)

<sup>23</sup> UNFCCC (2021): “Glasgow Climate Pact”; [https://unfccc.int/sites/default/files/resource/cma2021\\_L16\\_adv.pdf](https://unfccc.int/sites/default/files/resource/cma2021_L16_adv.pdf)

<sup>24</sup> Public development banks are state-owned financial institutions that aim to deliver on policy objectives to support the economic development in a country or region, including MDBs and DFIs. According to the AFD (<https://www.afd.fr/en/actualites/six-things-know-about-public-development-banks>), there are around 450 public development banks across the globe

<sup>25</sup> Thinking Ahead Institute (2021): “Global Pensions Asset Study - 2021”; including in their analysis pension funds, insurance companies, sovereign wealth funds, endowments and foundations and mutual funds

*Climate Change*, 161 investors, representing \$10 trillion in assets, committed to supporting a Just Transition.<sup>26</sup> In the run up to COP26, 587 investors, representing \$46 trillion in assets, endorsed a 2021 Global Investor Statement to Governments on the Climate Crisis, which includes a call to governments to develop Just Transition plans for workers and communities affected by the transition to Net Zero.<sup>27</sup> On the back of COP26, this commitment is gaining further traction within the investor community. That said, investors do not act in isolation. Also, the universe of intermediaries, advisors and consultants need to do their part and move beyond short-term financial targets in order to achieve long-term and systemic change.

<sup>26</sup> PRI: "Statement of Investor Commitment to Support a Just Transition on Climate Change, endorsed by 161 investors"; <https://www.unpri.org/download?ac=10382>

<sup>27</sup> UNEP Finance Initiative (2021): "Global investor statement: Investors urge governments to undertake five priority actions before COP26"; <https://www.unepfi.org/news/industries/investment/nearly-600-investors-urge-govts-to-undertake-five-priority-actions-before-cop26/>

Investors have an array of investment opportunities across all asset classes that are ESG- or impact-relevant. However, currently there are few deals that fully satisfy all three of the Just Transition Elements given that Just Transition has been until now either loosely defined or narrowly used to speak to the loss of jobs arising from a transition from fossil fuels.

**Applying the Just Transition Elements allows investors from every part of the spectrum of capital (and the wider ecosystem of asset managers, intermediaries, advisors and**

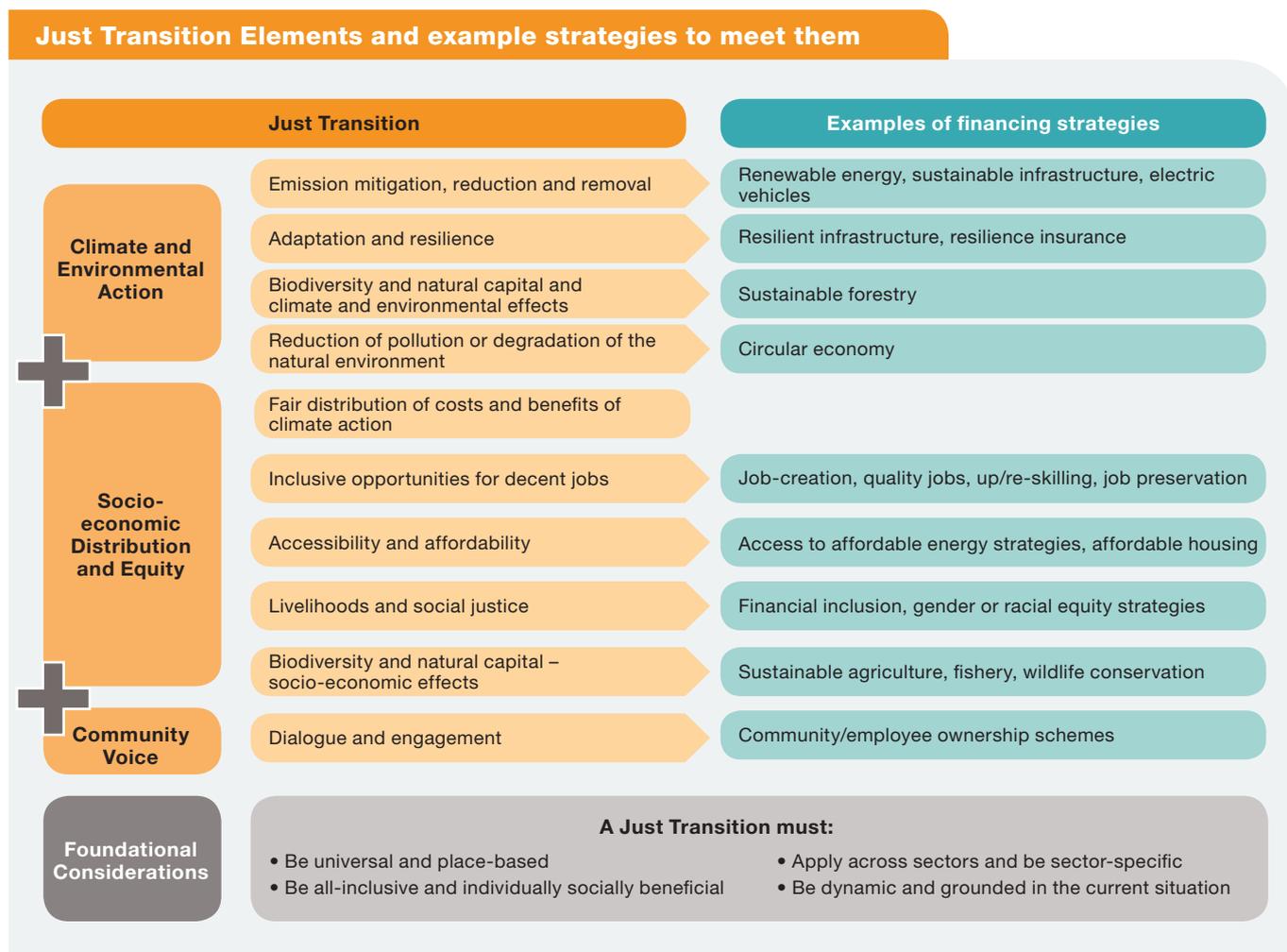
**consultants) to allocate capital across asset classes in ways that contribute to the change we need to achieve our people and planet objectives.**

### 1.4.3 Possible investment strategies for Just Transition finance

A Just Transition requires an integrated and intentional financing approach to achieve a global Net Zero economy that leaves no one behind. Financing of Just Transition initiatives, provided by both public and private investors, should integrate the three Just Transition Elements outlined in the report. The Just Transition Elements can be applied to portfolio allocation strategies and funding decisions, establishing and following clear and transparent parameters.

A Just Transition investment will need to include a combination of target investment objectives, with at least one identified objective within each of the three Elements, to qualify as such. Possible strategies that follow the Just Transition Elements' objectives are shown in Figure 1.5.

FIGURE 1.5



When combined, these strategies offer a positive impact approach to climate and social investing that can contribute to achieving a Just Transition that delivers the promise of a sustainable and inclusive society for all.

The report provides guidance to focus investment efforts that explicitly integrate all three Elements of Climate and Environmental Action, Socio-economic Distribution and Equity, and Community Voice but does not legislate the manner in which those Elements are satisfied by an investment. Rather, it sets out a threshold related to meeting each of the Elements.

### CLIMATE AND ENVIRONMENTAL ACTION THRESHOLD

Every Just Transition investment transaction will, as a minimum, include at least one clear component of Climate and Environmental Action and there should be a **net positive contribution to climate and the environment**.

For more detail on the Climate and Environmental Action Element, [see full report](#).

### SOCIO-ECONOMIC DISTRIBUTION AND EQUITY THRESHOLD

Every Just Transition investment transaction will, as a minimum, make a **net positive contribution** to Socio-economic Distribution and Equity.

For more detail on the Socio-economic Distribution and Equity Element [see full report](#).

### COMMUNITY VOICE THRESHOLD

Every Just Transition investment transaction will, as a minimum, include meaningful **engagement** with local stakeholders and demonstrate **how Community Voice is reflected**.

For more detail on the Community Voice Element, [see full report](#).

The relative prominence of the individual Elements will depend on the respective strategy or funded initiative being pursued. Certain investments may integrate positive climate and social action simultaneously with a focus on the stimulation of 'new' business models and innovations of existing models, as for example, investments that accelerate access to affordable renewable energy or investments into green micro-finance or green affordable housing that is energy efficient. Other investments may have a clear primary focus on the Climate and Environmental Action Element while including consideration of, and engagement in, the other two Elements. Such an example may include an investment in renewable energy generation including an explicit focus on decent jobs and community support ([see full report](#) for case studies and examples of vehicle strategies).

**Regardless of the primary area of priority or emphasis, all three Elements should be present to qualify as a Just Transition investment.** When combined, the three Elements offer a positive impact approach to climate finance that can contribute to a Just Transition. Application of the Just Transition Elements to existing investment products in the market as well as influencing the design of new investment products is the focus of Sections 2 and 3 of the report.

FIGURE 1.6



## 2

# WHAT ARE THE UNITS OF ACTION FOR MOVING MARKETS TOWARDS THE SDGs?

This section outlines what the key levers are for ensuring institutional capital participates in achieving the SDGs in general, and a Just Transition in particular. It details the key players and parts of the system – financial market actors, regions, asset classes – and identifies the collective approaches that can be better and more expansively utilised to overcome current barriers and mobilise capital at scale. It lists existing and proven tools and instruments that are available to be expanded in order to accelerate the flow of capital to achieve the SDGs.

## 2.1 Section summary and key takeaways

### **Financing needs to be stepped up now**

There is significant near-term opportunity to mobilise and allocate capital at scale among investor types across the spectrum of capital to help achieve the Sustainable Development Goals (SDGs) in general, and a Just Transition in particular. This opportunity is found in both developed and emerging markets and across asset classes, within existing investment products and those yet to come to market.

### **Investment to achieve the SDGs needs to be activated across all asset classes, both listed and private**

There is a dynamic connection between private and listed markets, where the innovations generated by nearly two decades of impact investing vehicles by managers in private markets are informing public markets and shaping mainstream finance offerings.

### **Introducing the scope of the report**

The report focuses on the mobilisation of institutional investor capital into investment vehicles that address funding needs towards the SDGs in general, and a Just Transition in particular, with a focus on emerging markets. While the report acknowledges the relevance and importance of all asset classes in achieving the SDGs, it prioritises private equity, private debt, infrastructure, real estate and fixed income.

### **The transformative potential of institutional investor capital**

Enabling at-scale mobilisation of capital into emerging markets from institutional investors,

who control vast amounts of capital, presents one of the most powerful means of financing to meet the SDGs and, in particular, deliver a Just Transition to Net Zero. The growing pools of domestic institutional investor money in emerging markets also have a significant role to play.

### **Momentum is there**

Interest in applying environmental, social and governance (ESG) and impact standards is gaining traction across the institutional investor community. The asset manager universe that delivers impact and offers sizeable investment vehicles is growing, and includes mainstream managers moving into impact and impact managers scaling up.

### **Institutional investor investment barriers need to be understood**

Multiple external and internal investment barriers currently limit the flow of institutional investors' transformational capital. However, the challenges to investment must not be an excuse for inaction. Existing and familiar instruments and tools demonstrate it is possible to address these barriers.

### **Simultaneous, concerted and coordinated action is required by both institutional asset owners and asset managers – and all the other actors that support them – to overcome these barriers**

It is important to address the investment barriers that institutional investors face and structure investable vehicles that respond to their needs. Importantly, institutional investors themselves also need to move beyond their

comfort zones for progress to happen at scale, including amending their existing mandates and allocation frameworks and adjusting their incentive structures towards consultants and asset managers where appropriate. Intentional effort by all financial market actors, including intermediaries, consultants, advisors and rating agencies, that often act as gatekeepers to investment, is encouraged. Well-structured partnerships between investment actors can – and do – overcome current barriers and achieve meaningful capital allocations towards the SDGs.

### **MDBs and DFIs need to dial up their tools and instruments towards private capital mobilisation**

Multilateral development banks (MDBs) and development finance institutions (DFIs), using their status, market networks and expertise, are crucial for the acceleration of institutional investor mobilisation given their ability to create investable pipelines, their ability to provide de-risking support such as subordinated capital or guarantees, and their ownership of years of relevant performance data.

### **Blended finance plays an important role in addressing risk/return barriers**

Blended finance is a highly effective and widely used approach enabling private commercial capital to invest for social and/or environmental impact. Blended structures can provide investors with the opportunity to increase portfolio exposure into strategies which demonstrate strong fundamentals but are associated with high perceived risk.

### **Instruments and tools that address barriers and drive mobilisation exist**

Many proven instruments and tools already exist (be it within blended finance structures or others), often combined, to help mobilise institutional capital. The report showcases the following: subordinated capital, guarantees, insurance, securitisation, local currency financing, performance data and information and partnerships. The potential of these instruments and tools is evidenced by real examples that demonstrate how capital can be mobilised at scale.

### **Instruments and tools need to be fully and further activated to accelerate mobilisation**

These now familiar instruments and tools need to be expanded so that more institutional investors can participate and deploy capital into the SDGs in emerging markets. Perhaps the most promising tools are the increased use of guarantees and insurance coverage at a portfolio and vehicle level as they allow for unfunded risk mitigation.

### **The need for tailored approaches**

Given the diverse range of institutional investors, there will not be one solution that fits all. Each may have their own specific set of challenges, depending on the regulatory framework and jurisdiction under which they operate, and their individual appetite for engagement, which may be determined by their leadership. Early engagement with targeted investors and distinct partnerships are important to move significant money into Just Transition solutions in emerging markets.

## 2.2 The principal levers and change makers

### 2.2.1 Background to the scope of the report

There is significant near-term opportunity to mobilise and allocate capital at scale among many investor types across the spectrum of capital to help achieve the SDGs. This opportunity exists in both developed and emerging markets and across asset classes, within existing investment products and those yet to come to market. The report focuses on the specific opportunity to mobilise investments by institutional investors into private and fixed income vehicles targeting emerging markets.

### **INSTITUTIONAL INVESTORS**

Mobilising **institutional investors** (as asset owners, such as pension funds and insurance companies) is vital, as the amount of capital they hold and control, estimated at \$154 trillion as of the end of 2020,<sup>28</sup> has the potential to be transformative if deployed towards positive environmental and social impact. As responsible, sustainable and impact investing practices gain awareness and traction, now is the time for investors to step up their existing commitments to the SDGs in developed markets and go beyond their comfort zones and deploy capital into SDG investments in emerging markets.

<sup>28</sup> Thinking Ahead Institute (2021): "Global Pensions Asset Study – 2021"; including in their analysis pension funds, insurance companies, sovereign wealth funds, endowments and foundations and mutual funds

While institutional investors based in developed markets hold the largest amounts of capital, there is also a need – and an opportunity – to mobilise institutional investors based in emerging markets. Local institutional investors are a critical source of funding and will be increasingly important in building domestic capital markets including serving as a source of local currency financing. To date, their participation has been limited primarily to sovereign bonds.<sup>29</sup>

## EMERGING MARKETS

**Emerging markets** represent the biggest opportunity (and gap) as they have been traditionally overlooked by institutional investors. Additional capital to achieve the SDGs in general, and a Just Transition in particular, is urgently needed across the world (as highlighted in Section 1.4). The report focuses on emerging markets as, historically, institutional investors have been largely on the periphery when it comes to investing significantly in these geographies.

## INVESTMENT VEHICLES

The focus on institutional investors, on the one hand, and emerging markets, on the other, has led the report to concentrate on indirect investment using **vehicles** such as pooled investment funds as these allow for scale to be achieved by consolidating investments. Available investments in emerging markets tend to be smaller and more dispersed than in developed markets. The ability to aggregate investments in vehicle structures is critical to create access for institutional investors who require scale. Such aggregated investment offerings also allow for diversification and professional management with market access and expertise and therefore can help to reduce portfolio risk.

## ASSET CLASSES

While investment to achieve the SDGs needs to be activated across all asset classes, **private investments** are a powerful entry point for investments that seek to achieve meaningful environmental and social objectives owing to greater investor influence and control. This is particularly true in emerging markets, given the lack of mature public, regulated markets and hence limited investable volume of publicly listed assets.

Within private asset classes, **private equity** (including direct and fund of funds vehicles), **private debt, infrastructure** and **real estate** offer actionable pathways that are familiar to asset owners and managers and can be successfully expanded to mobilise more capital. They offer significant and market-ready opportunities to shape the design of investment vehicles and can further

the SDGs and satisfy the Just Transition Elements proposed in Section 1.3.

Within **publicly listed assets, fixed income** meets high investor appetite for familiar products that can produce an attractive and reliable yield and liquidity. There is great potential for emerging market bonds aligned with the SDGs and Just Transition objectives, as the growth of green, sustainability-linked and other **thematic bonds** illustrates. (The opportunity to influence public equity markets in ways that advance alignment with the SDGs using the important levers of transparency, harmonisation and integrity is the subject of the report of the Impact Taskforce's *Workstream A*.)

## 2.2.2 Moving markets towards the SDGs

The report calls on **asset owners** and **managers** to step up now; move beyond a siloed focus on separate climate or social considerations and to integrate these considerations within their portfolios across asset classes; expand their use of instruments and tools that can address some of the barriers holding capital back; and proactively pursue investments in emerging markets, where the impacts of climate change (largely generated by developed countries) and socio-economic challenges are most acute.

The report calls **on all actors in financial markets**, whose actions (and inaction) will influence asset owners and managers in their capital allocation decisions, to engage and seek ways to use the levers at their disposal to encourage the scaling of capital towards the SDGs. Only if all actors – those who deploy capital directly and those who influence that deployment – act together, will we see a material acceleration and expansion of capital at scale.

A growing number of actors are stepping up to this challenge and embracing the opportunity to move more capital towards the SDGs – they are driving change and showing their peers the way forward.

More and more **institutional investors** are making commitments and allocations towards environmental and social impact, as highlighted in Section 1 and in the context of specific investments in Section 3. There is evidence of growing institutional investor interest in emerging markets specifically – including in investments that contribute to achieving the SDGs, as reflected in statements, investor surveys and investments.<sup>30</sup> This movement has been supported by the pioneering work of **impact investors**, including DFIs and MDBs, foundations and certain family offices. These investors are demonstrating and developing the investability of emerging markets, including by providing anchor funding or de-risking support in some cases.

Supporting this movement by asset owners are

<sup>29</sup> OECD (2021): "Mobilising institutional investors for financing sustainable development in developing countries: Emerging evidence of opportunities and challenges"; <https://www.oecd.org/dac/financing-sustainable-development/Mobilising-institutional-investors-for-financing-sustainable-development-final.pdf>

<sup>30</sup> See Section 1 for an overview of statements by asset owners; Vontobel Asset Management (2020): "Vontobel study confirms investors want to increase their allocation to emerging markets"; <https://am.vontobel.com/en/news/vontobel-study-confirms-investors-want-to-increase-their-allocation-to-emerging-markets>, for survey evidence; and Impact Investing Institute (2021): "Impact investing in emerging markets: Opportunities for institutional investors"; <https://www.impactinvest.org.uk/our-case-studies/emerging-markets/>, for case studies of investments in emerging markets by institutional investors

a number of trends among asset managers. An increasing number of **mainstream managers** are moving into impact investing to attract capital from institutional asset owners who are interested in impact and financial performance. This builds upon the pioneering work of **impact managers**, who are themselves growing and building track record, allowing them to attract more institutional investment. Additional players are **institutional investors' management arms** who are expanding to offer sustainable products to third parties, and DFIs and MDBs who are at times adopting manager roles for third-party institutional capital. **Manager partnerships** between

mainstream and impact managers are also forming and can further increase the appeal of impact propositions.

Within the wider ecosystem, there is a growing number of **supporting advisors and intermediaries** (including placement agents, investment banks, investment advisors and consultants) that provide critical support to institutional asset owners and managers seeking to invest for impact. In addition, **industry networks, media and forums** are increasingly covering and hosting impact related events, which more institutional investors are attending.

## 2.3 Institutional investors' key barriers to investing in emerging markets in private transactions – and how to overcome them

Notwithstanding the positive trends highlighted above, institutional investors continue to face real and perceived barriers to participating in emerging markets' transactions. Such barriers can be classified as external or internal. Most apply across asset classes, but some are more relevant for certain asset classes. Similarly, while most barriers

affect all institutional investors, some present more significant impediments to certain institutional investor types because of their regulatory status.

For capital to move at scale, these barriers need to be acknowledged and adequately addressed. The table below sets out select barriers and approaches to overcoming them. [See full report for more detail.](#)

Barrier	Relevance across institutional investor types and asset classes	Possible approaches to address the barrier	Actors to support the proposed approaches
<b>External</b>			
<p><b>Real or perceived risks of investments and returns</b></p> <ul style="list-style-type: none"> <li>• Real and perceived macro risks relating to geography and market</li> <li>• Insufficient track record and data points</li> <li>• Uncertainty and/or level of expected returns</li> </ul>	Universal	<p>Various instruments and tools can help address the risk/return challenge and bridge the information asymmetry (for perceived or existing risks). Examples include (for more details on each of these tools see Section 2.5):</p> <ul style="list-style-type: none"> <li>• Subordinated capital, including first-loss equity, junior debt and other</li> <li>• Credit guarantees</li> <li>• Insurance, e.g., political risk</li> <li>• Concessional returns or shared upside participation</li> <li>• Grant-funded technical assistance facilities, that provide direct capacity support to investees and selectively to managers for the establishment of new vehicles</li> <li>• Hedging</li> <li>• Provision of relevant (e.g., performance) data and track record, to help investors in their risk assessment</li> <li>• Partnership approaches. For example, many MDBs and DFIs offer syndication platforms, where institutional investors can participate <i>pari passu</i> in the MDB's loan, benefiting from their market knowledge (and even preferred creditor status)</li> </ul>	<ul style="list-style-type: none"> <li>• Impact investors (including MDBs, DFIs and private impact investors) across risk mitigating instruments, performance data and partnerships</li> <li>• Insurance companies (insurance products)</li> <li>• Donors (for grants)</li> <li>• Hedging providers</li> </ul>

Barrier	Relevance across institutional investor types and asset classes	Possible approaches to address the barrier	Actors to support the proposed approaches
<b>External</b>			
<b>Lack of size and available pipeline</b>	Universal	<p>Syndication and co-investment opportunities are offered by many MDBs and select DFIs (see also above).</p> <p>Impact investors, in particular MDBs and DFIs, can consider selling some of their more mature assets, allowing institutional investors to step into performing assets with relevant track record.</p> <p>The increased use of fund of fund structures (or similar platforms), aggregating smaller vehicles into a combined portfolio would enlarge and diversify transactions.</p> <p>Investors can engage with dedicated managers both in order to stay abreast of trends and to inform investment strategies coming to market.</p> <p>National policy makers should ensure their country provides for an enabling regulatory environment that allows for viable investment propositions. For example, professionally managed infrastructure project tenders, in particular targeting Net Zero and/or decarbonisation commitments, with clear rules of engagement and tariff structures, create investor comfort and enable such projects to become viable pipeline deals. The same applies for professionally managed public procurement tenders for social investments (e.g., affordable housing, healthcare facilities, education, etc.).</p> <p>There are also initiatives specifically targeting project development with the goal of fuelling pipeline generation of deals that can ultimately attract institutional capital.</p>	<p>MDBs/DFIs (syndications)</p> <p>MDBs/DFIs and larger funds (co-investments)</p> <p>Asset managers</p> <p>Asset managers and institutional investors</p> <p>National policy makers</p> <p>E.g.: PIDG's InfraCo Africa and InfraCo Asia; IFC's InfraVentures; Global Energy Alliance for People and Planet</p>
<b>Lack of reliable information</b>	Universal	<p>Access to and dissemination of reliable, consistent data is slowly improving, with more and more impact follow-on funds coming to market that build on the successful implementation of the marketed strategy, data and performance of earlier funds.</p> <p>Impact investors, in particular DFIs and MDBs, need to provide transparent information and data to allow others, including private investors and rating agencies, to assess the risks of relevant investments in emerging markets. They also need to continue to challenge the traditional perception that there is an inverse relationship between social or environmental impact and financial return.</p> <p>Possible approaches that address information asymmetries include:</p> <ul style="list-style-type: none"> <li>• Partnership structures, including syndication platforms (see above)</li> <li>• Sharing of performance data and info (see above)</li> <li>• Use of local advisors</li> <li>• Technology solutions that are showing promise</li> <li>• Funding support to local managers to develop more efficient information systems to extrapolate data from operating businesses</li> </ul>	<p>MDBs/DFIs hold long-term data; also other impact investors have accumulated valuable data over several years</p>

Barrier	Relevance across institutional investor types and asset classes	Possible approaches to address the barrier	Actors to support the proposed approaches
<b>External</b>			
<b>Lack of liquidity</b>	Universal; uncertainty of exits is a particular challenge for private equity; within asset classes, low liquidity may be a problem for securities and related vehicles listed on emerging markets exchanges	<p>Many investors, such as life insurers or pension funds, have long-dated liabilities that have the ability to sustain longer investment horizons. Such investors are able to get comfortable with private investments without asking for liquidity premiums.</p> <p>For private equity, more sales of assets by impact investors, MDBs and DFIs would create a deeper secondary market, increasing investor confidence in sufficient access and liquidity.</p>	Particularly MDBs and DFIs, but also other impact investors; supported by advisors, such as investment banks
<b>Lack of ecosystem of suitable intermediaries</b>	Universal across asset classes and investor types	<p>The universe of specialist intermediaries and advisors is growing. Strengthening the capacity of these managers can be encouraged by investors and by development agencies.</p> <p>Also, partnership models can help overcome this barrier.</p>	<p>Asset managers, investment consultants, investment banks and other advisors</p> <p>Across financial market actor types</p>
<b>Statutory and general law duties and regulatory requirements</b>	Relevant across asset classes with different implications; different investors can face specific regulatory frameworks, also differentiated by jurisdiction	<p>Law- and policy-makers and regulators need to work closely with the investor and asset manager community to overcome regulatory barriers.</p> <p>Efforts to increase awareness among regulators of emerging market data points and deal dynamics is a necessary first step. Lack of awareness reinforces conservative assumptions and maintains high barriers to investment activity in emerging markets.</p>	Law and policy makers and regulators working with asset managers and engaged institutional investors
<b>Credit ratings</b>	Relevant for fixed income bond issuances or securitisations; across investor types; insurance companies are often the most restricted by regulators in holding sub-investment grade assets	<p>Credit ratings are a crucial factor in assessing bonds and securitisations. Emerging markets issuers are challenged by country ceilings and at times rating models that may not fully reflect the realities of emerging markets portfolios.</p> <p>Approaches that can be pursued to achieve investment-grade ratings include:</p> <ul style="list-style-type: none"> <li>• Diversification across emerging markets but also across developed and emerging markets</li> <li>• Guarantees, in particular by highly rated MDBs and DFIs, can provide substantial support to vehicle portfolios' ratings</li> <li>• Insurance, including non-payment insurance coverage or particular risk coverage, such as political insurance</li> <li>• Subordinated capital</li> </ul>	Ratings agencies working with actors that have data and regional/sector experience (asset managers, impact investors, etc.)
<b>Higher costs</b>	Universal, across asset classes and investor types	<p>Costs of private transactions, particularly in emerging markets, are higher than institutional investors are used to in listed markets.</p> <p>Investors prepared to invest in emerging markets to build a degree of internal capacity to make investment decisions, which can be expected to be realised by greater volume of investment activity. They also need to fairly assess the fees required by managers operating in emerging markets to execute on the strategy.</p> <p>Grant support may help cover certain transaction costs that are inherently higher, particularly in private emerging markets transactions.</p>	Donors or impact investors

Barrier	Relevance across institutional investor types and asset classes	Possible approaches to address the barrier	Actors to support the proposed approaches
<b>Internal</b>			
<b>Limited risk appetite</b>	In principle universal, across asset classes and investor types; however, risk appetite varies by investor type, e.g., life insurers, pension funds and also some sovereign wealth funds typically have more appetite for longer time horizons and can therefore afford to take more risk	Although institutional investors need to satisfy their risk/return requirements in making investment decisions, they need to disaggregate these requirements to identify the parts of their portfolios where SDG-aligned emerging markets investments can fit. They need to quantify their long-term liability exposures with investment opportunities that match these exposures.  When allocating to these assets, investors can engage with market actors, including impact investors, MDB/DFIs and leading managers, to obtain a more informed view on risk and to ensure that deals and vehicles are structured to satisfy their requirements. Early engagement and partnerships can ensure that concerns are being addressed by using blended structures (including the use of risk mitigation and protection through insurance, guarantees, subordinated capital layers and others).	Institutional investor leadership (trustees/boards); potentially specialised advisor support
<b>Rigid allocation policies or frameworks and mandate restrictions</b>	Universal, across asset classes and investor types; an important driver for change is the institution's leadership and the voice of its members	Institutional investors can amend their mandates, policies and allocation frameworks, allowing for more investment engagement in emerging markets and to support the SDGs.  Where the asset owner is a pension fund, the mandate should be published to scheme members/pension holders to highlight the progress in reflecting a commitment to the SDGs in executing investment responsibilities.  Incentives should also be set for asset managers and investment consultants to actively pursue relevant transactions.	Institutional investor leadership (trustees/boards) and shareholders
<b>Lack of awareness and access</b>	Universal, across asset classes and investor types	Increase use of partnerships and syndication platforms, in particular working with MDBs and DFIs or SDG-focused investment managers.  Engagement with more mature impact managers. Also, many funds provide for co-investment, allowing investors to start direct engagement alongside a vehicle and its professional manager.  Specialist advisors can support in-house teams and provide access to relevant deals.	All, including impact investors (MDBs/DFIs, private), asset managers, advisors, etc
<b>Staff capabilities, expertise and market familiarity</b>	Universal, across asset classes and investor types	Same as above.	
<b>Incremental effort</b>	Universal, across asset classes and investor types	Time and effort are required to underwrite any new set of opportunities, yet asset owners can resist the common request to charge a 'complexity premium' or similar underwriting fees. It is not unreasonable to expect asset owners to develop the expertise and skills needed to consider emerging market investment opportunities in light of the scale of the opportunity and the need for all actors to move beyond their comfort zones to help deliver a Just Transition as set forth in Section 1.3.  Specialist advisors that can support in-house teams in the review of investments. In addition, as asset owners become more familiar with such investments, more available quality data and information should reduce the required effort over time.	All, including institutional investors but also asset managers, advisors, including investment consultants and investment banks, to invest time and resources to educate and learn

See full report for specific examples of actors addressing the barriers highlighted in the table above.

**In order to mobilise private capital at scale, it is necessary to address the barriers that institutional investors face and structure investable vehicles that respond to their needs. As pathways for action are created, institutional investors are encouraged to commit to proactively explore and take up these opportunities. This form of dynamic engagement is an example of the simultaneous action needed by various actors for progress to happen at scale.**

Other actors in the financial universe, including asset managers, investment consultants, advisors, and rating agencies also need to step up, engage constructively and work together to accelerate capital flows into emerging markets towards the

SDGs. **Collaborative and coordinated action can ensure that such enhanced capital flows are not a one-off occurrence but are instead sustained efforts that will yield lasting and systemic change.**

**The challenges to investment that exist today should not be an excuse for inaction. As shown in the sections that follow, intentional effort and well-structured partnerships between investment actors are overcoming current barriers to achieve meaningful capital allocations to address the SDGs. The tools and instruments needed to mobilise capital exist today; when used and combined at greater pace and volume they can mobilise private capital at scale. Institutional asset owners can take clear and bold steps to show that they are ready, willing and able to deploy capital to meet the challenges and opportunities confronting society today.**

## 2.4 The role of blended finance

**B**lended finance is a structuring approach supporting private commercial capital to invest in impactful opportunities. It is a highly effective and widely used approach enabling private commercial capital to invest for social and/or environmental impact, particularly in emerging markets.

Blended structures are often used to address one of the main barriers of private investors highlighted above: risk (whether actual or perceived) and return. [See full report for more detail.](#)

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 remain on the sidelines. The ultimate objective of all these efforts is to increase development impact and crowd-in private investments with minimum concessionality (see Figure 2.1 below) and increased trust and transparency.

FIGURE 2.1

		RISKS									
		MACRO		CREDIT/COMMERCIAL			TECHNICAL		FINANCE	INFRA SPECIFIC	
		Political/ country risk	Currency risk	Credit risk	Liquidity risk	Demand risk	Construction risk	Operation risk	Access to capital	Lack of pipeline	Off-take risk
INSTRUMENTS	1. Guarantees										
	2. Insurance										
	3. Hedging										
	4. Junior/ subordinated capital										
	5. Securitisation										
	6. Contractual mechanisms										
	7. Results- based incentives										
	8. Grants										

Source: Blended Finance Taskforce (2018): Better finance, better world

The use of blended finance has grown in recent years, particularly to advance an explicit impact objective or to expand the flow of capital to less familiar places. In addition to risk mitigation and the resulting capital mobilisation, blending has also been a powerful tool to engage new investors in impact transactions, allowing them, with reduced risk, to familiarise themselves with new territories. Transactions that incorporate blended finance into their structures have spanned all alternative sub-asset classes, including private equity, and private debt/illiquid credit (including notes and bonds), and infrastructure. According to Convergence, the asset classes relevant to blended finance are estimated to account for around \$6 trillion of alternative investment portfolios globally.<sup>31</sup> To date, most of these investments have been private investments, as opposed to publicly listed equities or bonds.<sup>32</sup>

**Blending and the use of relevant instruments need to be expanded in order to mobilise more private capital. A targeted use of blended capital is to mobilise the large amounts of capital needed from institutional investors into SDG-relevant transactions.**

However, blending capital is scarce and needs to be used conscientiously to optimise its potential. Risk-tolerant capital is only provided by a few actors within the impact investor community, including select private impact investors, in

particular foundations and family offices, and to some extent by DFIs and MDBs.

The market needs to be disciplined in the use of this limited capital: use it where it is truly needed to mobilise investors, and maximise the mobilisation multiples in order for the capital to benefit as many transactions – and investors – as possible

All investors, in particular the receivers of risk-mitigating capital instruments, need to engage to apply blending tools effectively and judiciously. Scrutiny should be applied during structuring to ensure that the blended capital is really necessary and to outline tangible pathways for how blending capital will be reduced over time as data and track record are generated. In most transactions blending support should be a temporary measure, decreasing over time as at least perceived risk asymmetries are addressed with increased performance data.

**Blended finance is a highly effective and widely used approach enabling private commercial capital to invest for social and/or environmental impact. Blended structures can provide investors with the opportunity to increase portfolio exposure to asset classes such as emerging market private debt or infrastructure, which demonstrate strong fundamentals but are associated with high perceived risk.**

## 2.5 Instruments and tools for accelerating and increasing flow of capital

This Section presents summaries of the tools and instruments that enable capital to be mobilised at scale towards the SDGs, in particular in emerging markets.

They can be effectively combined in order to direct significant amounts of institutional capital into relevant investments. Given that institutional investors have specific requirements, appetites and challenges, solutions need to be designed with specific investors in mind. More details on each of the instruments, tools and examples mentioned below can be found in the [full report](#).

These instruments and tools will not solve the capital mobilisation challenge on their own. Managers are encouraged to structure investment vehicles for strategies that advance the SDGs in emerging markets by using one or more of the instruments and tools that are gaining traction and familiarity. MDBs and DFIs feature in nearly all of the instruments and tools highlighted, underscoring their vital role in mobilising institutional capital.

### 2.5.1 Subordinated capital

Subordinated capital tranches are often provided by impact investors, including public and private funders. For institutional investors they provide an important de-risking mechanism, as senior ranking tranches benefit from loss protection by their junior counterparts. The core feature of subordinated capital structures is that the junior tranche in principle absorbs losses first, so that the senior tranche is only affected by losses once the subordinated tranche is ‘wiped out’.

Subordinated capital is probably the most widely used blended finance tool in vehicle structuring for impact investing where the perception of risk may deter participating investors. While syndication platforms, discussed later in the report, have demonstrated significant volumes of mobilised capital, the use of subordinated capital directly targets risk sharing among investors. Convergence found in its 2018 report that blended finance funds with concessional first loss capital layers (including grants, debt and equity) showed an

<sup>31</sup> Convergence (2018): “Who is the Private Sector? Key Considerations for Mobilising Institutional Capital through Blended Finance”; <https://www.convergence.finance/resource/1hYb-zLsUbAYmS4syyWuqm6/view>

<sup>32</sup> Blended Finance Taskforce (2018): “Better finance, better world”; [https://www.systemiq.earth/wp-content/uploads/2019/07/BFT\\_BetterFinance\\_ExecSummary\\_FINAL\\_18012018.pdf](https://www.systemiq.earth/wp-content/uploads/2019/07/BFT_BetterFinance_ExecSummary_FINAL_18012018.pdf)

average leverage ratio of 3.3x. So for every \$1 of first loss concessional capital deployed, \$3.3 of senior commercial capital has been mobilised. This ratio, however, includes significant amounts of MDB and DFI commercial capital. When excluding the mobilisation of MDBs and DFIs, the ratio for the mobilisation of purely private commercial capital is only 1.4x.<sup>33</sup> Examples of vehicles that use a layered capital structure showcased later in the full report include AllianzGI's AfricaGrow Fund, BlueOrchard's InsuResilience Investment Fund, and Ninety One's Emerging Africa Infrastructure Fund.

## 2.5.2 Guarantees

The OECD defines guarantees as “a type of insurance policy protecting banks and investors from the risks of non-payment”.<sup>34</sup> The guarantor, i.e., the provider of the guarantee, agrees to pay the investor or lender in the event that the investee or borrower is unable to do so, typically against the payment of a fee.

Guarantees can enable a proposition to achieve a certain (investment grade) rating that allows investors to come into the deal. Guarantees are mainly issued on specific deals but can also be assigned at the portfolio or vehicle level. In their pursuit of the SDGs, such vehicle or portfolio level guarantees have the potential to mobilise significant institutional investor support. Guarantees can also be a useful tool to free up capital on institutions' (in particular banks') balance sheets, allowing them to extend new loans.

For example, the European Fund for Sustainable Development (EFSDF)'s Guarantee from the EU has stated a mobilisation target ratio of 10x.<sup>35</sup> GuarantCo to date has achieved a mobilisation ratio of up to 3x.<sup>36</sup> The multiplier potential of guarantees to address the risk (actual and perceived) barrier of institutional investors and mobilise capital at scale is significant.

In emerging markets, guarantees are mostly used directly, in particular with commercial banks and infrastructure projects. There are as yet few vehicle-level guarantees, and these are primarily used in impact investing. One example is SunFunder's Solar Energy Transformation (SET) Fund. The \$70 million SET Fund, SunFunder's third debt fund, is a nine-year blended finance vehicle for distributed solar and storage investments in African and other emerging economies. Vehicle level guarantees represent an important opportunity for further activation in the pursuit of mobilising capital at scale.

## 2.5.3 Insurance

Insurance provides protection against specific risks, whereby the risk of the insured loss is transferred to a risk pool administered by the

insurer against payment of an insurance premium. In emerging markets among SDG-relevant insurance products, the most prevalent examples are political risk insurance, (short-term) trade credit insurance and (long-term) non-payment insurance.

Insurance can mobilise private capital into emerging markets in two main ways. First, it can cover specific risks so that institutional investors are able to participate in an investment vehicle. This can enable greater participation of institutional investors in emerging markets transactions focused on the SDGs. Second, it can increase the current lending activity of an institution by expanding the balance sheet reach of commercial banks and MDBs/DFIs.

In structures where lenders are insured to expand lending activity, there is significant opportunity to test the boundaries of efficient balance sheet management. In 2019, the Asian Development Bank (ADB) used \$921 million of credit insurance to bring insurance providers into loans or portfolio of loans, of which more than \$500 million was in local currency, and the European Bank for Reconstruction and Development (EBRD) used \$950 million. The International Finance Corporation (IFC) used close to \$800 million in 2020 and expanded its relationships with insurance companies under its Managed Co-lending Portfolio Platform (MCP) Financial Institutions Group (FIG) platform significantly in June 2020.<sup>37</sup>

An example of expanding balance sheet capability is the IFC's MCP's FIG structure which works with a number of international insurance providers who provide partial insurance cover to IFC's senior loans, selected in accordance with pre-established criteria. By transferring the risk on part of the eligible loans, the insurance coverage allows the IFC to effectively take larger loans, increasing reach and impact. An example of specific risk coverage is Actis' Energy 4 fund, which uses political risk insurance in its investment projects, where possible.

## 2.5.4 Securitisation

Traditional (true sale) securitisations are structures where a special purpose vehicle (SPV) acts as an issuer and purchases loans or loan portfolios from one or more lenders (banks or other financial institutions), and then sells its cashflows as securities to investors, typically rated and tranching, backed by the loan portfolio. In synthetic securitisation structures, risk is transferred via credit derivatives or guarantees, while the exposure remains on the originator's balance sheet. Securitisations have historically been used predominantly in developed markets, but are starting to be considered for emerging markets, particularly with respect to MDBs' and DFIs' loan portfolios.

<sup>33</sup> Convergence (2018): “Leverage of Concessional Capital”; <https://www.convergence.finance/resource/35t8IVft5uYMOG-OaQ42qgS/view>

<sup>34</sup> OECD (2021): “The role of guarantees in blended finance”; <https://www.oecd.org/dac/the-role-of-guarantees-in-blended-finance-730e1498-en.htm>

<sup>35</sup> European Commission (2021): “The EU External Investment Plan – A range of financial guarantees”; [https://ec.europa.eu/eu-external-investment-plan/sites/default/files/documents/efsd\\_guarantees-feb\\_2021-en.pdf](https://ec.europa.eu/eu-external-investment-plan/sites/default/files/documents/efsd_guarantees-feb_2021-en.pdf)

<sup>36</sup> GuarantCo (2021): “Enabling long-term infrastructure finance in local currency Quarter 3 2021”; <https://guarantco.com/wp-content/uploads/2021/11/GuarantCo-CorporatePresentation-Q3-2021-v101121.pdf>

<sup>37</sup> ADB and IFC (2019): “MDB Joint Report – Credit Insurance Extract”; <https://www.eib.org/attachments/press/1257-joint-report-on-mbbs-climate-finance-2019.pdf>

Securitisation, whether true sale or synthetic, has the power to free up substantial amounts of funding on MDBs' and DFIs' balance sheets, allowing them additional capital to reinvest. This allows private players to get access to MDBs' and DFIs' portfolios by purchasing securities beyond individual syndication efforts as they can participate in the deals originated, managed and serviced by MDBs, which is otherwise generally not possible as they cannot invest directly in MDBs. By offering different tranches of risk, securitisations can address and satisfy some of the risk challenges that currently deter institutional investors from investing in emerging markets.

An example is Room2Run, the African Development Bank (AfDB)'s synthetic structure, that securitises a portfolio of AfDB private sector loans. The securitisation was anchored by Mariner Investment Group, a US asset manager, alongside the Africa50 infrastructure fund.<sup>38</sup> Room2Run provides a risk protection agreement for a \$1 billion pan-African loan portfolio. It is the first-ever synthetic portfolio securitisation between an MDB and private sector investors. The securitisation transfers the mezzanine credit risk on a diversified portfolio covering 47 AfDB non-sovereign loans across sectors including power, transportation, financial, and manufacturing in Africa.<sup>39</sup>

## 2.5.5 Local currency financing

In many emerging markets, there is little long-term local currency financing available, due to underdeveloped, poorly regulated and volatile local financial markets and the absence of appropriate financing instruments. Many local currency funding solutions can only be achieved by MDBs and some bilateral agencies, as special approvals and privileges to access local currency in domestic markets are required (as opposed to specialised funds such as The Currency Exchange Fund, TCX).

The current lack of local currency solutions, including local currency facilities, guarantees or hedging solutions is a major challenge for the development of capital markets in developing countries. More needs to be done – and MDBs and DFIs must be called upon to increase their support.

An example is the European Union (EU) Market Creation Facility, which has a multi-tool approach to enable TCX to take on more risk and grow its risk coverage even in challenging circumstances like the Covid-19 pandemic, by adding a guarantee. The increased capacity of TCX allows its clients to provide more funding to financial institutions. These are in turn able to lend more to people and businesses in Sub-Saharan Africa and the EU neighbourhood. The facility makes financial institutions more stable by shielding end-clients from foreign exchange risk.<sup>40</sup>

## 2.5.6 Performance data and information

Many institutions, especially MDBs and DFIs, have been working in emerging markets for many years and therefore hold a large volume of relevant data, including crucial data on investment performance.

Sharing data has the power to make a fundamental change to the flow of capital to emerging markets – both with respect to actual amounts invested but also by reducing the risk premium demanded on emerging market securities, potentially providing billions of actual savings. The mobilisation effect of data can also allow for the fair and realistic risk assessment and pricing of other instruments, such as subordinated capital, guarantees, insurance products or securitisations. Data held by impact players should thus be perceived as a core tool to the furtherance of the SDGs and a global public good.

An example is the Global Emerging Markets (GEMs) database, which was established in 2009 and today counts 24 member MDBs and DFIs. Members have access to aggregated GEMs statistics encompassing, for example, observed default rates, rating migration matrices and recovery rates by geography, sector, time-period and various other dimensions. That said, GEMs data is currently only available to its member institutions.

## 2.5.7 Partnerships

### SYNDICATION PARTNERSHIPS

Syndications are used by many MDBs and some DFIs. In a syndicated transaction, the lead investor, such as an MDB, syndicates part of its loan to third-party investors through a so-called 'B-loan'. The B-loan holder sub-participates in the MDB loan, while the MDB typically remains the sole contractual counterparty of the borrower. The institutional investor benefits from the MDB's sourcing capabilities, market network and expertise and from its expressly developmental focus. The participation structure also allows for clear alignment of interests and also for the B-loan holder to benefit from the MDB's preferred creditor status.

Examples include the IFC's MCPP which is probably the largest syndication platform focused on the SDGs and emerging markets. The ILX Fund, an SDG-focused emerging markets credit fund, is another example, whereby the ILX Fund allows institutional investors to invest in a diversified portfolio of MDB and DFI loan participations.

<sup>38</sup> PRI (2019): "PRI Awards 2019 case study: Room2Run"; <https://www.unpri.org/showcasing-leadership/pri-awards-2019-case-study-room2run/4848>. article

<sup>39</sup> Africa50: "Room2Run Synthetic Securitisation"

<sup>40</sup> European Commission (2021): "The EU External Investment Plan – A range of financial guarantees"; [https://ec.europa.eu/eu-external-investment-plan/sites/default/files/documents/efsd\\_guarantees-feb\\_2021-en.pdf](https://ec.europa.eu/eu-external-investment-plan/sites/default/files/documents/efsd_guarantees-feb_2021-en.pdf)

## CO-CREATION PARTNERSHIPS

Co-creation partnerships are alliances whereby institutional investors and impact players, including MDBs and DFIs and others such as foundations, jointly design and sponsor the establishment of an investment structure or vehicle with the objective of catalysing more capital towards an impact objective.

A growing number of co-creation efforts can be seen in the market, with players teaming up to establish tailored solutions. The mobilisation effect tends to be opportunity-specific.

Examples include the Global Investors for Sustainable Development (GISD) Alliance, a group of financial institutions and corporations that is in the process of sponsoring the design of an infrastructure investment platform, and the Rockefeller Foundation's Global Energy Alliance for People and Planet.

## CO-MANAGEMENT PARTNERSHIPS

Co-management partnerships are vehicles where different managers with complementary skill sets and expertise, e.g., a mainstream asset manager and an impact manager or a DFI, cooperate. This cooperation can be fund-specific or an actual acquisition. The aim is to leverage respective capabilities, with a view to a combined offering that is attractive to institutional investors allowing the funds to scale.

Examples include the partnership between NN Investment Partners and FMO on the [Emerging Markets Loans Fund](#), a \$272 million private debt fund, GSII and MAPFRE's partnership on the Global Social Impact Fund, [Schroders' acquisition of BlueOrchard](#) in 2019 and [Goldman Sachs' acquisition of Imprint Capital](#) in 2015.

## OTHER INNOVATIVE PARTNERSHIPS

There are [varied other forms](#) of partnerships that link return payments to the achievement of targeted outcomes. Such structures are currently used in particular in deeper impact investing transactions. These investments tend to attract limited institutional capital where the investor has made an allocation to impact and has an appetite to support innovation.

**The instruments and tools presented in this Section are familiar and tested. The immediate opportunity is for these instruments and tools to be activated more expansively and applied at scale for strategies that mobilise more capital to achieving the SDGs.**

**Managers are encouraged to structure investment vehicles for strategies that advance the SDGs in emerging markets by using one or more of the instruments and tools that are gaining traction and familiarity. MDBs and DFIs are critical actors in financing transactions in emerging markets. They can expand the use of the tools available to them to accelerate effective and large-scale mobilisation of capital towards the SDGs. Institutional investors have an invitation to allocate time and effort to address their internal barriers, cooperate with others and, where necessary, co-create solutions that allow them to invest at scale.**

**Intention and engagement are ingredients for success. In short, there are actions everyone can take in the near term that will increase capital flows for the benefit of people and the planet. The rewards of coordinated efforts made now will be enormous.**

# 3

## HOW DO WE MOBILISE CAPITAL AT SCALE TOWARDS THE SDGs NOW? ASSET CLASS GUIDANCE FOR JUST TRANSITION FINANCING VEHICLES FOR INSTITUTIONAL INVESTORS

Focusing on the opportunity of financing a Just Transition, this Section outlines how we activate the units of action in a systematic manner that takes into consideration the needs of institutional investors and the integrated application of the Just Transition Elements. This Section of the report provides clarity for investable vehicles across asset classes.

### 3.1 Section summary and key takeaways

#### **A Just Transition vehicle is not established in isolation but embraces multiple actors**

A successful Just Transition vehicle, typically designed by the prospective asset manager, will reflect all relevant stakeholders' (including investors', investees', communities' and public actors') considerations, such that the vehicle is both investable and compatible with the three Just Transition Elements. Also, all actors need to move with intent and purpose and cooperate to achieve a meaningful Just Transition vehicle.

#### **Introducing a Just Transition Blueprint and underlying Principles**

The 'Just Transition Blueprint' and accompanying guiding Principles proposed in this Section provide a tangible starting point for developing investment vehicles that integrate the three Just Transition Elements: Climate and Environmental Action; Socio-economic Distribution and Equity; and Community Voice. The Blueprint and Principles are designed, in particular, for vehicles that seek to achieve scale, mobilising meaningful – and ultimately transformative – funding from institutional investors into Just Transition strategies.

#### **Application of the Just Transition Blueprint and underlying Principles**

As well as providing a robust and comprehensive framework with which to shape a vehicle's ambition, investment strategy, outcomes framework, structure, governance and operations, these tools also offer clear, consistent and accessible means to demonstrate and monitor, throughout a vehicle's

lifecycle, whether and how it is helping to deliver a Just Transition. The additional asset class specificity provided in the Principles highlights the importance of a nuanced approach based on asset class particularities and features.

#### **Integration of the Just Transition Elements into existing and new vehicles**

By providing actionable pathways, the hope is to encourage the use of the Just Transition Elements by, and the resulting adaptation of, existing vehicles and to stimulate the design of new vehicles that reflect each of the three Just Transition Elements.

#### **Just Transition investment opportunities exist**

Across the asset classes that the report has prioritised for delivering a Just Transition and its Elements, a range of investment vehicles already exist that – while not labelled explicitly as Just Transition vehicles – successfully demonstrate adherence to some, or even most, of the Principles of the Just Transition Blueprint as introduced in this Section.

#### **Case studies and examples showcase existing and relevant (almost) Just Transition investment opportunities**

The featured case studies and examples demonstrate how vehicles can pursue bold environmental and social impact and be attractive to institutional investors – at times with the need of blending or concessional capital support.

**Case studies and examples showcase the breadth of Just Transition investment opportunities**

The featured case studies and examples demonstrate the variety of possible Just Transition-relevant investment strategies, which can be led by climate or socio-economic motivations.

**The development pathway from a Sustainable Development Goal (SDG) vehicle to a Just Transition vehicle that follows the Principles is possible**

Many of the showcased case studies and examples are close to meeting the Just Transition Principles. By suggesting areas of potential Just Transition enhancement for each case study and example provided, we point out how an existing vehicle can undertake modest adjustments to be aligned

with the Just Transition Elements, Blueprint and underlying Principles. We aim to inspire asset managers and owners alike to develop and participate in new vehicles in the future.

**Overcoming barriers for scaling capital**

The Just Transition Blueprint and the showcased case studies and examples also help to demonstrate how to navigate the barriers described in Section 2.4.2 in order to mobilise capital at scale.

**A Just Transition lens can be added to existing outcomes frameworks**

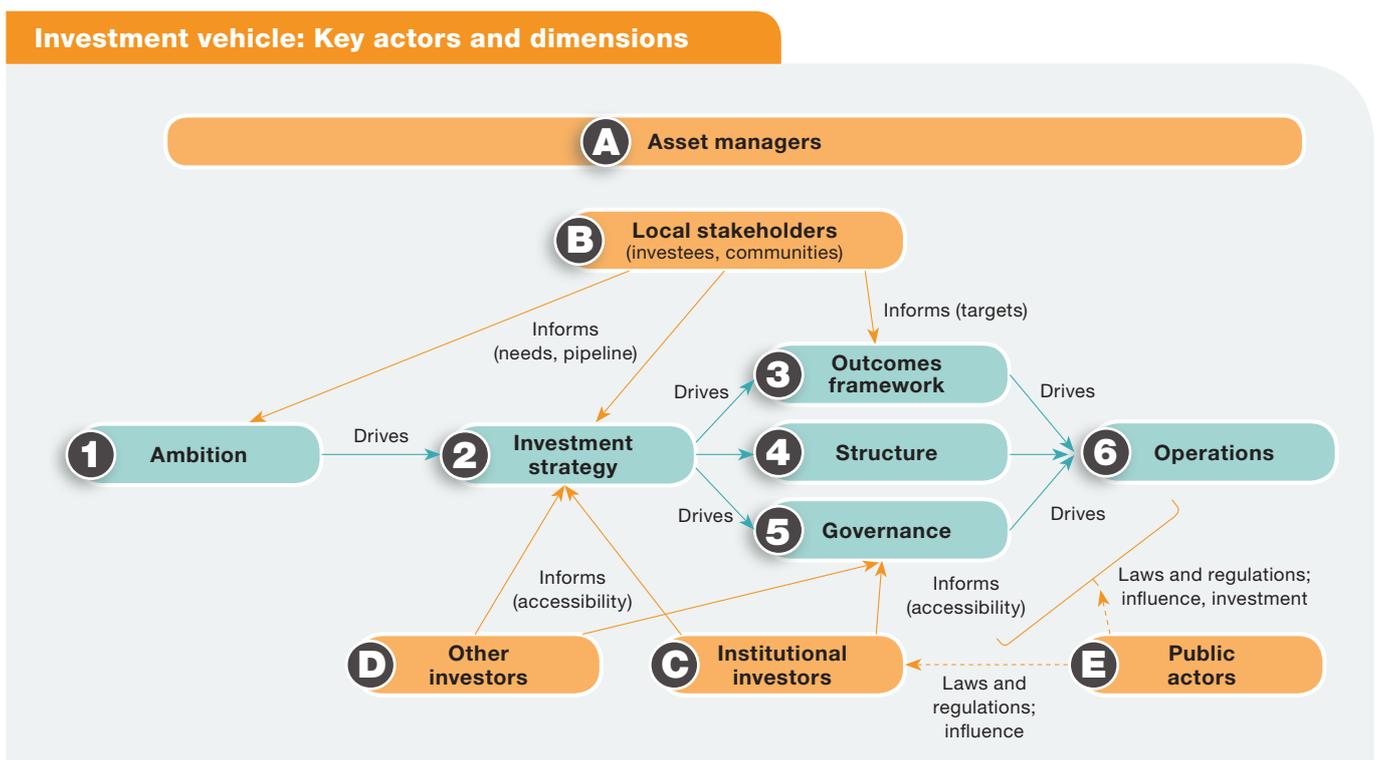
The introduced threshold questions and guidance provide direction for the addition of a Just Transition lens to existing environmental, social, and governance (ESG) and impact frameworks without the need to develop an entirely new framework.

### 3.2 Using familiar vehicles for more effective alignment with the SDGs and to deliver a Just Transition

Our proposed Just Transition Elements (see Figure 1.3) provide a tangible starting point for developing a vehicle's design, from ambition to strategy to operations, and across the vehicle's investment lifecycle, from screening to execution to monitoring. Ambition, planning and delivery of Just Transition parameters should be intentional. At the same time, for such vehicles to be attractive to institutional investors, they need to be structured and executed with target investor parameters, interests and constraints in mind.

Figure 3.1 shows a summary of key actors in, and core dimensions of, a generic investment vehicle. The following Sections will consider how a generic investment vehicle can be designed (or amended) to be a Just Transition vehicle at scale. While the specific guidance provided is applied in the context of a Just Transition, the guidance has relevance across the SDGs. The guidance can be applied across a wide range of investment strategies, as highlighted in Section 1.4.3.

FIGURE 3.1



### 3.3 Key actors in an investment vehicle

A successful Just Transition vehicle, typically designed by the prospective asset manager, will reflect all stakeholder considerations such that the vehicle is both investable and compatible with the Just Transition Elements that have been proposed in Section 1 of the report. Proactive outreach, engagement and cooperation across actors, from asset managers to investors to investee enterprises to affected communities and workers and also public actors is needed. Best-in-class managers are already familiar with this multi-stakeholder approach to investment vehicle design, proving the approach is doable and setting the bar for investment propositions.

#### **A** ASSET MANAGERS

The asset manager is usually the driver of a new vehicle from idea to execution. To effectively deliver a Just Transition vehicle, the starting point should be the demand side of the investment proposition to ensure that the vehicle's strategy is relevant. Relevance is considered based on how the vehicle addresses both the environmental and social needs of local communities.

For the Just Transition vehicle to be attractive to institutional investors, the credibility of the manager is paramount, including reputation and relevant investment track record. At the same time, for the vehicle to deliver a Just Transition strategy, local expertise combined with local presence or networks are crucial, particularly for vehicles investing in emerging markets.

#### **B** LOCAL STAKEHOLDERS

A Just Transition strategy needs to be oriented to reflect the local context of the place (or places) in which it is investing or aiming to deliver impact. A strategy's envisaged climate and socio-economic Just Transition pathways should always be expressed taking into account local needs and opportunities. Engagement with local stakeholders needs to include investees and communities.

The investment strategy needs to be grounded in the financing requirements and funding gaps of target investee companies (or projects). It should ensure that the vehicle provides responsive and affordable support to help the company or project achieve long-term sustainable growth. Workers in the targeted companies or projects should be a key part of strategy considerations.

A Just Transition vehicle needs to consider the potential effects of its investment objectives and strategy on local communities and explore ways

to mitigate any negative impacts through close dialogue with these communities. Participation should be as inclusive as possible. A Just Transition strategy may expressly consider equity parameters with a view to increasing diversity and social justice, including around gender and race.

#### **C** INSTITUTIONAL INVESTORS

When designing a Just Transition vehicle with the objective of attracting institutional investor capital, recognised investment barriers for institutional actors need to be addressed to facilitate and scale institutional investor participation.

Further, to gain traction with institutional investors, an evidence-based approach to vehicle design, supported by data combined with a place-based story expressing the investment opportunity is most compelling. Together, these components can provide clarity around an investment vehicle's Just Transition ambition and its targeted outcomes across sectors/themes, including all three Just Transition Elements.

For investors who have committed to ESG, the SDGs, Net Zero or a Just Transition, such as the 587 signatories<sup>41</sup> to the Global Investor Statement to Governments on the Climate Crisis, a Just Transition vehicle aligns with their stated objectives. Their reputation will benefit from contributing to societal goals and achievement of the SDGs, as an investor's licence to operate is linked to its demonstration of responsiveness to both social and environmental issues. Investors will also demonstrate their responsiveness to growing beneficiary preferences for sustainable investments.<sup>42</sup>

#### **D** OTHER INVESTORS

Alongside institutional investors, vehicles often include other investor types. Important to point out here are those investors that provide the tools and instruments, including blending support, outlined in Section 2. As discussed, these are, in particular, impact investors, including public players such as development finance institutions (DFIs) and multilateral development banks (MDBs) and private players such as foundations and family offices. When designing and structuring a vehicle, depending on the investment strategy, the asset manager may need to consider the use of risk mitigation instruments, such as subordinated capital, guarantees or insurance, that at times are needed in order to structure a risk proposition that is accessible for institutional investors.

<sup>41</sup> UNEP Finance Initiative (2021): "Global investor statement: Investors urge governments to undertake five priority actions before COP26"; <https://www.uneifi.org/news/industries/investment/nearly-600-investors-urge-govts-to-undertake-five-priority-actions-before-cop26/>

<sup>42</sup> PRI (2021): "Understanding and Aligning with Beneficiaries' Sustainability Preferences"; <https://www.unpri.org/strategy-policy-and-strategic-asset-allocation/understanding-and-aligning-with-beneficiaries-sustainability-preferences/7497>. article. see also "Make My Money Matter"; <https://makemymoneymatter.co.uk/>. A DFID survey of UK pension fund members also found that 25% of savers – rising to 44% of wealthier savers and 35% of millennials – were supportive of some of their assets being invested in Africa. See DFID (2019): "Investing in a Better World"; [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/834207/Investing-in-a-better-world-full-report.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/834207/Investing-in-a-better-world-full-report.pdf)

<sup>43</sup> Governments also play an important role in the decommissioning of legacy fossil fuel plants, making their early retirement feasible

## **E PUBLIC ACTORS**

National and local governments and related institutions can support Just Transition vehicles directly and indirectly:

### **National (and regional and local) governments**

#### **ROLE: Allocation of public funding nationally and internationally**

A core role of governments in the context of a Just Transition is to allocate funding to projects and constituents, often through their ministries of finance. An important planning tool for allocations is a country's National Development Plan (NDP), where it exists, which sets out the country's climate pathway. The local NDP may be relevant for financing vehicles that are seeking public monies to support their structure in a blended transaction. It may also guide a vehicle's investment strategy in a certain jurisdiction, based on needs and public focus.<sup>43</sup>

#### **ROLE: Shareholder of public and development institutions**

Governments are often the sole shareholders of their sovereign wealth funds (SWFs) and DFIs as well as joint shareholders of MDBs and other quasi-government institutions. As such, they decide on the amount of their contributions, the resulting investable capital of such institutions and set their investment mandate. The investment mandate expresses the parameters of the risk, return and impact appetite of an institution. These institutions have the potential to play a critical role in catalysing Just Transition investments in emerging markets. Therefore, shareholders of these institutions can provide strategic direction to the SWFs, DFIs, MDBs and others, mandating greater ambition around, and commitment to deliver, SDG outcomes with a specific near-term opportunity to deliver Just Transition outcomes.

In their ownership role, governments can also consider the inclusion of targeted capital mobilisation mandates and/or the strengthening of existing mobilisation mandates with clear incentive structures. Although mobilisation is often already included in many institutions' strategy, incentivisation of investment teams is often still geared towards deployment of the institution's own balance sheet.

Development institutions such as DFIs and MDBs can also be incentivised more to seek aggregating opportunities to package and move well-performing assets off their balance sheets, including, e.g. portfolio syndication or securitisation structures (see Section 2.5). Using the investment track records of these assets to attract private capital into emerging markets could stimulate deeper and functioning secondary markets in

targeted jurisdictions. The enhanced use of risk mitigating capital and guarantee structures to mobilise commercial institutional capital also has the potential to move more institutional investors into SDG and Just Transition relevant vehicles in emerging markets (see Section 2.5).

#### **ROLE: Legal and regulatory framework**

National governments set the legal and regulatory frameworks of their countries. These frameworks include the laws and regulations covering the environment for doing business and around national and international investments. Relevant laws and regulations also cover social priorities, such as the Broad Based Black Economic Empowerment legislation in South Africa. In emerging markets, however, the local legal and regulatory environment is often not well aligned with institutional investor requirements, as discussed in the earlier Section 2.3 on barriers to investment in these markets. Continued effort is needed to develop and strengthen emerging markets' legal and regulatory systems so they can be regarded as reliable and accessible for institutional investment capital.

#### **ROLE: Convener**

Governments are also a crucial convener, bringing an important voice to the Just Transition discussion. At the national level, they may push for transparent and standardised reporting on environmental and/or social outcomes. Examples include the UK Government's proposed Green Taxonomy. As outlined in the full report and analysed in more detail in the report of the Impact Taskforce's Workstream A, several governments are supporting the development of international impact reporting standards that harmonise metrics across themes and jurisdictions, helping activity and progress to be more easily compared by country, sector or company.

A good understanding of how investment activity is advancing – or not – the development agendas of countries and regions is important for public sector stakeholders and their planning. Alignment to NDPs enables further capital flows to essential parts of the economy while also supporting the growth of a green economy, with better outcomes for all stakeholders through, for example, decreased levels of pollution or climate-aligned job growth. Clarity around who is being served and who is being left out of a particular investment opportunity set allows public decision makers to understand and spotlight which needs and opportunities remain to be addressed. It can also help them to further enable the market by understanding the funding gaps and building additional opportunities and redistributing gains/expenses to other worthy projects.

## 3.4 Just Transition Blueprint for investment vehicles

The Just Transition 'Blueprint' sets out a set of Principles together with guiding questions that can inform **the design of any investment vehicle across asset classes, including those not prioritised in the report. The Just Transition Blueprint offers clear, consistent and accessible pathways to ascertain whether and how an investment meets the Just Transition Elements** as presented in Section 1.3:

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

The report identifies six key investment vehicle dimensions that follow the familiar arc of a generic investment vehicle.

- 1 Ambition**
- 2 Investment strategy**
- 3 Outcomes framework**
- 4 Structure**
- 5 Governance**
- 6 Operations**

These six dimensions form the backbone of the Just Transition Blueprint. This Blueprint is intended to provide guiding Principles, as set out below, for each of the dimensions for an institutional grade Just Transition vehicle.

The Principles convey core ideas on which each dimension can be developed and invite a range of possible actions. They are expressed as Principles to provide consistency and clarity for progressive efforts by asset owners and managers. Although also applicable to other SDG strategies, the Principles offer specific guidance for any investment vehicle that has the intention of contributing to a Just Transition.

The Principles, universal questions and guidance notes set forth in the Blueprint presented here are complemented with asset class specificity found in the full report. As noted in the subsequent section, case studies and examples are provided for each of the priority asset classes included in the [full report](#), demonstrating how the Principles can be put into action to mobilise capital at scale.

### 1 AMBITION

#### Principle 1.1

**The ambition is grounded explicitly in the integrated Just Transition Elements: Climate and Environmental Action; Socio-economic Distribution and Equity; and Community Voice**

**Key question:** *Is the vehicle sufficiently clear on its ambition across each of the three Just Transition Elements to be considered a Just Transition finance vehicle?*

The ambition statement clearly articulates the three Elements of a Just Transition that are being addressed, based on clear and concise parameters, defining what the vehicle sets out to achieve and who will be affected, including the geographic scope, environmental scope and socio-economic scope. It is important to state what the vehicle will contribute to, while understanding that each vehicle will focus on different opportunities and challenges and be part of the solution set. The 'magnitude' of the ambition will depend on the vehicle's size and depth of impact thought.

Not every vehicle, and within a vehicle not every investment, can achieve all climate or social objectives at once. Each vehicle needs to express its transition and development ambition and contribution clearly, formulating who is being reached, served and affected by an investment – and who is not.

The ambition expresses quantifiable outcome targets. These targets are realised within the life of the vehicle. A clear ambition or purpose will allow the setting of Just Transition targets ex ante and the measurement of Just Transition achievements post investment for each investment and on a portfolio level.

[See full report for additional asset class specific considerations](#) for the realisation of Principle 1.1.

#### Principle 1.2

**The ambition is grounded in the local context and needs**

**Key question:** *How does the vehicle ground its ambition in the local context of the specified geographies, including environmental and socio-economic needs?*

The ambition needs to express the local context and relevance within the context for each of the three Elements. When setting an ambition, local context is important.

In emerging markets, accessibility and affordability of solutions are threshold considerations. The countries themselves, in addition to their internal regions, communities and individuals, are underserved and marginalised relative to developed countries. Inclusion of cross-cutting themes, such as gender, race or other disadvantaged communities can be valuable components for framing an ambition, ensuring that in particular marginalised, underserved and affected segments of societies are expressly included and their interests are addressed.

[See full report for additional asset class specific considerations](#) for the realisation of Principle 1.2.

## 2 INVESTMENT STRATEGY

### Principle 2.1

**The investment strategy is Just Transition relevant**

**Key question:** *How is the vehicle's investment strategy explicitly aligned with the three Just Transition Elements?*

The investment strategy sets out how the Just Transition ambition will be met. Starting with the market opportunity, grounded in market needs and including both environmental and socio-economic factors, the investment strategy of a Just Transition vehicle expresses a clear and concise Just Transition intention and progression.

The strategy provides more specific detail to the meaning of the ambition statement: 'what' is being addressed and 'who' is being reached and served. That specificity can be expressed in terms of target investee or investee client segment, income parameters, demographic data or other descriptive data points. The strategy also acknowledges 'what' and 'who' are not included, to satisfy transparency expectations.

A distinct understanding of how the Just Transition strategy targets selected regions, sectors, environmental challenges and demographic groups, and what financial products and additional support are satisfying market need, is paramount. Therefore, demand-side considerations will:

- Be grounded in place-based demands and need – and resulting opportunities. The investment strategy will reflect market opportunity and address specific and tangible environmental and social needs, based on local context and priorities and include each of the three Just Transition Elements

- Include measures for negatively affected stakeholders; considered stakeholder groups will include workers and communities, and specifically underserved and marginalised segments of communities, including gender and racial aspects; implications for local supply chain are also considered
- Consider the inclusion of social activities in the strategy and related costs, e.g., training or re-skilling of workers or community support

While all three Elements must be present in a Just Transition vehicle, the investment strategy can be expected to be anchored and led by the climate or social Element.

One key indicator of the robustness of the strategy is the clear and transparent inclusion of Just Transition considerations across the investment process, from investment screening to due diligence to investment decision and portfolio monitoring and potentially divestment decisions (see also under Principle 6.2 below).

[See full report for additional asset class specific considerations](#) for the realisation of Principle 2.1.

### Principle 2.2

**The investment strategy is investable by institutional investors**

**Key question:** *How does the vehicle's investment strategy enable institutional investor participation in the vehicle?*

To attract significant amounts of institutional investor capital, the vehicle's investment strategy must be investable by institutional investors, addressing investor appetite and constraints. Supply-side considerations, particularly for institutional investors, can include (but are not limited to):

- *Satisfactory risk/return profile* of underlying investments for targeted institutional investors, acknowledging that institutional investors' primary focus is usually on financial performance. Specifically:
  - ~ The proposition allows for satisfactory returns, complemented by other financial rationales for an investment, such as a contribution to portfolio diversification. The risk proposition is data-based, where possible, and addresses key emerging markets risks
  - ~ If necessary and depending on the strategy, a vehicle may need to include structural enhancements that satisfy institutional investors' risk/return requirements. Often this

will be in partnership with MDBs or DFIs or other impact-focused and flexible investors and may employ blended finance structures (including, e.g., layered capital structures, guarantees or grant-funded capacity support – see Section 2.5 for more detail on subordinated capital and guarantees). Where enhancements are necessary, the vehicle is clear about the amount and use of blended features to deliver the strategy

- *Sizable vehicle*, enabling institutional investors to deploy large capital amounts (considering minimum vehicle size threshold levels; the vehicle can in some cases be smaller with a demonstrable pathway to replicability and scale)
- *Sizable and viable pipeline*, backing up the targeted vehicle size, demonstrating the viability of the vehicle size while meeting the investment level criteria of a Just Transition vehicle
- *Geographic target markets*, including an analysis of respective macro and market risks
- *Market opportunity* and viable pipeline, demonstrating depth of opportunity for a vehicle to operate at scale
- *Diversification* and target portfolio composition, showcasing the risk and performance contributions of diversification within the strategy
- *Clear and concise story* ensuring that the vehicle effectively communicates the Just Transition angle of the investment, its opportunity and/or risk considerations in terms that institutional investors can understand and that is backed up with data

Applying this Principle to vehicle design requires iterative engagement and movement by both managers and investors. While the investment vehicle must seek to satisfy the needs of institutional investors, investors must also challenge themselves to assess new opportunities that integrate environmental and social considerations.

[See full report for additional asset class specific considerations](#) for the realisation of Principle 2.2.

### 3 OUTCOMES FRAMEWORK

#### Principle 3.1

**The outcomes framework has an integrated focus on each of the three Just Transition Elements: Climate and Environmental Action; Socio-economic Distribution and Equity; and Community Voice**

**Key question:** *What are the targeted outcomes the vehicle intends to deliver linked to the three Just Transition Elements?*

A Just Transition outcomes framework will be aligned with the Just Transition ambition and will flow from the vehicle’s strategy. The outcomes framework provides clear targets and outcomes metrics across all three Just Transition Elements.

A vehicle’s inclusion of the Just Transition Elements in the outcomes management may build upon the outcomes framework and reporting methodologies already utilised by the vehicle manager, particularly where those are based on existing recognised standards such as the International Finance Corporation Operating Principles, the Impact Management Project, IRIS+ or the SDG Impact Standards (see [full report](#)).

The outcomes framework can be as ‘light touch’ as needed or more ambitious, depending on the vehicle’s envisaged impact and the starting point of the vehicle manager. It includes in all cases clear and tangible metrics showing adherence to, and the delivery of, Just Transition Elements.

The vehicle’s outcomes framework and metrics are applied both at portfolio level and at individual investment level, where more detailed strategy or sector-specific metrics may apply.

[See full report for additional asset class specific considerations](#) for the realisation of Principle 3.1.

#### Principle 3.2

**The outcomes framework fosters transparency and accountability**

**Key question:** *How do the vehicle’s reporting requirements ensure transparency of Just Transition targets and achievements and result in accountability of outcomes?*

The vehicle includes transparent reporting and communication of targets and actual achievements. External third-party verification is considered to ensure accountability, strengthen the Just Transition proposition and to avoid green or impact washing.

[See full report for additional asset class specific considerations](#) for the realisation of Principle 3.2.

### 4 STRUCTURE

#### Principle 4.1

**The structure and terms enable the capital invested to advance a Just Transition**

**Key question:** *How do the vehicle’s structure and terms enable the capital invested to advance a Just Transition?*

When structuring a Just Transition investment vehicle, it is important to ensure that the structure, the choice of asset class and the vehicle’s terms enable the delivery of a Just Transition strategy and outcomes targets.

Examples of possible demand-side considerations include:

- Vehicle life and whether it is adequate to achieve the targeted Just Transition outcomes
- Distribution of risk and returns between investees and investors
- Need for technical assistance support providing capacity building of investees and local communities

See [full report for additional asset class specific considerations](#) for the realisation of Principle 4.1.

### Principle 4.2

#### The structure and terms allow for institutional investor participation

**Key question:** *How do the vehicle's structural components and terms enable institutional investor participation?*

Vehicle structure and terms address target investors' specific investment appetite and investment barriers to allow for their participation.

Example considerations include:

- Choice of *asset class* (e.g., private debt vs equity):
  - ~ Considering target investors' allocation 'buckets' and related targets, mandates and restrictions
  - ~ Considering related features such as ratings (for fixed income offerings) or liquidity considerations
- Choice of *proven and familiar vehicle structure*; adjustments may be appropriate/needed depending on strategy; simplicity is sought, where possible
- Choice of *proven and familiar vehicle jurisdiction and legal form*
- *Target size*, providing the scale necessary to meet institutional investor minimum investment requirements
- *Target returns/yields* to be satisfactory to investors
- Choice of other *key terms*, including, e.g.:
  - ~ Vehicle life/tenor
  - ~ Vehicle currency (including hedging, as relevant)
  - ~ Management fees
- *Risk mitigation* through diversification targets/ investment restrictions
- *Structural risk mitigation or return enhancement* (through blended structure, concessional or non-concessional), where necessary (see Section 2.5 for a more detailed discussion of structural tools). Examples include:

- ~ Layered capital structure and subordinated capital
- ~ Credit guarantees
- ~ Political insurance
- ~ If blending is used, the role of blending in the capital structure is specified, including the contributions expected as a result of the amount, type and terms of blending

Early engagement with targeted institutional investors in the design process, including at times co-creation partnership, may be advisable in order to ensure investor appetite for the vehicle.

See [full report for additional asset class specific considerations](#) for the realisation of Principle 4.2.

## 5 GOVERNANCE

### Principle 5.1

#### The governance structure holds the vehicle accountable to its Just Transition ambition and the Just Transition Elements

**Key question:** *How do relevant governance bodies of the vehicle's structure adhere to Just Transition Elements with transparency and accountability?*

The governance structure of the vehicle enables the vehicle to adhere to the Just Transition Elements. Considerations of the Just Transition Elements are reflected across the relevant vehicle bodies (the board, investment committee, advisory committee or other applicable formalised bodies of the vehicle), grounded in the policies that govern each body.

The vehicle's governance strives to be transparent across all levels, holding all bodies accountable for adherence to, and application of, all three Just Transition Elements across investments and actions. Transparency and accountability are sought internally and also with respect to the wider public. Information about the composition of a vehicle's governance bodies is publicly available.

See [full report for additional asset class specific considerations](#) for the realisation of Principle 5.1.

### Principle 5.2

#### The governance structure enables broad stakeholder voice

**Key question:** *How does the governance setup enable broad participation and inclusion of relevant voices?*

The vehicle governance structure demonstrates how different voices, and particularly the voices of communities, are represented and incorporated throughout the vehicle life.

Across the governance bodies (board, investment committee, advisory committee or others) representation of at least one community member from among the communities the fund is targeting or a person representing such communities is incorporated. For global or multi-regional vehicles such representation may mean participation of a relevant non-governmental organisation or community expert that can contribute credible community voice and perspective to the governance table without expecting such representation to speak for every community the vehicle's capital may reach. In such a case, the selection of a representative voice will contribute a relevant perspective but cannot be expected to represent all relevant communities targeted by the vehicle.

The governance structure invites intentional dialogue across stakeholders, including investors as well as local stakeholders and communities; this interaction sparks informed feedback and dialogue throughout the life of the vehicle.

[See full report for additional asset class specific considerations](#) for the realisation of Principle 5.2.

## 6 OPERATIONS

### Principle 6.1

**The vehicle or manager staff are capable and incentivised to implement and execute the Just Transition ambition**

**Key question:** *How do the vehicle's investment professionals and back-office professionals demonstrate the necessary training and expertise to incorporate a Just Transition into their respective work? How does the vehicle's staff performance review and incentivisation scheme account for Just Transition targets in addition to financial targets?*

A vehicle ensures that it provides training for the relevant staff. This includes investment professionals but also others including Just Transition outcomes specialists or risk management specialists, so that together they have the necessary training to ensure the delivery of a Just Transition strategy, from pipeline building to due diligence and monitoring. This may mean greater diversity of management teams, reflecting not only investment expertise but also local market knowledge as well as socio-economic analysis and expertise.

Staff performance reviews and bonus or incentive schemes include not only financial performance

metrics but also performance metrics tied to the delivery of Just Transition targets. Application of such schemes can apply in vehicles across all asset classes.

[See full report for additional asset class specific considerations](#) for the realisation of Principle 6.1.

### Principle 6.2

**The Just Transition strategy is operationalised during the investment horizon and beyond**

**Key question:** *How does the vehicle integrate Just Transition across its investment horizon and beyond?*

An investment vehicle includes Just Transition considerations across its whole investment lifecycle, from sourcing to investment to monitoring, seeking to take a long-term view that extends even beyond the vehicle's actual investment life.

- *Investments and portfolio construction:* Just Transition considerations form an integral part of strategic portfolio construction parameters, investment assessment, decision parameters, expressed clearly and consistently
- *Monitoring:* Just Transition considerations and targets inform investee-level engagement for improvement and potentially trigger divestment decisions

[See full report for additional asset class specific considerations](#) for the realisation of Principle 6.2.

### Principle 6.3

**Just Transition considerations are integrated across policies and procedures**

**Key question:** *How are the vehicle's Just Transition ambition and targets reflected across relevant policies and procedures?*

To ensure a successful execution of the Just Transition strategy, Just Transition considerations not only feature in a vehicle's ambition and strategy, but are also integrated across relevant policies and procedures. These could include:

- Investment policy
- Risk management policy
- ESG policy
- Investment committee and board policies
- Conflict of interest policy

[See full report for additional asset class specific considerations](#) for the realisation of Principle 6.3.

### 3.5 Just Transition investment vehicles by asset class

Certain prioritised asset classes are considered to be key funding routes for accelerating and expanding institutional investor participation in Just Transition investments in emerging markets. The table below showcases a number of investment vehicles by asset class which, while not labelled explicitly as Just Transition vehicles, demonstrate adherence with several, or in some cases most, of the underlying Principles of the proposed Just Transition Elements. The referenced vehicles span strategies from climate-first to social-first, demonstrating the wide application and relevance of the Just Transition Elements.

The detailed case studies and examples listed are presented in the full report. Alongside their close alignment with the Just Transition Elements and Principles, the case studies featured in the full report in the different asset classes are notable for their ability to combine compelling

environmental or social outcomes with strong institutional investor interest. They demonstrate how a vehicle can undertake modest adjustments in order to be fully aligned with the Just Transition Elements and Principles and also offer inspiration for the development of new vehicles. To aid further development and improvement of the investment vehicles, for each of the case studies the report includes a few questions suggesting select areas of potential vehicle enhancements that could lead to further traction and more explicit Just Transition alignment. To be clear, these questions do not strive to be exhaustive; rather they are offered as food for thought and encouragement with a view to seeding future Just Transition vehicles.

Further, the case studies are supplemented by additional examples in the full report to show the breadth and variety of investment vehicles, investment strategies and asset managers active and accessible in the different asset classes.

Asset class hierarchy			Vehicle	Case study	Examples	
Alternatives	Private equity	<b>Private equity</b> <small>(Note: Forestry included herein, however, often included in real assets depending on investor allocation buckets)</small>	<b>Private equity fund</b> (direct)	<b>LeapFrog:</b> Emerging Consumer Fund III	<ul style="list-style-type: none"> <li>• <b>DPI:</b> African Development Partners III</li> <li>• <b>New Forests:</b> Tropical Asia Forest Fund</li> <li>• <b>TPG:</b> Rise Fund II</li> </ul>	
			<b>Fund of funds</b>	N/A	<ul style="list-style-type: none"> <li>• <b>AllianzGI:</b> AfricaGrow Fund</li> <li>• <b>Credit Suisse:</b> Climate Innovation Fund</li> </ul>	
	Private debt	<b>Private debt</b>	<b>Private debt fund</b>	<b>Ninety One:</b> Africa Credit Opportunities Fund 2 <b>responsAbility:</b> Access to Clean Power Fund	<ul style="list-style-type: none"> <li>• <b>FMO/NNIP:</b> Emerging Markets Loans Fund</li> <li>• <b>BlueOrchard:</b> InsuResilience Investment Fund</li> <li>• <b>Triodos IM:</b> Triodos Microfinance Fund</li> </ul>	
	Real assets	<b>Real assets</b>	<b>Infrastructure</b>	<b>Infrastructure fund</b>	<b>Actis:</b> Energy Fund 4	<ul style="list-style-type: none"> <li>• <b>Ninety One:</b> Emerging Africa Infrastructure Fund</li> <li>• <b>Africa Finance Corporation:</b> Infrastructure Climate Resilient Fund</li> </ul>
			<b>Real estate</b>	<b>Real estate fund</b>	<b>IHS:</b> IHS Fund II SA	<ul style="list-style-type: none"> <li>• <b>Divercity:</b> Urban Property Fund</li> <li>• <b>Schroders:</b> Schroder Capital UK Real Estate Impact Fund</li> </ul>
Fixed income		<b>Bonds</b>	<b>Bond fund</b>	<b>BlueOrchard:</b> Schroder International Selection Fund BlueOrchard Emerging Markets Climate Bond fund (CBF)	<ul style="list-style-type: none"> <li>• <b>Amundi/IFC:</b> Amundi Planet Emerging Green One</li> <li>• <b>IFC:</b> Masala bond programme (Note: Alternative structure)</li> </ul>	

## 3.6 Just Transition outcomes

The purpose of this Section is not to introduce a new outcomes framework nor to provide an overview of outcomes approaches, methodologies and trends. Rather, the aim is to provide a Just Transition lens on how the three integrated Just Transition Elements can be applied to existing ESG and impact frameworks.

The credibility of SDG investing generally, and Just Transition investing specifically, derives in large part from the demonstration of results. These results must take the shape of outcomes delivered, not marketing campaigns announced. As a result, an investment vehicle’s ability to demonstrate results is a high priority undertaking.

The starting assumption is that investors have an existing ESG and/or impact outcomes framework in place. If no such framework is in place, the presented approach can be used as a starting point.

The Just Transition approach covers:

- *Threshold questions*, that should be answered

when applying a Just Transition lens to the design and implementation of an investment vehicle

- *Guidance* on what should be considered and addressed when applying a Just Transition lens to an investment vehicle design and operations

### 3.6.1 Threshold questions

The following are the key threshold questions a Just Transition vehicle design should answer in terms of outcomes:

#### 1 WHAT

What does the vehicle set out to achieve based on, and including, each of the three Elements:

- Define a clear ambition statement
- Define objectives and the targeted outcomes
- Define clear and measurable targets across key indicators



### Impact Management Project (IMP)

The Impact Management Project (IMP) was a forum for building global consensus on how to measure, assess and report impacts on people and the environment. The IMP reached consensus that impact can be measured across five dimensions (see below) and has developed 15 categories that provide information on the dimensions.

In addition, the IMP facilitated standard-setting organisations that are coordinating efforts to provide comprehensive

standards and guidance related to impact measurement, assessment and reporting. The launch of the International Sustainability Standards Board (ISSB) represents the next step in standard setting efforts. The Impact Management Platform represents the next stage of the IMP evolution, aiming to provide the clarity that practitioners have been calling for. The Platform has created a regularly updated web tool that explains the core actions of impact management and links to the resources that support organisations and investors to implement them.

**The IMP reached global consensus that impact can be measured across five dimensions: What, Who, How Much, Contribution and Risk**

Impact dimension	Impact questions each dimension seeks to answer
□ <b>What</b>	<ul style="list-style-type: none"> <li>• What outcome is occurring in the period?</li> <li>• Is the outcome positive or negative?</li> <li>• How important is the outcome to the people (or planet) experiencing them?</li> </ul>
○ <b>Who</b>	<ul style="list-style-type: none"> <li>• Who experiences the outcome?</li> <li>• How underserved are the affected stakeholders in relation to the outcome?</li> </ul>
≡ <b>How much</b>	<ul style="list-style-type: none"> <li>• How much of the outcome is occurring – across scale, depth and duration?</li> </ul>
+ <b>Contribution</b>	<ul style="list-style-type: none"> <li>• Would this change likely have happened anyway?</li> </ul>
△ <b>Risk</b>	<ul style="list-style-type: none"> <li>• What is the risk to people and planet that impact does not occur as expected?</li> </ul>

Source: IMP website

## 2 WHO

Who is benefiting from the vehicle, directly and indirectly; ensuring that the vehicle includes a place-based lens:

- Define the geographic scope (regional, country, local), including, if relevant, target segments (such as urban, peri-urban, rural)
- Define the environmental scope, including climate as well as other environmental benefits, where applicable
- Define the scope of targeted socio-economic demographic groups, such as targeted population segments or specific focus on disadvantaged and/or excluded communities
- Define analysis of positive and negative externalities of the strategy and targeted investees in the respective regions of investment and operation

## 3 HOW

How does the vehicle ensure the delivery of its ambition and outcomes; describing pathways that are embedded in the investment strategy and throughout the investment lifecycle:

- Define a clear investment strategy, articulating 'HOW' the 'WHAT' and 'WHO' are being addressed

### 3.6.2 Guidance

The following guidance is for market participants when utilising a Just Transition approach:

#### 1 Environmental and socio-economic target outcomes are defined from the outset:

- The vehicle needs to expressly set its ambition and targets across all three Just Transition Elements at the outset
- The vehicle can have different priorities, i.e., climate or social, while ensuring that all three Just Transition Elements meet at least the minimum threshold:

#### ~ Climate and Environmental Action

**threshold:** Every Just Transition investment transaction will, **as a minimum**, include **at least one clear component of Climate and Environmental Action** and there must be a **net positive contribution to climate and the environment**

#### ~ Socio-economic Distribution and Equity

**threshold:** Every Just Transition investment transaction will, **as a minimum**, make a **net positive contribution to Socio-economic Distribution and Equity**

#### ~ Community Voice threshold:

Every Just Transition investment transaction will, as a minimum, include meaningful **engagement** with local stakeholders and demonstrate **how Community Voice is reflected**

#### 2 The application of the Just Transition Elements spans the entire vehicle lifecycle and is to be delivered throughout the entire lifecycle of each underlying investment.

#### 3 Ambition and targets may vary depending on the vehicle; as with the investments they are able to be contextual to both the vehicle, its size and aims but also to where these investments are being made:

- They are commensurate with the vehicle's size and the depth of impact sought
- They are grounded in the local context and based on needs identified through community engagement

#### 4 Selection of clear, objective metrics:

- The vehicle selects measurable and clear metrics for each of the three Elements
- Portfolio-level metrics may be supplemented with additional and sector- or strategy-specific indicators at asset level
- The selection of indicators may depend on where the vehicle is positioned on the spectrum between ESG and impact investing.

# 4

## RECOMMENDATIONS

The priority objectives guiding the recommendations below are to:

- Mobilise institutional capital** from the full range of private and quasi-public institutional actors, in pursuit of positive impact and advancing the Sustainable Development Goals (SDGs) by increasing the use of proven instruments and tools that can address real barriers for private capital participation significantly, and encouraging more private sector capital to flow to emerging markets
- Break down silos between climate-first and social-first strategies and transactions and strengthen the participation of local Community Voice** to advance a Just Transition

These objectives provide the basis for our

recommendations, which are formulated as concrete steps for specific audiences.

These steps are instrumental to moving capital at scale in support of achieving the SDGs generally, and to advancing a Just Transition in emerging markets specifically.

These steps can and should be taken by all actors in parallel.

The audiences called upon to take up these recommendations are G7 policy makers, national policy makers and regulators, institutional asset owners, multilateral development banks (MDBs) and bilateral development institutions (DFIs), asset managers, impact investors, advisors and ecosystem builders.

We call on all parties to seek ways of working together to meet the urgent needs of people and the planet and maximise positive impact.

	Recommendations	Audience							
		G7 policy makers	National policy makers and regulators	MDBs/DFIs	Institutional asset owners	Asset managers	Impact investors	Advisors	Ecosystem builders
Urgent and Coordinated Movement	Move together at once	✓	✓	✓	✓	✓	✓	✓	✓
	Build momentum	✓							
Environmental and Social Integration for a Just Transition	Recognise the imperative of a Just Transition, integrating environmental and social objectives	✓	✓	✓	✓	✓	✓	✓	✓
	Engage with and apply the Just Transition Elements	✓	✓	✓	✓	✓	✓	✓	✓
Mobilisation	Accelerate private capital mobilisation towards the SDGs	✓	✓	✓	✓	✓	✓	✓	✓
	Demonstrate commitment to the SDGs			✓	✓				
	Strengthen the enabling environment for SDG investments	✓	✓						✓
Transparency	Demonstrate best-in-class Just Transition investments	✓	✓	✓	✓	✓	✓	✓	✓

## Recommendations per audience

AUDIENCE	ACTION	RECOMMENDATION REFERENCE
<b>ALL</b>	<ul style="list-style-type: none"> <li>• Move together and at once</li> <li>• Recognise the imperative of a Just Transition, integrating environmental and social objectives</li> <li>• Engage with and apply the Just Transition Elements</li> <li>• Demonstrate best in class Just Transition investments</li> </ul>	<ul style="list-style-type: none"> <li>• 1a</li> <li>• 2a</li> <li>• 2b</li> <li>• 4a</li> </ul>
<b>G7 POLICY MAKERS</b>	<ul style="list-style-type: none"> <li>• Build momentum</li> <li>• Accelerate private capital mobilisation towards the SDGs               <ul style="list-style-type: none"> <li>~ By making mobilisation a key objective of development institutions</li> <li>~ By significantly expanding the use of guarantees particularly for investments in emerging markets</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• 1b</li> <li>• 3a               <ul style="list-style-type: none"> <li>~ 3a.i</li> <li>~ 3a.iii</li> </ul> </li> </ul>
<b>NATIONAL POLICY MAKERS &amp; REGULATORS</b>	<ul style="list-style-type: none"> <li>• Accelerate private capital mobilisation towards the SDGs               <ul style="list-style-type: none"> <li>~ By making mobilisation a key objective of development institutions</li> </ul> </li> <li>• Strengthen the enabling environment for SDG investments               <ul style="list-style-type: none"> <li>~ By ensuring that fiduciary duty considerations are not a barrier to Just Transition considerations</li> <li>~ By unlocking domestic capital</li> <li>~ By improving local regulatory environments for environmental and social priorities</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• 3a               <ul style="list-style-type: none"> <li>~ 3a.ii</li> </ul> </li> <li>• 3c               <ul style="list-style-type: none"> <li>~ 3c.i</li> <li>~ 3c.ii</li> <li>~ 3c.iii</li> </ul> </li> </ul>
<b>MDB/DFIs</b>	<ul style="list-style-type: none"> <li>• Accelerate private capital mobilisation towards the SDGs               <ul style="list-style-type: none"> <li>~ By providing more investment risk support in their target emerging markets</li> </ul> </li> <li>• Demonstrate commitment to the SDGs               <ul style="list-style-type: none"> <li>~ By sharing and engaging around performance data across SDG themes, asset classes and markets</li> <li>~ By building a strong manager ecosystem</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• 3a               <ul style="list-style-type: none"> <li>~ 3a.ii</li> </ul> </li> <li>• 3b               <ul style="list-style-type: none"> <li>~ 3b.iii</li> <li>~ 3b.iv</li> </ul> </li> </ul>
<b>INSTITUTIONAL ASSET OWNERS</b>	<ul style="list-style-type: none"> <li>• Accelerate private capital mobilisation towards the SDGs               <ul style="list-style-type: none"> <li>~ By committing to invest in the SDGs and a Just Transition and to increase emerging markets exposure</li> </ul> </li> <li>• Demonstrate commitment to the SDGs               <ul style="list-style-type: none"> <li>~ By adjusting mandates</li> <li>~ By building capabilities</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• 3a               <ul style="list-style-type: none"> <li>~ 3a.vii</li> </ul> </li> <li>• 3b               <ul style="list-style-type: none"> <li>~ 3b.i</li> <li>~ 3b.ii</li> </ul> </li> </ul>
<b>ASSET MANAGERS</b>	<ul style="list-style-type: none"> <li>• Accelerate private capital mobilisation towards the SDGs               <ul style="list-style-type: none"> <li>~ By expanding the flow of new investments towards SDG solutions in emerging markets</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• 3a               <ul style="list-style-type: none"> <li>~ 3a.v</li> </ul> </li> </ul>
<b>IMPACT INVESTORS</b>	<ul style="list-style-type: none"> <li>• Accelerate private capital mobilisation towards the SDGs               <ul style="list-style-type: none"> <li>~ By continuing to play a pioneering role</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• 3a               <ul style="list-style-type: none"> <li>~ 3a.iv</li> </ul> </li> </ul>
<b>INVESTMENT BANKS</b>	<ul style="list-style-type: none"> <li>• Accelerate private capital mobilisation towards the SDGs               <ul style="list-style-type: none"> <li>~ By structuring vehicles that encourage institutional investor participation in emerging markets</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• 3a               <ul style="list-style-type: none"> <li>~ 3a.vi</li> </ul> </li> </ul>
<b>CREDIT RATING AGENCIES</b>	<ul style="list-style-type: none"> <li>• Strengthen the enabling environment for SDG investments               <ul style="list-style-type: none"> <li>~ By considering specific parameters of emerging markets in ratings and driving SDG recognition in credit ratings</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• 3c               <ul style="list-style-type: none"> <li>~ 3c.iv</li> </ul> </li> </ul>

**RECOMMENDATION 1**

## Urgent and coordinated movement

### Call to action

The only chance of achieving the SDGs, confronting the climate crisis and meeting the needs of people is for each and every party to take demonstrable action now. The risks to our future are too great for delay or hesitation. No matter one’s starting position, each actor can and should do more to participate in the solutions that will build a more sustainable and inclusive world for all. Commitments and pledges need to be translated into concrete actions. The momentum that can be generated by decisive actions from each audience, when taken together, can transform the future for people and the planet.

### Recommendations

**1a FOR ALL AUDIENCES:  
MOVE TOGETHER AND AT ONCE**

Acknowledge that simultaneous and coordinated change needs to replace old patterns of sequential change, waiting for others, and commit to take specific action now. (See Section 1.2.2)

NEAR-TERM

6–12 months

**1b FOR G7 POLICY MAKERS:  
BUILD MOMENTUM**

Mark progress against the recommendations in this report and hold all actors of the global system to account.

- Continue momentum, collaborating with the global community of National Advisory Boards for impact investment, at successive G7 meetings for the next five years
- Build evidence demonstrating the effectiveness of financing an inclusive and sustainable society for all

NEAR-TERM

6–12 months

MEDIUM-TERM

1–2 years

LONG-TERM

3–5 years

**RECOMMENDATION 2**

## Environmental and social integration for a Just Transition

### Call to action

Within the overarching ambition to encourage capital at scale to achieve the SDGs, recognise and embrace the imperative of integrating environmental and social objectives across policies and investments as a matter of urgency, particularly given current market momentum around climate solutions. Recognise that the planet and people are inextricably linked. Reducing carbon without an intentional focus on improving lives and livelihoods in local communities will not build a world that is sustainable and just for all. Proactively and progressively seek ways to advance a Just Transition. Utilise the Just Transition Elements within climate and social policies and investments. Strive to include Community Voice in policies and investments. (See Sections 1.3.2 and 1.3.3)

### Recommendations

**2a FOR ALL AUDIENCES:  
RECOGNISE THE IMPERATIVE OF  
A JUST TRANSITION, INTEGRATING  
ENVIRONMENTAL AND SOCIAL  
OBJECTIVES**

For all, recognise the Just Transition Elements – Climate and Environmental Action; Socio-economic

Distribution and Equity; and Community Voice – as the standard for ‘what good looks like’ in building a more inclusive and sustainable society for all (See Section 1.3.3)

NEAR-TERM

6–12 months

MEDIUM-TERM

1–2 years

**2b FOR ALL AUDIENCES:  
ENGAGE WITH AND APPLY THE JUST  
TRANSITION ELEMENTS**

For all, as part of an integrated approach to consider environmental and social objectives, proactively identify opportunities to apply and integrate the Just Transition Elements in specific policies and investments. (See Section 1.3.3)

- For asset managers and ecosystem players that structure investments, collaborating with MDBs, DFIs and impact investors where relevant, to advance the design of replicable Just Transition financing vehicle blueprints (See Section 3.4)

- For asset managers, to expand ways in which Community Voice can be incorporated into Just Transition vehicles
- For conveners, such as the Global Steering Group for impact investment and the growing community of National Advisory Boards, to engage with the investment community, nongovernmental organisations, local government and civil society around a Just Transition to build momentum around joint Just Transition approaches and investment activity across sectors and geographies

NEAR-TERM

MEDIUM-TERM

6–12 months

1–2 years

**RECOMMENDATION 3**

**Mobilisation**

**Call to action**

Unlocking private institutional capital depends on concerted action across several key parties: government shareholders of MDBs and DFIs and the development institutions themselves, asset owners, asset managers and advisors as well as regulators and rating agencies. A step taken by each party has the power to exponentially increase the flow of capital in pursuit of positive impact. Accelerating the pace and volume of capital, and directing it to solutions that meet the needs of people and places, is both a need and opportunity.

**Recommendations**

**3a ACCELERATE PRIVATE CAPITAL MOBILISATION TOWARDS THE SDGs**

**3a.i** *For G7 and other policy makers:*  
By making mobilisation a key objective of development institutions

For G7 and other government shareholders of MDBs and DFIs, amend the mandates of these institutions to make mobilisation of private capital an objective of equal weight with balance sheet investment. (See Section 3.3)

- Set targets and structure incentive mechanisms that promote every mobilised dollar as receiving at least the same recognition as every dollar invested on its own account
- Strengthen, with funding support, the important role MDBs and DFIs play in developing local market infrastructure 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 these institutions, including capital to be used by MDBs and DFIs for risk mitigation tools and instruments that address the risk (perceived and real) of institutional investors
- Expand the ability of these institutions to provide,

at times, concessionary capital within their risk mitigation tools and instruments

- Encourage these institutions to package and sell to institutional investors parts of their portfolio of assets directly or through securitisations and related instruments to stimulate participation from institutional investors and to catalyse secondary market activity
- Support these institutions to adapt their business models to achieve the dual mandate and implement other specified changes

NEAR-TERM

MEDIUM-TERM

LONG-TERM

6–12 months

1–2 years

3–5 years

**3a.ii** *For MDBs and DFIs:* By providing more investment risk support in their target emerging markets

For MDBs and DFIs, materially increase commitment of risk-tolerant capital to accelerate the mobilisation of private institutional investors into emerging markets and towards the SDGs, in particular to more challenging investment propositions and to those that advance a Just Transition. Specifically, increase each of the following – recognising the exponential power of combination. (See Section 2.5)

- Increase investment of subordinated capital (including mezzanine capital) in blended finance transactions

- Increase provision (directly and in partnership with others) of guarantees and insurance coverage in blended finance transactions
- Increase provision of concessional capital (directly and in partnership with others), where needed
- Launch a call for proposals in 2022 for asset managers in which the selected vehicles meeting the Just Transition Elements receive MDB/DFI anchor capital with the intention of mobilising meaningful amounts of institutional capital

NEAR-TERM	MEDIUM-TERM	LONG-TERM
6-12 months	1-2 years	3-5 years

**3a.iii For G7 policy makers: By significantly expanding the use of guarantees, particularly for investments in emerging markets**

For G7 policy makers, build on the track record and operational infrastructure of the Private Infrastructure Development Group (PIDG) and invest further in existing and new entities that can provide guarantees. (See Sections 2.3 and 2.5)

- Invest to strengthen the balance sheets of existing providers of guarantees over the next one or two years
- Fund the replication of existing guarantee entities at scale (using the models of GuarantCo and InfraCredit), to be domiciled in emerging markets where risk mitigation remains a material barrier to institutional capital, with a target of two such entities per year
- Increase guarantee usage on portfolio level and for investment vehicles
- Bolster the balance sheets of existing and new entities to have minimum guarantee capacity of \$1 billion and a target guarantee ratio of five to 10 times that capacity

NEAR-TERM	MEDIUM-TERM	LONG-TERM
6-12 months	1-2 years	3-5 years

**3a.iv For impact investors: By continuing to play a pioneering role**

For impact investors, expand the pioneering role played in advancing the environmental and social objectives across sectors and geographies.

- Further deploy blended capital to mobilise institutional investors (See Sections 1.4.1, 2.4 and 2.5)
- Lead the way in Just Transition financing vehicles by providing first commitments to launch new vehicles
- Increase use of guarantees in vehicles designed to attract institutional private capital

NEAR-TERM	MEDIUM-TERM
6-12 months	1-2 years

**3a.v For asset managers: By expanding the flow of new investments towards SDG solutions in emerging markets**

For asset managers, bring more SDG and Just Transition products to market with the objective to attract more private institutional capital. (See Sections 2.4 and 3.3)

- As a companion to stated ambitions to reduce portfolio carbon footprints by 2030, commit to materially increasing the amount of capital flowing to investments that seek solutions aligned with the SDGs:

- ~ Doubling capital flows from 2021 baseline by 2025
- ~ Doubling capital flows from 2025 baseline by 2030

- Proactively explore how current commitments to design, implement and manage climate investments can progressively include social and community elements, both as new vehicles and by adapting existing vehicles to integrate all three Just Transition Elements; and vice versa, how current commitments to design, implement and manage social investments can progressively include climate and community elements, both as new vehicles and by adapting existing vehicles to integrate all three Just Transition Elements
- Proactively pursue partnerships with parties that can provide the structuring tools needed to encourage private capital participation in products

NEAR-TERM	MEDIUM-TERM
6-12 months	1-2 years

**3a.vi For investment banks: By structuring vehicles that encourage institutional investor participation in emerging markets**

For investment banks and other transaction intermediaries, structure for institutional investor participation in emerging markets vehicles. (See Sections 2.4 and 3.3)

- Incorporate one or more of the instruments referenced in this report that can mobilise capital at scale (i.e., guarantees, insurance, subordinated capital, syndicated loan portfolios)

NEAR-TERM	MEDIUM-TERM
6-12 months	1-2 years

**3a.vii** For investors: By committing to invest in the SDGs and a Just Transition and to increase emerging markets exposure

For investors of all types, commit to intentionally consider and proactively pursue investments in vehicles that demonstrably integrate environmental and social objectives, including those that integrate the Just Transition Elements. (See Section 1.3.3)

- As a companion to stated ambitions to reduce portfolio carbon footprints by 2030, commit to materially increase the amount of capital flowing to investments that seek solutions aligned with the SDGs:
  - ~ Doubling capital flows from 2021 baseline by 2025
  - ~ Doubling capital flows from 2025 baseline by 2030
- Materially increase exposure to emerging markets across asset classes



**3b DEMONSTRATE COMMITMENT TO THE SDGs**

**3b.i** For institutional investors as asset owners: By adjusting mandates

For those institutional asset owners expressing general alignment with the SDGs, demonstrate commitment by amending and aligning mandates, allocation strategies, policies and protocols to allow for investments that integrate social and environmental considerations and pursue the SDGs in general, and a Just Transition in particular, with emphasis on emerging markets. (See Section 2.3)

- Incentivise asset managers and investment consultants, as applicable, to pursue SDG transactions, ensuring that incentives are clear and aligned to fulfil this commitment
- Share commitments publicly

**3b.ii** For institutional investors as asset owners: By building capabilities

For those asset owners seeking to align their investment activities with the SDGs, demonstrate commitment by strengthening internal capabilities or building relevant partnerships. With respect to emerging markets, look to obtain support from others with relevant market experience. (See Sections 2.3 and 3.3)

- Encourage dealflow by eliminating or reducing the charges typically applied to emerging market investments with the justification of complexity or level of effort required to consider such investments



**3b.iii** For MDBs, DFIs and private impact investors and asset managers: By sharing and engaging around performance data across SDG themes, asset classes and markets

For MDBs, DFIs and private impact investors and asset managers, share historical investment performance data with the institutional investor community and rating agencies. (See Sections 2.3 and 2.5.6)

- Structure data in a commercially sensitive manner
- Indicate market and asset class context to enhance utilisation of data



**3b.iv** For MDBs, DFIs and private impact investors: By building a strong manager ecosystem

For MDBs, DFIs and private impact investors, build capacity of asset managers pursuing Just Transition strategies.

- Provide specific support to local, emerging and first-time fund managers that adopt the Just Transition Elements
- Incrementally increase annual allocations to such managers and showcase these managers to other investors



**3c STRENGTHEN THE ENABLING ENVIRONMENT FOR SDG INVESTMENTS**

**3c.i** For regulators: By ensuring that fiduciary duty considerations are not a barrier to Just Transition considerations

Where relevant, national regulators to ensure that national definitions of fiduciary duty encourage investors to consider the impact of investments on society and the environment. (See Section 2.3)



**3c.ii** For regulators: By unlocking domestic capital

National regulators to examine current barriers restricting participation of domestic institutional investors, with a particular focus on pension funds and insurance companies, in investment vehicles that advance the SDGs in general and a Just Transition specifically. Be willing to take steps to reduce the most significant barriers, progressively, to stimulate domestic capital participation. (See Section 2.4)



**3c.iii For regulators:** By improving local regulatory environments for environmental and social priorities

- National regulators of businesses and financial institutions to require inclusion of Just Transition Elements in transition plans submitted to regulators. Apply the Just Transition Elements to all transition plans, whether submitted under voluntary or mandatory country regimes
- National regulatory bodies to improve professional tenders of projects intended to meet national Net Zero and/or decarbonisation commitments. These would include energy and infrastructure projects, and public procurement tenders for social investments (e.g., affordable housing, healthcare facilities, education, etc.) with clear rules of engagement and tariff structures



**3c.iv For credit rating agencies:** By considering specific parameters of emerging markets in ratings and driving SDG recognition in credit ratings

- Ensure credit ratings' processes and models benefit from relevant emerging markets performance and correlation data
- Stimulate, through credit ratings, positive incentives for issuers that demonstrate use of proceeds that deliver explicit environmental and social objectives



**RECOMMENDATION 4**  
**Transparency**

**Call to action**

Expanding the volume and pace of capital towards the SDGs generally, and a Just Transition specifically, means we must know where the money is flowing and what is happening as a result of the capital being invested. Each of us needs to ask questions to determine where and to whom the capital has flowed. Anything labelled as contributing to the SDGs generally, and a Just Transition specifically, should be able to provide clear answers. Only through collective and consistent transparency can we assess progress against commitments.

**Recommendations**

**4 FOR ALL AUDIENCES: DEMONSTRATE BEST-IN-CLASS JUST TRANSITION INVESTMENTS**

Showcase investments that incorporate all three Just Transition Elements.

- Highlight application of Just Transition strategies across sectors and themes
- Demonstrate, in particular, how Community Voice is included in the design and governance of any Just Transition vehicle
- Publish and provide the market with examples

of what 'best-in-class' Just Transition looks like in practice

- For asset managers, publish results as a source of market differentiation
- For investors, publish results for credibility against commitments
- For ecosystem builders, publish results for greater awareness among investors and policy makers



**Note on recommendations**

These recommendations draw on the analysis presented in this report, extensive engagement with the target audiences as well as the momentum built by several initiatives under way. We are grateful for the many high-quality inputs that the work group has received from more than 170 expert practitioners across the globe.

Given the short time available to conclude our work, we have had to focus on core areas, leaving others for further exploration. It is our hope that this future investigation will be catalysed by the growing community of committed practitioners as well as by the continued interest and commitment of G7 policy makers.

# 5

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# 6

## APPENDICES

### 6.1 Appendix 1: Individual acknowledgements

We are grateful to the following individuals for their input during the work of Workstream B of the Impact Taskforce:

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Michele Giddens	Bridges Fund Management	United Kingdom
Misha Joshi	Impact Investing South Africa	South Africa

Name	Affiliation	Geography
Monique Leroux	Fiera Capital Corporation	Canada
Monique Mathys-Graaff	Willis Towers Watson	United Kingdom
Monish Mahurkar	International Finance Corporation	Multilateral
Neil Gregory	International Finance Corporation	Multilateral
Nic Wessemius	FMO Investment Management	Netherlands
Nick O'Donohoe	CDC Group	United Kingdom
Nicola Jenns	Foreign, Commonwealth & Development Office, UK Government	United Kingdom
Pauline Becquey	Finance for Tomorrow	France
Phillipe Clerc	Finance for Tomorrow	France
Phillipe Valahu	Private Infrastructure Development Group	Multilateral
Pierre-Alix Binet	Finance for Tomorrow	France
Prerna Wadikar	CDC Group	United Kingdom
Radana Crhova	Foreign, Commonwealth and Development Office, UK Government	United Kingdom
Ramraj Pai	Impact Investors Council	India
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Romee van Wachem	ACTIAM	Netherlands
Romina Boarini	Organisation for Economic Co-operation and Development	Multilateral
Rosemary Addis	Impact Strategist	Australia
Runa Alam	Development Partners International	United Kingdom
Sabine Fellman	responsAbility	Switzerland
Sabrina Muller	LSE Grantham Research Institute	United Kingdom
Saida Eggerstedt	Schroders	United Kingdom
Sandy Lowitt	Trade & Industrial Policy Strategies	South Africa
Sarah Norris	abrdn	United Kingdom
Simon Bessant	The Texel Group	United Kingdom
Simon Bond	Columbia Threadneedle Investments	United Kingdom
Simon Calvert	Foreign, Commonwealth and Development Office, UK Government	United Kingdom
Simon Meldrum	British Red Cross	United Kingdom
Simone Baur	Allianz Global Investors	Germany
Sir Ronald Cohen	Portland Trust	United Kingdom
Stefanie Fairholme	Rockefeller Foundation	United Kingdom
Steven Loubser	Ninety One	South Africa
Sunir Goven	International Housing Solutions	South Africa
Tim Crijns	Tridos Investment Management	Netherlands
Tim Hilger	Global Investors for Sustainable Development Alliance	Multilateral
Tim Wainwright	City of London Corporation	United Kingdom
Torben Huss	Investment Fund for Developing Countries	Denmark
Tracey Austin	Impact Investing South Africa	South Africa
Uday Varadarajan	Rocky Mountain Institute	United States
Usha Rao Monari	United Nations Development Programme	Multilateral
Vanessa Kacherginsky	The Israeli Forum for Impact Economy	Israel
Veronique Blanc	Schneider Electric	France
Vincent Shen	Taiwan Impact Investment Association	Taiwan
Yvonne Bakkum	FMO Investment Management	Netherlands

## 6.2 Appendix 2: Abbreviations and acronyms

2X	Referring to the 2X Challenge	EFSD	European Fund for Sustainable Development
ADB	Asian Development Bank	EIB	European Investment Bank
AFC	Africa Finance Corporation	EIOPA	European Insurance and Occupational Pensions Authority
AFD	French Development Agency	EM	Emerging market
AfDB	African Development Bank	EMPEA	Emerging Markets Private Equity Association
AllianzGI	Allianz Global Investors	ESG	Environmental, social and governance
APPG	All-Party Parliamentary Group	EU	European Union
AR5	Assessment Report 5 (Intergovernmental Panel on Climate Change)	FCDO	Foreign, Commonwealth & Development Office (UK)
ASEAN	Association of South East Asian Nations	FIG	Financial Institutions Group (IFC)
ATI	African Trade Insurance Agency	FMO	Dutch Development Bank
AUM	Assets under management	G20	Group of 20 (Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, México, Russia, Saudi Arabia, South Africa, Korea, Turkey, the UK, the US and the European Union)
BIS	Bank for International Settlements	G7	Group of Seven (Canada, France, Germany, Italy, Japan, the UK and the US) with Australia, India, South Africa and South Korea joining as guest countries in 2021
CCC	Climate Change Committee (UK)	GBP	British pound sterling
CDC	CDC Group*	GEAPP	Global Energy Alliance for People and Planet
CFAI	CFA Institute	GEMs	Global Emerging Markets (database)
CIF	Climate Investment Funds	GIIN	Global Impact Investing Network
CNBC	Consumer News and Business Channel (United States)	GISD	Global Investors for Sustainable Development Alliance
CO <sub>2</sub>	Carbon dioxide	GNI	Gross national income
COP21	21 <sup>st</sup> Conference of the Parties (Paris, France)	GOGLA	Global Off-Grid Lighting Association
COP24	24 <sup>th</sup> Conference of the Parties (Katowice, Poland)	HDI	Human development index
COP26	26 <sup>th</sup> Conference of the Parties (Glasgow, UK)	ICMA	International Capital Market Association
CPPIB	Canada Pension Plan Investment Board	IEA	International Energy Agency
DAC	OECD Development Assistance Committee	IFC	International Finance Corporation
DFC	US International Development Finance Corporation	IFRS	International Financial Reporting Standards Foundation
DFI	Development Finance Institution	IHS	International Housing Solutions
DFID	Department for International Development (UK, now FCDO)	IIGCC	Institutional Investors Group on Climate Change
DGGF	Dutch Good Growth Fund	ILO	International Labour Organization
E&Y	Ernst & Young	IMF	International Monetary Fund
EAIF	Emerging Africa Infrastructure Fund (Ninety One)	IMP	Impact Management Project
EBRD	European Bank for Reconstruction and Development		
EDFI	European Development Finance Institutions		

\* CDC Group will rebrand as British International Investment effective April 2022. See UK Government (2021): "Truss revamps British development finance institution to deliver jobs and clean growth"; <https://www.gov.uk/government/news/truss-revamps-british-development-finance-institution-to-deliver-jobs-and-clean-growth>

IPCC	Intergovernmental Panel on Climate Change	PIDG	Private Infrastructure Development Group
IRIS+	System for measuring, managing and optimizing impact (GIIN)	PPPs	Public-private partnerships
Iriss	Institute for Research and Innovation in Social Services (Scotland, UK)	PRI	Principles for Responsible Investment
ISSB	International Sustainability Standards Board	S&P	S&P Global Ratings
ITUC	International Trade Union Confederation	SA	South Africa or South Asia
JICA	Japan International Cooperation Agency	SDGs	United Nations' Sustainable Development Goals
LSE	London School of Economics and Political Science	SFDR	Sustainable Finance Disclosure Regulation (EU)
MCPPP	Managed Co-Lending Portfolio Platform (IFC)	SFWG	Sustainable Finance Working Group (G20)
MDB	Multilateral development bank	SIFMA	Securities Industry and Financial Markets Association (US)
MSCI	Morgan Stanley Capital International	SWF	Sovereign wealth fund
NAB	National Advisory Board for impact investing	TCFD	Task Force on Climate-related Financial Disclosures
NASA	National Aeronautics and Space Administration (US)	TCX	The Currency Exchange Fund
NBI	National Business Initiative (South Africa)	TPG	Texas Pacific Group
ND-GAIN	Notre Dame Global Adaptation Initiative	Triodos IM	Triodos Investment Management
NDCs	Nationally Determined Contributions	UK	United Kingdom
NDP	National Development Plan	UN	United Nations
NGO	Non-governmental organisation	UNCTAD	United Nations Conference on Trade and Development
NNIP	NN Investment Partners	UNDP	United Nations Development Programme
NRDC	Natural Resources Defense Council	UNEP	UN Environment Programme
NSIA	Nigerian Sovereign Investment Authority	UNFCCC	United Nations Framework Convention on Climate Change
N/A	Not available or not applicable	US	United States
ODI	Overseas Development Institute	USD	United States Dollar
OECD	Organisation for Economic Co-operation and Development	VC	Venture capital
OeEB	Oesterreichische Entwicklungsbank AG (Austrian development bank)	WEF	World Economic Forum
OPIC	Overseas Private Investment Corporation (US DFI, now DFC)	WFE	World Federation of Exchanges
PAGE	UN Partnership for Action on a Green Economy	WWF	World Wildlife Fund

