

Mobilising institutional capital towards the SDGs and a Just Transition

FULL REPORT | WORKSTREAM B

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



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We would like to thank the Chair, Expert Advisers, Members and Observers of the G7 Impact Taskforce [Steering Committee](#), as well as the individuals listed in Appendix 5 to the present report, for their valuable input.

We are grateful for funding for the G7 Impact Taskforce from the Foreign, Commonwealth and Development Office's IMPACT Programme, the EQT Foundation and BNP Paribas.

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.

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.

A Just Transition fit for the future

As climate finance is galvanising attention, there is an increasing consensus that a single focus on reducing CO₂ 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 and power of, and need for, a common understanding of what a Just Transition means in practice.

This 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.

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 this 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.

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 this 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 this 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.

Recommendations

This 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 this 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 below 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 states 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.

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 this 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. This 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. This 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, this 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.

Who is this report for?

This 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, this 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 5) 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.

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).¹

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 world's 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 centrestage 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

¹ 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 this 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 reasons are grounded in both risk and return. 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.

The power of financial markets – of money – is immense. Global equities markets amount to close to a staggering \$106 trillion (of which around 38.5% is in the US, which hosts the largest capital markets in the world).² Global bond markets amount to a further \$128 trillion globally.³ Collectively, the world’s 500 largest asset managers manage over \$100 trillion in assets.⁴ The power of this capital, and those who control it, cannot be overestimated. And yet much of it still sits on the sidelines and hesitates to embrace the challenges – and the opportunities – the world faces.

There has, nevertheless, been a marked change over the last few years in investor awareness and perception of the dire challenges and acute risks our planet and our people face – and a recognition of the exciting opportunities that are coming out of action and innovation. Many people are waking up to the crises ahead and are increasingly making their views and wishes known through voice (by voting and protest) and actions (as consumers and clients). This, in turn, is driving more and more investors to rethink what ‘business as usual’ should look like in the future.

Investors span a wide range of types, from private individuals to large institutions such as major pension funds. Investors also differ in their motivation and intention, from traditional investors focused primarily on generating a competitive, risk-adjusted financial return, to impact investors, who seek not only a financial return (market or below market, depending on the investor) but also intentional and measurable impacts for people or the planet, as shown in Figure 1.1.

Responsible and sustainable investment are approaches that explicitly acknowledge the relevance of environmental, social, and governance (ESG) criteria and are used by conscious investors to screen potential investment opportunities.

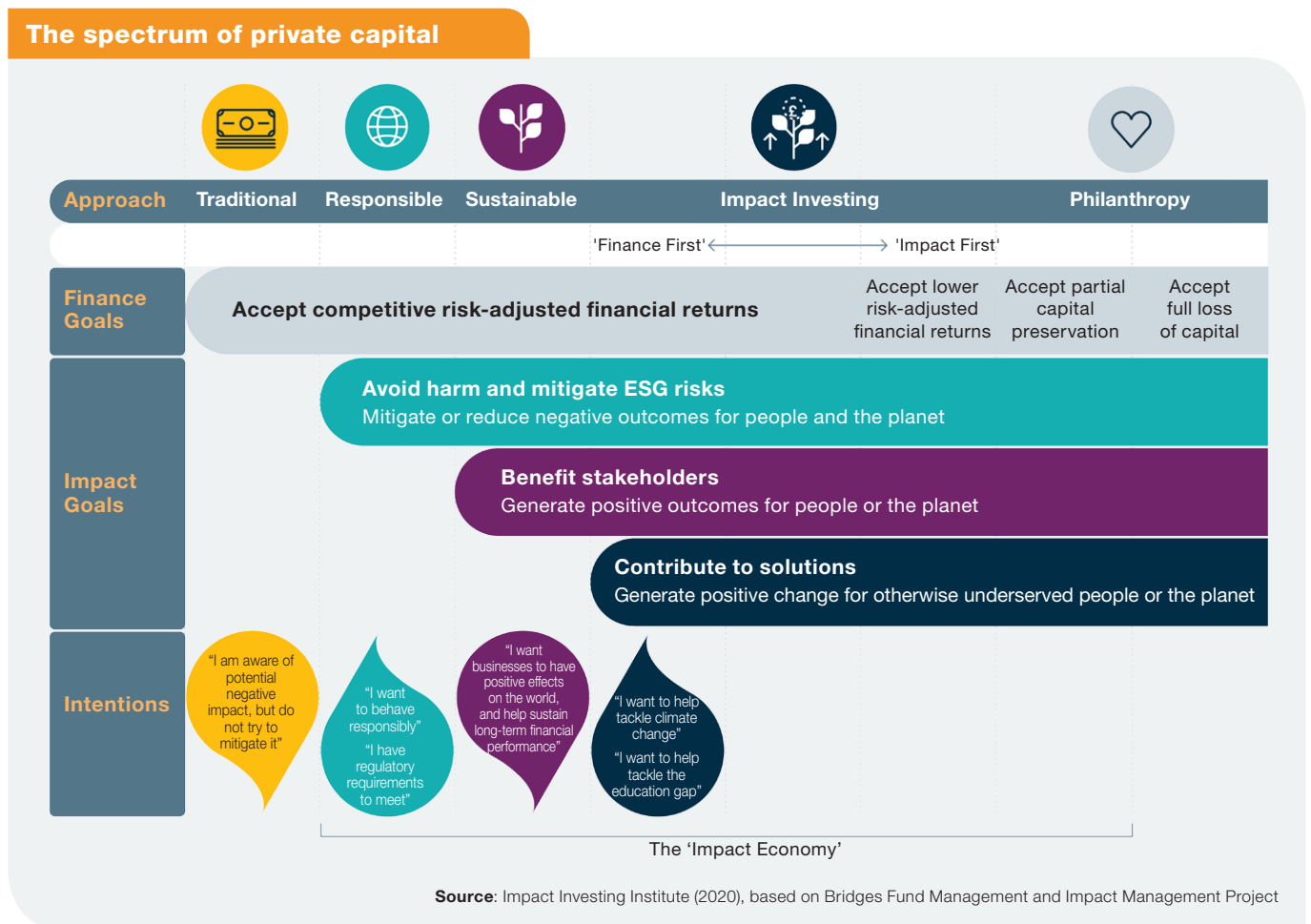
‘Responsible investing’ is defined as the use of a negative screen to inform investment decisions, primarily seeking to avoid certain investments that conflict with the investor’s agreed ethical guidelines. **‘Sustainable investing’** is defined as the use of positive screens to seek out investments that score well on ESG criteria.

² SIFMA (2021): “2021 Capital Markets Fact Book”; <https://www.sifma.org/wp-content/uploads/2021/07/CM-Fact-Book-2021-SIFMA.pdf>

³ ICMA (2020): “Bond market size”; <https://www.icmagroup.org/Regulatory-Policy-and-Market-Practice/Secondary-Markets/bond-market-size/>

⁴ Thinking Ahead Institute (2020): “The world’s largest asset managers – 2020”; <https://www.thinkingaheadinstitute.org/research-papers/the-worlds-largest-asset-managers-2020/>

FIGURE 1.1



⁵ FTSE Russell (2021): "Asset owners are buying into sustainable investment." *Sustainable Investment: 2021 global survey findings from asset owners*; <https://www.ftserussell.com/index/spotlight/sustainable-investment-2021-global-survey-findings-asset-owners>

⁶ 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/>

Environmental criteria consider how a company performs as a steward of nature. Social criteria examine how a company manages relationships with, and its impacts on, employees, suppliers, customers and the communities in which it operates. Governance deals with a company's leadership, executive pay, audits, internal controls and shareholder rights.

Early iterations of ESG investing were primarily focused on responsible investing and the financial risks associated with the climate crisis and

'business as usual' approach. Since then, ESG analysis has evolved significantly. An increasing number of investors are committing (explicitly or implicitly) to sustainable investing, acknowledging the positive opportunities of investing using an integrated ESG analysis. A survey of major asset owners by FTSE Russell found that more than eight out of 10 respondents are either implementing or evaluating sustainability into their portfolios. The predominant reasons given for doing so were investment risk (64%), the avoidance of reputational risk (57%) and capital returns (36%).⁵

As a result, the global ESG investment market has grown by two-thirds between 2016 and 2020. Bloomberg estimates it will reach \$53 trillion in 2025.⁶

'Impact investment' is distinct from responsible or sustainable investment as it seeks to achieve clearly defined and measurable social or environmental impacts as opposed to simply avoiding negative externalities or focusing on high-level ESG criteria. According to the Global Impact Investing Network (GIIN), the growing impact investment market "provides capital to address the world's most pressing challenges in sectors such as sustainable agriculture, renewable energy, conservation, microfinance,

"Investors are increasingly applying these non-financial factors as part of their analysis process to identify material risks and growth opportunities. ESG metrics are not commonly part of mandatory financial reporting, though companies are increasingly making disclosures in their annual report or in a standalone sustainability report."

Source: CFA Institute: "ESG Investing and Analysis"; <https://www.cfainstitute.org/en/research/esg-investing>

and affordable and accessible basic services including housing, healthcare, and education”.⁷ Impact investing spans asset classes and return expectations ranging from market-level to below market. Impact investing has grown significantly over the past ten years. The 2010 GIIN annual survey counted only 24 respondents, 75% of whom thought the market was in its infancy. The number increased to almost 300 in 2020, 69% of whom expected the impact investing market to grow steadily. The market is now estimated to amount to about \$715 billion.⁸

Combined, ESG and impact pools of capital demonstrate the potential realisation of an inclusive and sustainable world for all. The challenge is to move much more of the vast 'traditional' capital resources into these pools of capital. Where and how we apply and invest those resources will determine whether we will achieve the SDGs.

The growth of ESG and impact investing has spurred innovation towards meeting the SDGs and continues to do so. Although global financial markets have moved dramatically over the past few years, much more action is necessary in order to meet the needs that exist and harvest the massive opportunities that can grow out of innovation. Moving large swathes of capital controlled by large entities such as institutional investors will be particularly critical. While often engaged and willing, many investors are constrained in their investment activities and face real barriers to what they can do (see Section 2.4.2 for an overview of external and internal investment barriers of institutional investors). Therefore, actors across and around financial markets, including investors, asset managers, rating agencies, financial intermediaries, regulators and also governments, will need to partner and move together to move capital and rethink markets so that they contribute to the well-being of people and the planet.

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 (see also Figure 2.1 in Section 2). Collective contributions are particularly urgent in these regions to further the SDGs and build healthy and sustainable local financial and social ecosystems around the world.

1.2.2 Financial market key actors need to move simultaneously

Mainstreaming responsible, sustainable and impact investment practices among institutional investors to achieve the scale necessary to meet the world's social and environmental challenges will require many actors to contribute time, energy and funding. Given the amount of capital they control, institutional investors are a front row audience for this 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 (as owners of capital)

Investors are the legal owners of capital and therefore are ultimately responsible for capital allocation decisions. They typically have investment objectives and mandates that determine their investment decisions. Their engagement with impact performance may involve allocating across a range of asset classes. Asset owners may manage their assets directly and/or outsource management to professional asset managers.

They include:

- **Institutional investors (as asset owners):**

Institutional investors are typically understood as large organisations investing on behalf of other beneficiaries. The term refers primarily to pension funds and insurance companies. It can also include endowments, foundations, charities, sovereign wealth funds (SWFs), banks and credit unions, family offices and private funds (such as mutual funds, hedge funds, private equity/debt funds and venture capital funds, or real estate trusts). For the purpose of this report, we consider institutional investors to be asset owners. Private funds and their managers are considered under the asset manager discussion. As institutional investors usually have large funding amounts available, they mostly seek sizable investment opportunities. Institutional investors tend to prefer standardised, easily tradable investments and securities; illiquid investments are usually a marginal part of the institutional portfolio. Some institutional investors, in particular pension funds and life insurers, may

⁷ GIIN: "What you need to know about impact investing"; <https://thegiin.org/impact-investing/need-to-know/#what-is-impact-investing>

⁸ GIIN (2020): "2020 Annual Impact Investor Survey"; <https://thegiin.org/research/publication/impinv-survey-2020>

have long-term liabilities (e.g., ongoing payments to their pension scheme members) and hence can invest in long-term assets that match them. Many institutional investors face significant regulatory requirements and constraints

- **Impact investors:** Impact investors are – and have been for decades – playing a pioneering role in SDG investments across both developed and emerging markets. They are investors that deploy capital to intentionally generate measurable positive social and environmental results (see also Figure 1.1 on the spectrum of capital above). Impact investors cut across investor types, including, typically, DFIs and MDBs on the public side, as further discussed below, and foundations, certain family offices and high net worth individuals on the private side. They have built and developed an impact investment universe that is increasingly familiar and attractive to traditional private investors. Several institutional investors, including insurance companies and pension funds, have made allocations to impact investing, demonstrating that it is possible for large institutional investors to deploy capital in pursuit of positive impact

- **Governments and related entities, including:**

~ **Multilateral development banks and bilateral development finance institutions:**

DFIs and MDBs deploy government capital to meet economic development aims, primarily in emerging market countries. They mostly invest in private sector projects and companies in low- and middle-income countries to promote job creation and sustainable economic growth. They are usually majority-owned by national governments and source their capital from either national/international development funds or benefit from government guarantees. This linkage, often through a government shareholding, ensures their creditworthiness, which mirrors that of the major shareholder/guarantor. This further enables them to raise large amounts of money on international capital markets and provide financing on particularly competitive terms⁹

- ~ **Sovereign wealth funds (SWFs):** SWFs are state-owned investment funds established to channel investment capital into global investments on behalf of sovereign nations or states and in the advancement of such sovereigns' goals. Most SWFs are funded by revenues from commodity exports or from foreign exchange reserves held by the relevant central bank. As a group, SWFs are highly

diverse in terms of organisational models, governance, purpose and investment strategies (investment focus, risk appetite, liquidity). They are also mostly discreet about their investment strategies, portfolio holdings and corporate governance practices¹⁰

- **Individuals** (as direct investors or indirectly, e.g., as pension beneficiaries): Individual asset owners are not restricted to those defined as high net worth or ultra high net worth investors. When considered in the context of the number of people across the globe with bank accounts, pensions and retirement accounts of any type, the pool of individual asset owners is large and distributed

- **Other investors**, including corporations that not only operate their core businesses but also increasingly invest their balance sheet capital

Stewards of capital

Stewards of capital follow a mandate provided by the asset owners and make decisions within such a mandate.

They include:

- **Asset managers:** Asset managers are not the legal owners of the assets under management but act on behalf of their clients (the asset owners). They may manage assets on behalf of clients via separate accounts and/or pooled funds that bring together and invest the capital of multiple investors. Investment decisions follow guidelines stated in the respective agreements with the capital owners (e.g., an investment fund's formal 'investment objective')
- **Investment consultants:** Investment consultants provide asset owners such as institutional investors with investment products, advice, and/or planning. They carry out in-depth work on formulating investment and allocation strategies for clients, helping them fulfil their needs and reach their financial goals. They often support asset owners in their asset manager selection
- **Investment banks (buy-side advisory):** Investment banks provide investors and asset managers with buy-side advisory services, advising on investment opportunities and strategies

Rule setters

Rule setters establish rules for the conduct of the markets.

⁹ OECD: Development finance institutions and private sector development; <https://www.oecd.org/development/development-finance-institutions-private-sector-development.htm>

¹⁰ There are three main categories of SWF depending on their aims: stabilization funds are mandated to insulate their home economies from macroeconomic shocks and smooth out revenue streams; capital maximisation funds pursue return maximisation with long time horizons; finally, strategic development funds pursue social development, economic diversification, and/or domestic infrastructure fortification. The majority of SWFs are domiciled either in oil-exporting countries or East Asia. See Toptal: The Wealth of Nations: Investment Strategies of Sovereign Wealth Funds; <https://www.toptal.com/finance/market-research-analysts/sovereign-wealth-funds>; PwC (2016): Sovereign Investors 2020.

They include:

- **Regulators:** National and regional regulators issue and enforce legal requirements, contributing to a functioning, stable and integrated, fair and transparent financial system and preventing its misuse
- **Rating agencies:** Rating agencies assess the financial strength of companies and government entities, in particular their ability to meet principal and interest payments on their debts (e.g., government and corporate bonds). By awarding credit ratings to issuers that can be assessed on a like-for-like basis, their role is to improve transparency and reduce information asymmetries between debt issuers and purchasers.

Designers and structurers of products

Designers and structurers of products devise and create investable products for investors and stewards of capital.

They include:

- **Asset managers:** Asset managers have a contractual obligation from an asset owner to manage assets for a fee in accordance with the mandate the owner has set. They may create a 'commingled' portfolio or a collective fund to pool together the capital of multiple clients. For very large clients, they may devise and structure a product on a segregated basis
- **Investment bankers:** Investment banks structure and create products for their clients that allow them to raise capital on financial markets. They help with the placement of such products and with finding investors, and provide financial consultancy services

Ecosystem players

Ecosystem players are the many other players that enable and help shape financial markets.

They include:

- **Auditors:** Audit the financial statements of a company and hence are key to ensuring the accuracy of such statements
- **Legal advisers and other advisers:** Transactional legal counsel help structure financial products or transactions, review contracts and advise on legal risks. Other advisers may include accountants
- **Corporates:** Corporates can be the issuers of financial products such as shares and debt offerings to raise capital to help fund their business activities; they may also use their balance sheets for investment

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. As highlighted in this report, 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 the planet.

The actors 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 Background on Just Transition

1.3.1.1 THE CLIMATE CRISIS AND NET ZERO ACTION

The climate crisis is one of the defining challenges of our time. It affects everyone across the globe, across borders and jurisdictions, including both developed and emerging markets (for the purpose of this report, the terms 'emerging markets' and 'developing countries' include both emerging and frontier markets)¹¹. The impact on our planet is visible. The effects on people's lives are real.

Global climate change has already had observable effects on the environment. Heat waves have led to extensive droughts across continents, glaciers have shrunk, plant and animal ranges have shifted, and trees are flowering sooner. What will happen if we do not contain global warming?

- Global warming affects evapotranspiration (the movement of water into the atmosphere from land and water surfaces and plants due to evaporation and transpiration), leading to increased drought in dry areas. Already, during the last 50 years, the Sahel region of Africa, southern Asia, the Mediterranean, and the Southwestern US, just to name a few places, have been getting drier. Scientists expect the amount of land affected by drought to grow by mid-century – and water resources in affected areas to decline by as much as 30%¹²
- Global sea levels have risen by about 20cm since reliable record-keeping began in 1880. Sea levels are projected to rise another 0.3m to 2.4m by 2100 as a result of melting land ice, especially glaciers, and the expansion of seawater as it warms. In the next few decades, storm surges and high tides could combine with rising sea

¹¹ Based on the World Bank country classification system, this would include upper-middle-, lower-middle- 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>

¹² Union of Concerned Scientists: <https://www.climatehotmap.org/global-warming-effects/drought.html>

FIGURE 1.2

Net Zero by 2050: What does it mean?

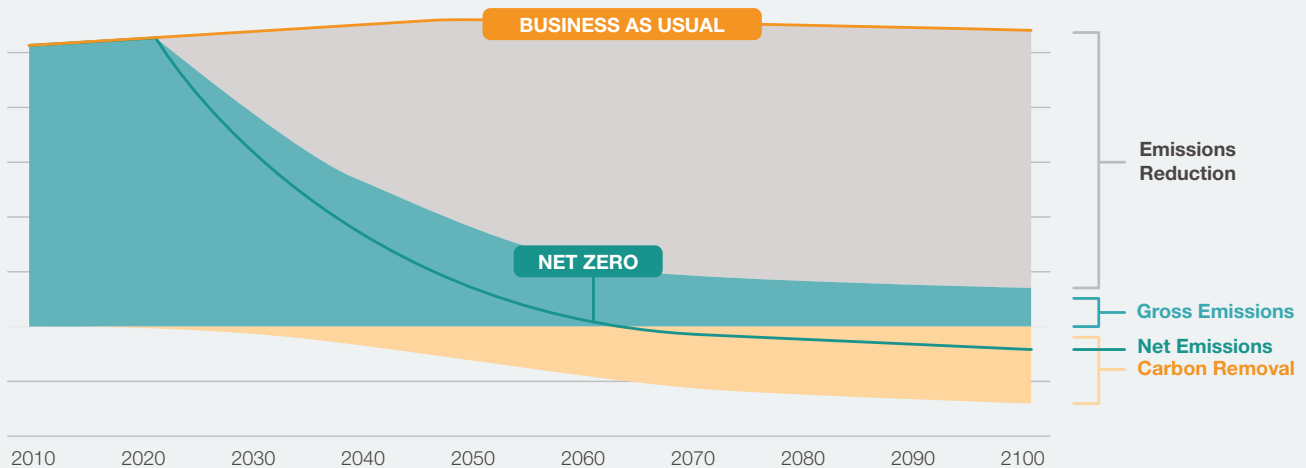
Based on research conducted by the IPCC, to limit global warming to 1.5°C relative to pre-industrial levels (and hence avoid the worst climate impacts), global CO₂ emissions will need to reach 'Net Zero' – or 'carbon neutrality' – by around 2050.

In order to achieve 'carbon neutrality' by 2050, countries need to work towards creating low carbon economies by

reducing carbon emissions and using carbon mitigation technologies, whereby any remaining greenhouse gas (GHG) emissions can be counterbalanced by removing GHGs from the atmosphere in a process known as 'carbon removal' using sequestration techniques.

Source: World Resources Institute (2021): What does 'Net-Zero Emissions' mean? 8 common questions answered

Creating a path to Net Zero



Source: IPCC (2019): "SR15 Full report" Chapter 2

¹³ NASA: "The Effects of Climate Change"; <https://climate.nasa.gov/effects>

¹⁴ WWF: "The effects of climate change"; <https://www.wwf.org.uk/learn/effects-of-climate-change>

¹⁵ The IPCC is an organisation of governments that are members of the United Nations and has around 195 members currently.

¹⁶ IPCC (2018): "Special Report on Global Warming of 1.5°C"; <https://www.ipcc.ch/sr15/>

¹⁷ IPCC (2018): "Special Report on Global Warming of 1.5°C"; <https://www.ipcc.ch/sr15/>

¹⁸ IPCC (2021): "Headline Statements from the Summary for Policymakers, Sixth Assessment Report Working Group I"; <https://www.ipcc.ch/report/ar6/wg1/>

¹⁹ IPCC (2021): "Climate Change 2021: the Physical Science Basis"; <https://www.ipcc.ch/report/sixth-assessment-report-working-group-i/>

levels and land subsidence to further increase flooding in many regions¹³

- Global warming is likely to be the greatest cause of species extinction this century, according to the World Wildlife Fund (WWF).¹⁴ The Intergovernmental Panel on Climate Change (IPCC)¹⁵, the United Nations' body for assessing the science related to climate change, estimates that a 1.5°C average rise in global temperatures may put 20-30% of species at risk of extinction. If the planet warms by more than 2°C, most ecosystems will struggle. For example, at 1.5°C, coral reefs are estimated to be reduced by 70-90% – and if the planet warms by 2°C all coral reefs will be destroyed. This is not only a tragedy for the ocean's wildlife but also affects around half a billion people who currently rely on fish from coral reefs as their main source of protein

These are just a few examples.

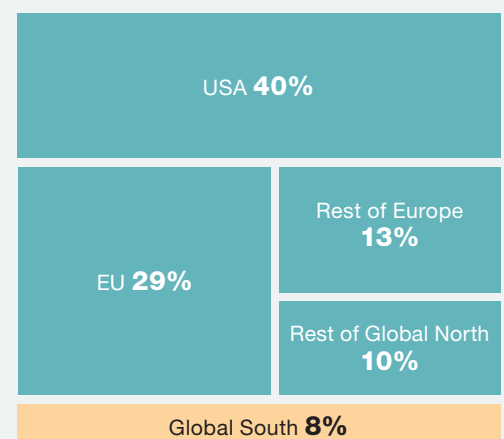
According to the IPCC, human activities are estimated to have resulted in around 1°C of global warming to date, relative to pre-industrial levels of 1850-1900.¹⁶ **In their 2018 special report, the IPCC demonstrated that net emissions must be reduced to zero in order to stabilise global temperatures.**¹⁷ The IPCC's recent Sixth Assessment Working Group I publication (2021) reemphasises the importance and urgency of climate action, calling for "deep reductions in carbon dioxide (CO₂) and other greenhouse gas

emissions" to occur in order to limit global warming to 1.5°C or 2°C.^{18,19}

A study sought to quantify the national responsibilities for damages relating to climate change by looking at each country's share of historical emissions (1850-2015) to cumulative CO₂

FIGURE 1.3

Responsibility for climate breakdown



Source: Jason Hickel (2020): "Quantifying national responsibility for climate breakdown: an equality-based attribution approach for carbon dioxide emissions in excess of the planetary boundary." *Lancet Planetary Health*

emissions. The study found that the United States (US) and the European Union (EU) nations together were responsible for 69% of global excess CO₂ emissions, the Global North for 92%²⁰ (see Figure 1.3).

The unprecedented acceleration 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.

There is growing public support for the Net Zero agenda, with public outrage on climate inaction shown through widespread action, including, for example, the global movement 'Extinction Rebellion', the 2019 'Global Climate Strike' and the weekly 'Fridays for Future' protests. In a survey of public opinion on climate change that included 1.2 million respondents across 50 countries, the United Nations Development Programme's (UNDP) 'Peoples' Climate Vote' showed broad global support for increased climate action.²¹

Initially, and still at times today, the climate action agenda has focused exclusively on a Net Zero climate transition and the changes needed to

move to a low-carbon and resource-efficient global economy. Such a single focus, however, has seen push-back. In particular, there have been growing concerns about the potential negative effects of climate actions on society and the economy, including job losses in affected industries and changes to commodity prices that could result in higher household expenses and diminished access to basic goods and services for low-income, often rural, communities. Such negative socio-economic effects have led to social tensions, dissatisfaction and even unrest across the globe. This has manifested in heated political debates around Net Zero agendas, particularly in fossil-fuel reliant economies or regions, including the US Republican Party's push-back on climate change priorities, the severe protests in Chile ahead of the trade and UN climate summits in 2019, and the 'gilets jaunes' movement in France.

There is increasing consensus that a single focus on Net Zero is not sufficient and that a shift in perspective to also include its socio-economic impacts is essential. A holistic approach paying 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.

²⁰ Jason Hickel (2020): "Quantifying national responsibility for climate breakdown: an equality-based attribution approach for carbon dioxide emissions in excess of the planetary boundary". See the analysis for more information on assumptions and methodology.

²¹ UNDP (2021): "Peoples' Climate Vote - Results"; <https://www.undp.org/publications/peoples-climate-vote>

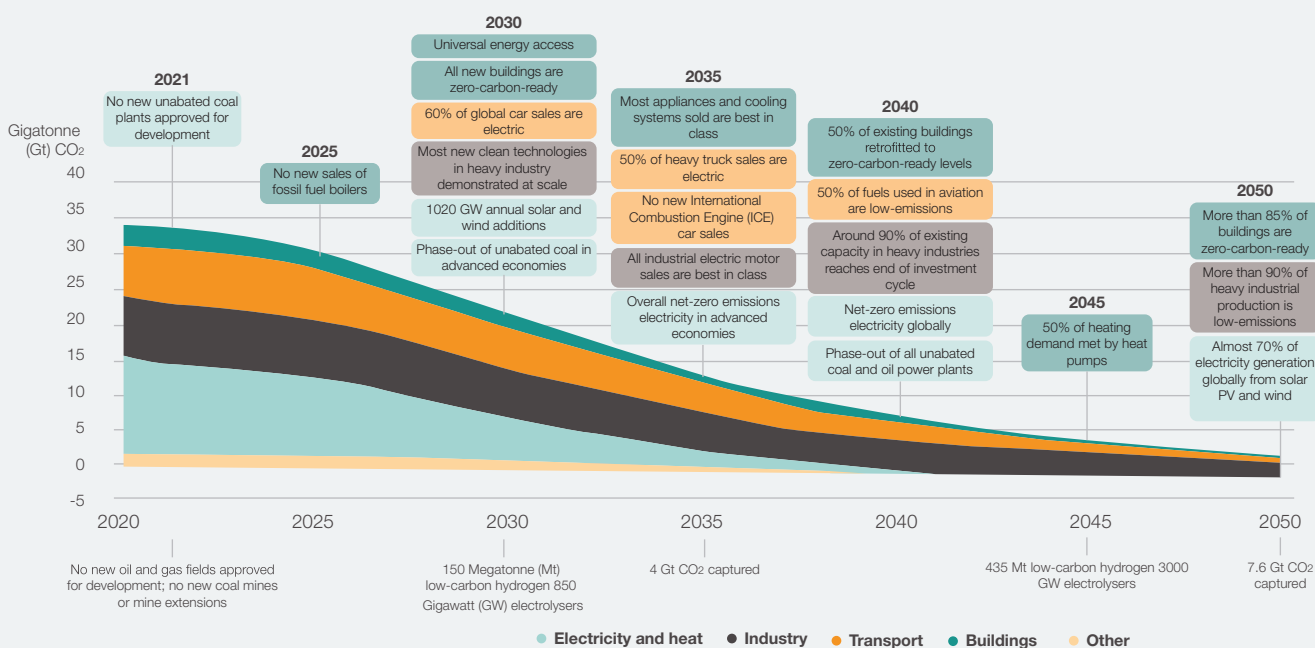
FIGURE 1.4

Net Zero milestones

The International Energy Agency (IEA) has provided a Net Zero roadmap setting out over 400 milestones for what will need to be done, and when, to decarbonise our planet by 2050.

According to the IEA, to reduce net emissions to zero by 2050, annual clean energy investment worldwide will need to more than triple by 2030 to around \$4 trillion a year.

Key milestones on the path to Net Zero



Source: IEA (2021): "Net Zero by 2050 – A Roadmap for the Global Energy Sector"

The Paris Agreement

The Paris Agreement stated that parties should take into account

“the imperatives of a just transition of the workforce and the creation of decent work and quality jobs in accordance with nationally defined development priorities”,

thus highlighting the importance of workers and the creation of decent jobs in climate change actions.

Source: United Nations (2016): Just Transition of the Workforce, and the Creation of Decent Work and Quality Jobs

1.3.1.2 THE EVOLUTION OF A JUST TRANSITION

The roots of the ‘Just Transition’ concept lie in the labour union movement: in the 1990s, North American labour unions and environmental justice groups demanded fair and just pathways for workers to transition to alternative jobs in response to environmental protection policies that resulted in job losses in affected polluting industries such as coal.²² The Just Transition concept was subsequently incorporated into the negotiating text for the Copenhagen Summit in 2009 but it only found its way into an actual agreement six years later: the historic **Paris Agreement**. The Paris Agreement, signed by 196 nations at the 21st Conference of the Parties (COP21) in Paris on 12 December 2015, explicitly highlighted the importance of a Just Transition, acknowledging that decarbonising objectives need to be combined with attention to affected workers in a shift to a resilient economy.

Since COP21, the discussion on a Just Transition has broadened. It now often includes a more systemic concept of **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. These discussions have highlighted the imperative of considering

(i) different climate transition and planet preservation strategies across sectors; (ii) geographic disparities, needs and priorities at international, regional and national levels; and (iii) affected and underserved or marginalised communities, households, individuals, workers and enterprises, to achieve an inclusive and socially beneficial transition. The result is a growing recognition that in every climate change discussion, particular attention needs to be paid to those segments of societies that 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 affect those in poverty disproportionately, and can exacerbate economic, gender and other social inequalities.²³

Since early 2020, many long-standing socio-economic and development issues, for example, job insecurity, poverty, inadequate healthcare or lack of access to clean water, have been compounded by the Covid-19 pandemic, affecting particularly

“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 socioeconomic 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”

²² Just Transition Centre (2017): “Just Transition – A Report for the OECD”; <https://www.oecd.org/environment/cc/g20-climate/collapsecontents/Just-Transition-Centre-report-just-transition.pdf>

²³ 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

SPOTLIGHT

Climate and gender

There is widespread gender injustice around the globe, but also growing awareness of the significant challenges climate change has on women, for example:

- Water scarcity can increase the burden to collect water or push families to split to seek work
- Lack of access to energy has material negative effects on girls’ education and health as well as women’s opportunity to pursue economic activities

Source: GenderSmart (2021): “Gender & Climate Investment: A strategy for unlocking a sustainable future”

The GenderSmart report showcases how gender and climate investing can apply across three example sectors:

Energy: Extension of access to renewable energy solutions to households.

Agriculture: Opportunities across agricultural and food technologies, food processing, fashion and other supply chains.

Infrastructure: Ability to address existing gender gaps by incorporating a gender lens to the design and build of green infrastructure projects.

Defining a 'Just Transition'

There is not yet any universally agreed definition of the Just Transition concept. One of the early descriptions was provided by the International Labour Organization (ILO):

"A just transition for all towards an environmentally sustainable economy [...] needs to be well managed and contribute to the goals of decent work for all, social inclusion and the eradication of poverty [...]"

The greening of economies presents many opportunities to achieve social objectives: it has the potential to be a new engine of growth, both in advanced and developing economies, and a net generator of decent, green jobs that can contribute significantly to poverty eradication and social inclusion. The greening of economies will enhance our ability to manage natural resources sustainably, increase energy efficiency and reduce waste, while addressing inequalities and enhancing resilience."

Similarly, the OECD's approach to a people-centred transition builds on the ILO's definition of a Just Transition, asserting that

greening the economy should be done in a way that is as fair and inclusive as possible to everyone concerned, creating decent work opportunities and leaving no one behind. A Just Transition involves maximizing the social and economic opportunities of climate action, while minimizing and carefully managing any challenges. The OECD's analysis shows that the impacts of environmental degradation tends to be concentrated among vulnerable groups and households, while the benefits and costs of environmental policies are also likely to be unevenly distributed across households.

Despite the lack of a unifying definition, the Just Transition concept is increasingly used by governments, labour groups, investors, businesses, civil society and multilateral agencies as a way to encourage consideration of who will be affected by climate action and where the effects of related systemic change will be felt. A holistic view of these effects is vital in order to distribute the costs and benefits of Net Zero climate action in a fair manner, and should both provide a voice to those affected and result in intentional planning of climate action.

Source: ILO (2015): "Guidelines for a just transition towards environmentally sustainable economies and societies for all"; https://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_ent/documents/publication/wcms_432859.pdf

OECD (2021): "The inequalities-environment nexus: Towards a people-centred green transition". OECD Green Growth Papers, No. 2021/01; https://www.oecd-ilibrary.org/environment/the-inequalities-environment-nexus_ca9d8479-en

those already underserved and marginalised groups along economic/class, gender and racial lines. Covid-19 has also exposed deep, long-standing and growing inequalities between countries. The global pandemic has thus reinforced the need for a Just Transition, increasing the urgency to ensure equitable societies and the importance of finding ways to address structural imbalances and rebuild economies, while addressing the risks of climate change at the same time.

As stated by the Task Force on Climate, Development and the International Monetary Fund (IMF), "climate change poses significant risks to financial and fiscal stability, poverty and inequality and the long-run growth prospects of the world economy" and "climate action presents an opportunity to build a green and just 21st century economic infrastructure, adapting to the changing climate while raising levels of prosperity across the world".²⁴ It is imperative that the global community support climate resilience and transition to a low-carbon economy in a just way.

Climate action needs to provide equitable and inclusive pathways to Net Zero and a thriving planet where no one is left behind. In other words, the transition to a viable environmental future also needs to be socially just to be successful and sustained over the long term.

1.3.1.3 GEOGRAPHIC CONSIDERATIONS

Climate change is a global problem that will require action across all developed and emerging markets. However, implementing effective Just Transition measures requires paying attention not only to the universal concept but also to the local context using a place-based lens.²⁵ In other words, which Just Transition pathways are possible and desirable depends on the specific local realities, capacities and capabilities.

Appendix 1 provides further analysis and specific geographic considerations for emerging market investment approaches.

Determining starting points

Countries, regions and communities have different starting points when it comes to delivering a Just Transition. These are determined by a range of environmental and socio-economic factors, including a place's emission legacy track record, reliance on fossil fuels and economic dependencies on greenhouse gas-emitting sectors and existing energy infrastructure. A place or community's vulnerability to climate-related risks (e.g., rising sea levels), its ability to provide universal access to modern energy services (particularly as energy demand rises), its demographic footprint, as well as broader socio-economic (e.g., employment and poverty) and human development indicators all have an impact.

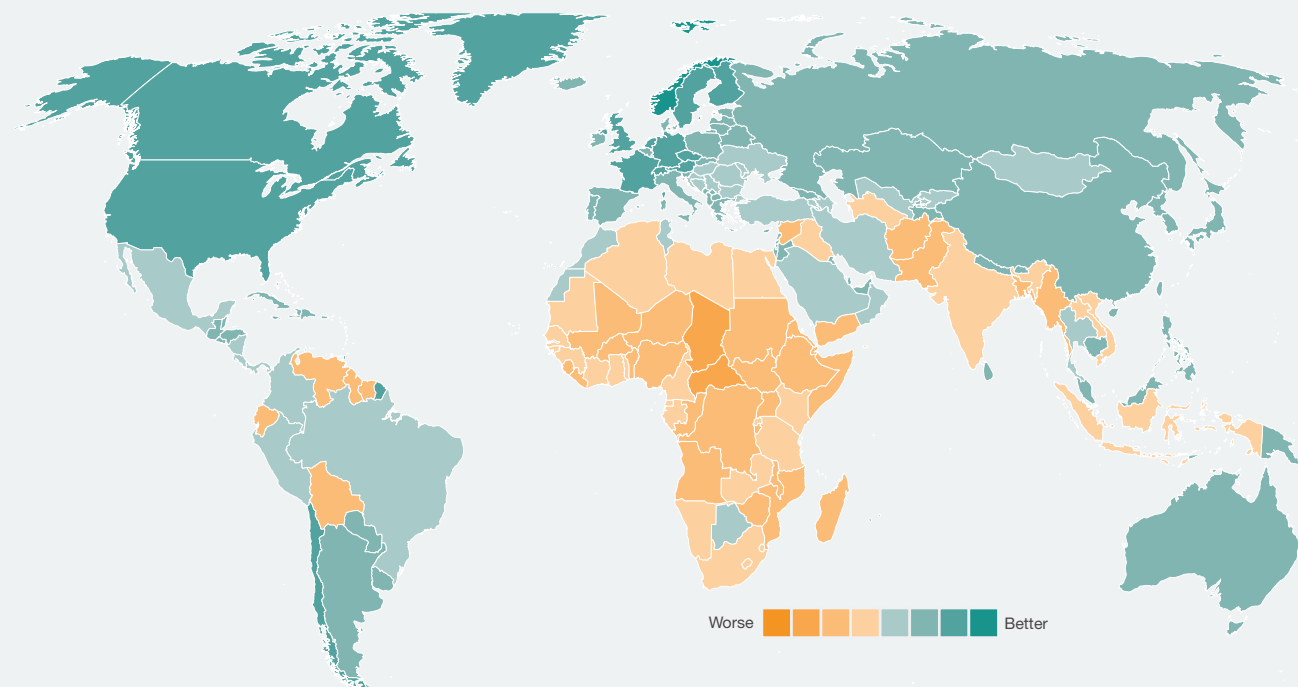
²⁴ Task Force on Climate, Development and the International Monetary Fund (2021): "Toward Development-Centered Climate Change Policy at the International Monetary Fund"; https://www.bu.edu/gdp/files/2021/10/TF_Strategy-Report_FIN.pdf

²⁵ 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/place-based-working>

FIGURE 1.5

Vulnerability to climate change by country (measured by ND-GAIN Country Index)

Emerging markets face significant climate change vulnerability compared to developed markets - with fewer resources to address this vulnerability.



Source: ND-GAIN Matrix and Global South vulnerability: <https://gain.nd.edu/our-work/country-index/>

Determining trajectories

In addition, countries, regions and communities also have a distinct pace when it comes to respective Just Transition pathways, and resultant decarbonisation and development trajectories. Trajectories are related to the starting points but also depend on additional factors around the country/region/community's preparedness to deal with climate change and the social actions necessary to build a just and inclusive society. These factors include financial strength, and local

capacity and capabilities to address Just Transition imperatives, including access to global finance flows and international support.

Given these respective starting points and trajectories, countries may have different development priorities, such as meeting rising energy demand, expanding access to energy, modernising energy infrastructure, reducing their environmental footprint, or, on the social side, providing employment or reducing poverty. Developing countries also face specific pressures in the context of climate action, as they need to tackle the climate emergency at the same time as other urgent needs, notably the push for economic growth, increased energy access and improved living standards to meet the needs of their citizens and to meet the SDGs.²⁶

Regional implications of the Paris Agreement

Disparities across countries, regions and communities has been internationally acknowledged. In the Paris Agreement, the need for assistance, both financial and in building capacity to countries that are both less wealthy and more vulnerable, was recognised and positioned as a call to action by the global community.

The Paris Agreement required each participating country to prepare country-specific 'Nationally Determined Contributions' (NDCs), setting out each country's climate actions. It was expressly understood that developing countries would take

²⁶ CDC Group (2020): "Climate Change Strategy"; https://assets.cdcgroup.com/wp-content/uploads/2020/07/01181554/CDC-climate-change-strategy_FINAL-FOR-PUBLICATION-1.pdf

Local context of a Just Transition

"The greening of economies in the context of sustainable development and poverty eradication will require a country-specific mix of macroeconomic, industrial, sectoral, social protection, skills, social dialogue and labour policies that create an enabling environment for sustainable enterprises to prosper and create decent work opportunities by mobilizing and directing public and private investment towards environmentally sustainable activities"

Source: UNFCCC (2016): Just Transition of the Workforce, and the Creation of Decent Work and Quality Jobs

longer to reach their peak of emissions and that emissions reductions would need to be undertaken on the basis of equitable considerations across countries, in the context of sustainable development and reflecting respective efforts to eradicate poverty. To date, 194 countries²⁷ have submitted their first NDCs. An NDC updated Synthesis Report was issued in October 2021, combining the information of the 192 parties to the Paris Agreement at that time.

The Glasgow Climate Pact, announced on 13 November 2021, at the end of COP26, reconfirmed the need to significantly increase support for developing countries, beyond \$100 billion per year.²⁸

In summary, while there is a need for a Just Transition to be universal and global, 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, power of, and need for a common understanding of what a Just Transition means in practice.

Introducing a globally consistent description of a Just Transition with a tailored understanding of local implementation scenarios will support and drive further alignment across public and private actors. 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.

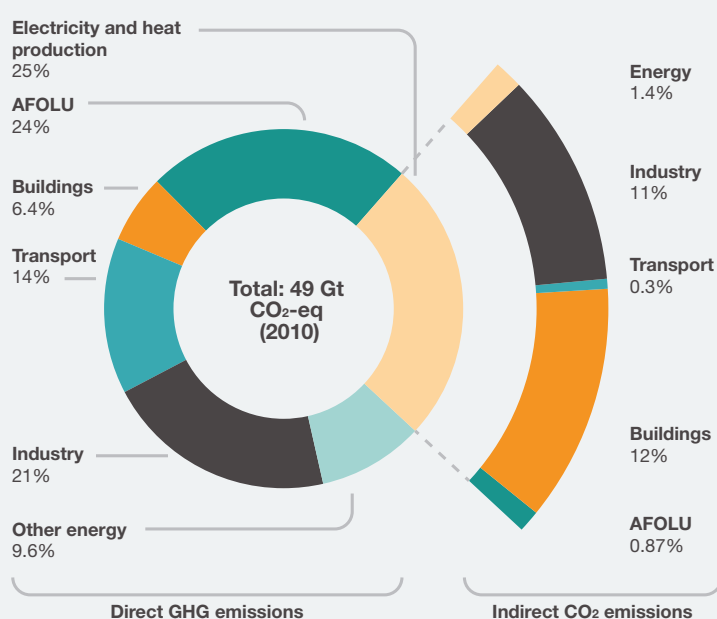
²⁷ All 193 current parties to the Paris Agreement plus Eritrea, which is not a party to the Agreement.

²⁸ UNFCCC (2021): "Glasgow Climate Pact"; https://unfccc.int/sites/default/files/resource/cma2021_L16_adv.pdf

²⁹ IPCC (2014): "AR5 Synthesis Report – Climate Change"; <https://www.ipcc.ch/report/ar5/syr/>

FIGURE 1.6

GHG emissions by economic sectors (2010)



Source: IPCC (2014): "AR5 Synthesis Report – Climate Change"; <https://www.ipcc.ch/report/ar5/syr/>

1.3.1.4 SECTORAL CONSIDERATIONS

Greenhouse gas (GHG) emissions, and hence climate impact, differ significantly by sector. The IPCC estimated, in a 2014 report, that the biggest sectors by global climate emissions in 2010 were electricity and heat production (25%), agriculture/forestry/land use (AFOLU) (24%), industry (21%), and transport (14%). Redistributing indirect CO₂ emissions from electricity and heat production to the sectors where they were being used changed the picture, making industry the largest emitting sector, at 32%, followed by AFOLU at 25% and buildings at 18%.²⁹

While efforts to decarbonise are currently concentrated on transition out of coal and fossil fuel divestment within the energy sector – see Spotlight panel below – the movement towards a Just Transition cannot stop with activities focused only on fossil fuel reduction.

A Just Transition must also concentrate on transition to green technologies and on changes across high-emitting sectors. With a view to including dimensions of social justice and fairness, **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.

In other words, a Just Transition is not just about carbon. The landscape is far more diverse and dynamic, offering significant investment opportunities that will be addressed in later sections of this report.

- **Agriculture, Forestry and Other Land Uses (AFOLU):** Emissions from various sources, including from land clearance by burning or when land is over-ploughed, methane gas emissions from rice cultivation or livestock, or nitrous oxide gas emissions from the use of fertilisers
- **Industry:** Emissions from the burning of fossil fuels in furnaces for heat production or directly in chemical processes
- **Transport:** Emissions from burning of fossil fuels in engines of cars, planes or trains
- **Buildings:** Emissions from burning of fossil fuels for cooking or heating
- **Electricity and heat production:** Emissions from the burning of fossil fuels for electricity and heat production
- **Other energy:** Emissions from the energy sector not directly used for producing electricity, such as for fuel extraction, refining, processing or transport

Decommissioning coal-fired power plants

Coal has long been viewed as the cheapest way to power the global economy, yet this is no longer the case. The development and construction of new renewable energy plants has become cheaper than new coal plants almost everywhere, even before considering coal's externalities such as its health, climate and environmental impacts. But meaningful change to GHG emissions cannot focus solely on new plants but needs to include the decommissioning of current coal-fired power plants. Decommissioning of fossil fuel plants is a complex undertaking, entailing not only costs but also socio-economic effects in the affected region, in particular due to local job losses.

A key barrier to accelerating the decommissioning and phasing out of fossil fuel power plants is that the vast majority of such plants are insulated from competition, benefitting from long-term contracts and non-competitive tariffs. A decommissioning process must, therefore, entail a careful consideration of interests and of economic effects on, and incentivisation of, a variety of stakeholders, including workers and local communities and consumers, taxpayers and coal plant investors, as well as the implications for the local economy and government revenue.

There are several research initiatives ongoing, such as by the Rocky Mountain Institute, that perform research on the decommissioning of fossil fuel plants, specifically in the US. These initiatives are seeking to identify pathways forward that achieve a Just Transition without the need for additional public funding. One approach uses low-cost refinancing raised, for example, through securitisations, whereby the new capital is used to (i) reinvest in clean energy solutions, and (ii) provide transition support to coal workers and local communities, offering funding to preserve livelihoods, protect benefits and ensure that host communities can continue to thrive.

Using well designed mechanisms, such as the one discussed above, can ensure that decommissioning is achieved in an affordable way, balancing the interests of all core constituents. That said, as stated above, every phasing out is complex and for a decommissioning plan to be successful, local context, realities and disparities need to be carefully considered and all relevant stakeholders need to be engaged and included in the solution.

Sources: Rocky Mountain Institute (2020): "How To Retire Early"; WEF (2021): "4 key steps to decommissioning coal-fired power plants"; <https://www.weforum.org/agenda/2021/08/4-key-steps-decommissioning-coal-fired-power-plants/>

1.3.2 Overview of select global Just Transition initiatives to date

The concept of a Just Transition that considers both climate and social objectives is gaining attention around the world. This focus has been heightened by Covid-19 and the way the global pandemic has affected developed and emerging markets differently, including the disproportionate impact on low-income communities and the unequal distribution of vaccines – with these inequalities expected to make long-term recovery for the whole planet more difficult. Scrutiny of climate solutions that ignore social realities has also increased at international climate conventions, the most recent being COP26. **This report intends to build on this attention and convert it into concrete action for mobilising capital at scale.**

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 the ones listed below as well as those recently announced in November 2021 at COP26 in Glasgow as listed in Appendix 2:

- The International Labour Organization (ILO)'s *Guidelines for a just transition towards environmentally sustainable economies and societies for all* issued in 2015. This provided a "non-binding practical orientation to governments and social partners with some specific options on how to formulate, implement and monitor the policy framework, in accordance with national circumstances and priorities"³⁰

- The IPCC'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"³¹
- *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 countries³²
- *The ILO Climate Action for Jobs Initiative* at the 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 towards a sustainable future of work³³
- In 2019, the EU launched the *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. In the wake of the Covid-19 crisis, the Just Transition Mechanism builds upon people's demands to 'build back better': the EU's €17.5 billion Just Transition Fund, the first pillar of the Mechanism, combines funds from the EU's budget and its Covid-19 recovery fund and is set to support EU countries as they wind down fossil fuel industries.³⁴ It is expected to mobilise at

³⁰ ILO (2015): "Guidelines for a just transition towards environmentally sustainable economies and societies for all"

³¹ IPCC (2018): "Special Report on Global Warming of 1.5°C"; <https://www.ipcc.ch/sr15/>. The report was prepared by 91 authors and review editors from 40 countries

³² Just Transition and COP24 (2018): "Solidarity and Just Transition Silesia Declaration"

³³ 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

³⁴ 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/>

SPOTLIGHT

EU Just Transition Fund

The €17.5 billion EU Just Transition Fund (JTF) is the first pillar of the European Union's Just Transition Mechanism (JTM).

It is a key tool to support territories most affected by the transition towards a climate-neutral economy. It aims to provide them with tailored support to alleviate the socio-economic costs triggered by climate transition, supporting a shift to more diverse and sustainable economic activity in the territories concerned.

The fund aims to invest in small and medium enterprises,

the creation of new firms, research and innovation, environmental rehabilitation, clean energy, the up- and re-skilling of workers, job-search assistance and active inclusion of job-seekers' programmes, as well as the transformation of existing carbon-intensive installations when these investments lead to substantial emission cuts and job protection. It is expected to mobilise close to €30 billion in third-party investments.

Source: European Commission: "Just Transition funding sources"; https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal/finance-and-green-deal/just-transition-mechanism/just-transition-funding-sources_en

least €100 billion in investments over the period 2021-2027 to support workers and citizens of the regions most affected by the transition away from fossil fuels.³⁵ For example, the EU allocated €877 million of its Just Transition Fund to support structural change in German coal-mining regions. The Commission identified 18 areas within Germany, which would be most affected by structural change in a transition from coal³⁶

- *The Joint Declaration of all Public Development Banks in the World* in 2020, which declared their commitment to "working to deliver sustainable, equitable and inclusive outcomes, leaving no one behind"³⁷
- The G20 Sustainable Finance Roadmap, developed by the G20's *Sustainable Finance Working Group* (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" as one of the key areas that is not sufficiently being addressed at the international level. The roadmap particularly calls on DFIs and MDBs to raise their ambitions in supporting their investee companies to achieve a just climate transition, and on international organisations to collaborate to develop high-level principles for a credible and consistent framework for financing a just climate transition³⁸

Initiatives by country

Initiatives linked to a Just Transition have been launched in developed economies including Canada, Germany, Japan, the UK and the US, and in emerging economies such as China, Colombia, India and South Africa. Some examples are shown below, and a list of further select country-level Just Transition initiatives is provided in Appendix 3:

- The German government convened a *Commission on Growth, Structural Change and Employment* to develop a broad social consensus around structural changes to energy and climate policy in Germany. The report argued that structural

changes require reliable framework conditions and long-term monitoring. New financial instruments are needed, in addition to existing instruments, to bring together strategic investments in the lignite mining regions and secure their funding in the long term.³⁹ At the regional level, WWF Germany reported that the Ruhr region of Germany has steadily transitioned from coal producing to a more diverse and modern economy over the last several decades. This was done with no redundancies and promoted dialogue between the coal company, trade unions and the state⁴⁰

- In the UK, the government has adopted an integrated approach to climate action and social considerations, both in the context of Covid-19 recovery and achieving Net Zero targets. The "*Build Back Better: our plan for growth*" policy paper set out the UK government's plans to support growth through significant investment in infrastructure, skills and innovation, pursuing

³⁵ 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

³⁶ European Commission (2020): "Communication from the Commission to the European Parliament, the European Council, The Council, the European Central Bank and the Eurogroup"; https://ec.europa.eu/info/sites/default/files/2020-european_semi-annual_report-germany_en.pdf

³⁷ 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>

³⁸ G20 Sustainable Finance Working Group (2021): "G20 Sustainable Finance Roadmap"; <https://g20sfwg.org/wp-content/uploads/2021/10/G20-Sustainable-Finance-Roadmap.pdf>

³⁹ Commission on Growth, Structural Change and Employment (2019): "Final Report"; https://www.bmwi.de/Redaktion/EN/Publikationen/commission-on-growth-structural-change-and-employment.pdf?__blob=publicationFile&v=3

⁴⁰ WWF Germany (2019): "Just Transition for Regions and Generations"; <https://regionsbeyondcoal.eu/just-transition-for-regions-and-generations/>

⁴¹ UK Government (2021): "Build Back Better: our plan for growth"; https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/969275/PfG_Final_print_Plan_for_Growth_Print.pdf



UK Transition Plan Taskforce

⁴¹ UK Government (2021): Build Back Better: our plan for growth; https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/969275/PfG_Final_print_Plan_for_Growth_Print.pdf

⁴² UK Government (2021): Net Zero Strategy: Build Back Greener; https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1026655/net-zero-strategy.pdf

⁴³ Climate Investment Funds (2020): Supporting Just Transition in South Africa; https://www.climateinvestmentfunds.org/sites/cif_enc/files/knowledge-documents/supporting_just_transitions_in_south_africa.pdf

⁴⁴ Grantham Research Institute et al (2018): Investing in a just transition

⁴⁵ 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; BBC News: COP26: Boris Johnson cautiously optimistic on climate progress

At COP26, the UK government announced it would make it **mandatory for every UK financial institution to have a Net Zero transition plan**, which will set out how they intend to decarbonise their activities. Through this requirement, the government aims to increase oversight of the financial sector, ensuring that financial flows shift towards supporting Net Zero, as well as providing greater levels of transparency and accountability to combat green washing.

To support this new requirement, the government also announced the launch of a

new Transition Plan Taskforce. The Taskforce will comprise representatives from UK industry, academia, regulatory bodies and the third sector. The Taskforce will define the requirements for the Net Zero transition plans, outlining standards, associated metrics and recommendations. The Taskforce will coordinate with international efforts such as the Glasgow Financial Alliance for Net Zero, and will report in 2022.

Source: UK Government (2021): "Fact Sheet: Net Zero-aligned Financial Centre"; <https://www.gov.uk/government/publications/fact-sheet-net-zero-aligned-financialcentre/fact-sheet-net-zero-aligned-financial-centre>

growth that enables the UK to transition to Net Zero.⁴¹ The "Net Zero Strategy: Build Back Greener", outlining the government's strategy to Net Zero by 2050, further sets out the government's stated commitment for the transition to deliver "good and green jobs", contribute to addressing regional inequalities, and mitigate any potential negative social impacts, including on the most vulnerable.⁴² The devolved Scottish government has launched a Just Transition Commission, mandated to provide practical advice and recommendations to Scottish ministers on how to apply Just Transition principles to Scotland (see Spotlight panel)

- In South Africa, there is broad acknowledgement of the importance of a Just Transition among key stakeholders. The concept of the Just Transition is prominently featured across the country's trade union policies on climate change, National

Development Plan (NDP), national climate change policies, and Nationally Determined Contributions (NDC).⁴³ In 2018, the National Planning Commission issued a paper on energy, laying out the challenges facing a system dominated by coal, following the Paris Agreement and the rapid global development of clean energy technologies. The paper highlighted the risk of stranded infrastructure investment in the South African coal industry and stressed the "need for co-ordinated stakeholder action driven by government to facilitate a transparent decision-making process on the future of coal in South Africa as part of a just energy transition"⁴⁴

- At COP26, France, Germany, the UK, the US and the EU announced a *Just Energy Transition Partnership* with South Africa, pledging an initial commitment of \$8.5 billion over the next five years to support the country's decarbonisation efforts⁴⁵



Scottish Just Transition Commission

The Scottish Just Transition Commission, established in 2019, is an independent committee that reports to the Scottish government annually. The Commission's March 2021 report lays out the Just Transition opportunities and challenges, recommendations and practical next steps for the Scottish government to deliver climate neutrality in a way that is fair and inclusive.

The Commission has called on the Scottish government to pursue an orderly transition to Net Zero that benefits people, addresses the skills gap, empowers communities and distributes benefits and costs of climate action fairly, with a number of recommendations. In response to the Commission, the Scottish government published actions it will take, alongside its National Just Transition Planning Framework.

The Framework will result in a set of sectoral plans, ranging from energy to agriculture and land use. It further sets up a £500-million Just Transition Fund for the North-East and

Moray region, an area exposed to North Sea oil and gas. This fund is intended to support and accelerate the transition to a Net Zero economy. The £500 million will be given to develop offshore and marine renewables supported by improvements to port infrastructure.

The Scottish government also committed to consultations on how fair work can be core to climate action and will design and implement a 'skills guarantee' for workers in carbon-intensive sectors. It will also publish guiding principles to ensure that no one is left behind in the heat transition. The Scottish government further committed to? a consultation on climate risk reporting and ESG standards for local authority pension funds and to? explore the potential for local climate bonds.

Source: This case study is based on the report of the Financing the Just Transition Alliance convened by the LSE Grantham Research Institute. We are grateful to its authors for allowing us to reproduce it here.

1.3.3 Just Transition foundational considerations

Every global movement offers the opportunity for collective insight to inspire action. Already, 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.

Drawing on the challenges detailed in the previous Section, we can summarise four foundational considerations that should apply universally to any solution that aspires to contribute to and advance a Just Transition. Any Just Transition action must:

- **Be both universal and place-based:**

A Just Transition needs to apply globally but, at the same time, take into account regional and local factors, including different starting points and trajectories, capacity for change and financial means. This especially applies to emerging markets, underdeveloped regions and underserved communities and individuals

- **Apply across all sectors and be sector-specific:** A Just Transition cannot solely focus on high-profile fossil fuels and job losses that result from decarbonisation measures. Climate action must span all sectors to reduce both GHG emissions and electricity consumption, driving emission reductions and efficiency gains, including also environmental and biodiversity considerations. However, the different sectoral opportunities and priorities for change and the different effects the implementation of Just Transition strategies have on different sectors and their workers

and communities need to be considered and addressed

- **Be all-inclusive and individually socially beneficial:** A Just Transition needs to encompass all those negatively affected by Net Zero strategies but also those already disadvantaged, marginalised and underserved. To achieve inclusivity, a Just Transition needs to focus on individuals, households and communities to assess the uplift needed to achieve a truly equitable society, including consideration of gender and race

- **Be dynamic and grounded in the current situation:** A Just Transition is, at its heart, a dynamic concept that develops over time. As such, it needs to be adaptive to changing global and local needs and environments and consider both the local and global situation and transformational requirements at the current point in time

FIGURE 1.7

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 – climate and environmental effects
- 4 Reduction of pollution or degradation of the natural environment

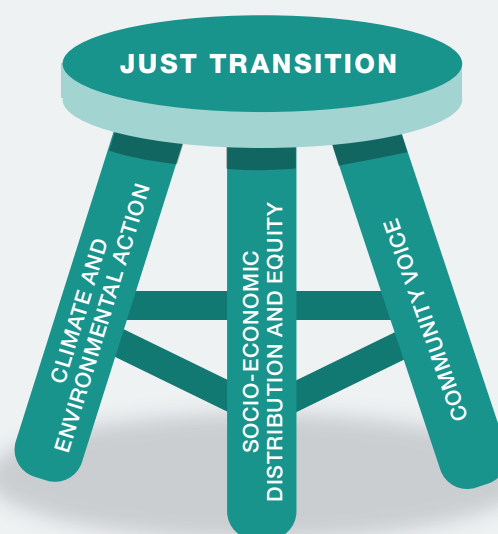
AND improve **Socio-economic Distribution and Equity**

- 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 – 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



1.3.4 Integrated Just Transition Elements fit for the future

Building on the foundational considerations above and the need to integrate environmental and social objectives to achieve a sustainable and inclusive transition for all, it is pivotal that everyone embrace a shared view of what constitutes a Just Transition. We believe that by introducing the Just Transition Elements, we can make clear what 'good looks like', which, in turn, is more likely to spur concerted and effective action.

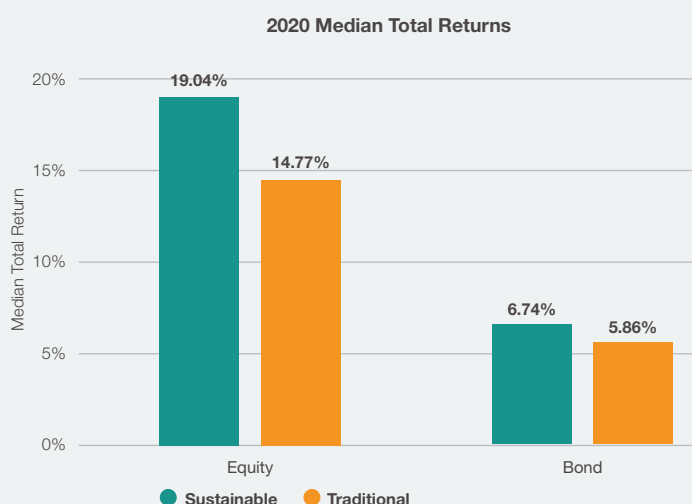
Drawing on current discussions, this Section sets out the future-fit Just Transition Elements. At their core the Just Transition Elements integrate three critical drivers of a Just Transition applicable across geographies, sectors, policies and investments. Actions can only be considered to advance a Just Transition if they meet all three of the integrated Elements. 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.

FIGURE 1.8

Sustainable funds' outperformance in 2020

A Morgan Stanley analysis of more than 3,000 US mutual funds and exchange traded funds (ETFs) shows that sustainable equity funds outperformed their traditional peers by a median of 4.3% in 2020.

Returns from sustainable vs traditional mutual funds



“Sustainable investments have continued to perform well throughout 2020, reinforcing the value of sustainable investing and further dispelling the myth that investors who include sustainability considerations in their portfolios face a financial trade-off”

Audrey Choi, Chief Sustainability Officer

Source: Morgan Stanley (2021): “Sustainable Funds Outperform Peers in 2020 During Coronavirus”; <https://www.morganstanley.com/ideas/esg-funds-outperform-peers-coronavirus>

Implementing the Just Transition Elements

The Just Transition Elements reflect the systemic connectedness of environmental enhancement and social equity. Progressive adoption by all key groups mentioned at the opening of this report – asset owners, stewards of capital, designers and structurers of investment products, and ecosystem players – offers a corridor of tangible action. By embracing the Just Transition Elements there is a real chance to accelerate the effectiveness of public and private finance deployed towards climate and socially positive solutions. Integrity and accountability of finance can be assured by using the Just Transition Elements as the basis for assessing results.

It is important to repeat that a Just Transition stands only on all its three legs and that the integrated pursuit of all three Elements is key. All three of the following threshold statements must apply to any action:

- 1 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**.
- 2 Every Just Transition action will, **as a minimum**, make a **net positive contribution** to **Socio-economic Distribution and Equity**
- 3 Every Just Transition action will, **as a minimum**, include meaningful **engagement** with local stakeholders and demonstrate how **Community Voice** is reflected.

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 underway 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. Sections 2 and 3 of this report describe the types of action that can be encouraged by making full and concerted use of investment instruments and policies.

1.3.5 Who are the key actors driving a Just Transition?

In order to achieve a Just Transition, effort and action across all segments of societies are needed. There are a number of key actors that need to engage and drive change, including:

Public sector

- The international community, national governments and local governments need

to drive the explicit integration of a Just Transition in relevant policies and regulations. Further, they need to engage in and cooperate on related activities, including the harmonisation and adaptation of Just Transition reporting standards and to represent the voices of their communities affected by the transition to Net Zero. National governments also play an important role as the shareholders in DFI and MDBs (see below), and hence the providers of these institutions' respective mandates

- **Bilateral DFIs and MDBs** play a crucial and leading role in advancing a Just Transition. Their ability to initiate and scale Just Transition business models and innovations that combine environmental and social considerations, their ability to provide patient capital (including blended financial solutions, see Section 2.5) and invest in emerging markets, and their influential voice all make them important drivers of Just Transition financing
- **Regulators** have a key role to play as they have the power to assign benefits to, or impose restrictions or penalties on, companies within their jurisdictions. Their core aim has been to ensure market integrity for consumer protection and risk mitigation, yet their ability to adversely impact the market by restricting capital flows to markets and investments is particularly pertinent. Their gatekeeping role is material for mobilising future flows to those investments and markets that advance the SDGs and a Just Transition

⁴⁶ IEA (2021): "Net Zero by 2050 – A Roadmap for the Global Energy Sector"; <https://www.iea.org/reports/net-zero-by-2050>

Private sector

- **Corporates** are increasingly expected by

government regulation, investors and consumers to integrate Just Transition considerations into their purpose or mission, their strategy, decisions, actions and reporting with respect to their own products and services, and along their supply chains

- **Financial actors**, including investors, asset managers, banks and advisory intermediaries, are of particular importance as large capital sums are needed to drive an inclusive transition across the world. Investors need to channel their funding and integrate a Just Transition lens across their investment and divestment decisions, asset allocation and corporate engagement activity. Asset managers and intermediaries need to ensure that relevant investment opportunities are designed to allow participation by a wide range of investors so that projects that advance a Just Transition can attract funding at scale and pace. Investing in the Just Transition is not only a defensive strategy, it should be – and is increasingly seen as – an opportunity

Communities

- **Communities and their place-based needs** (e.g., in terms of job creation and retention, livelihoods enhancement, energy access and quality of basic services) must be at the centre of a Just Transition. They must be given an increased voice at the table to ensure that the decarbonisation of the global economy provides solutions that work for the workers, households and individuals living in the communities most affected by Net Zero strategies.

1.4 The opportunity to finance a Just Transition

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. Activating the complete range of financing tools, spanning public and private funding across asset classes, is needed.

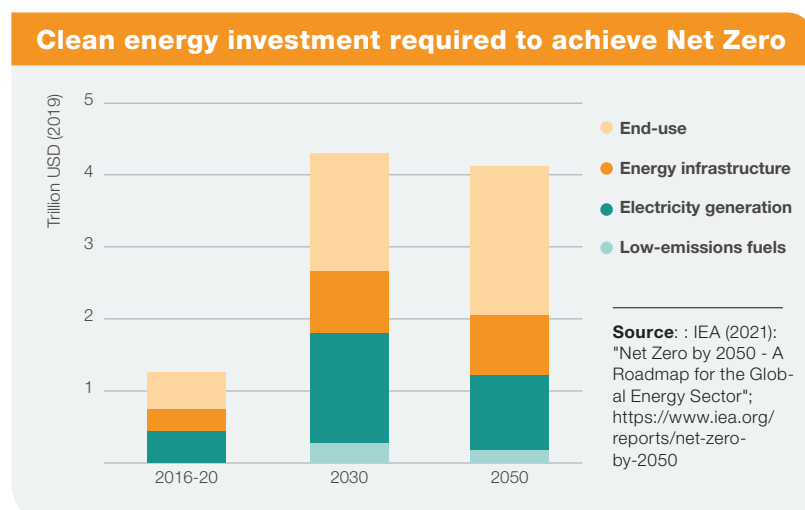
That is how we will encourage participation of the vast amounts of capital required to convert a Just Transition from aspirational goal into reality for people in communities across the globe.

1.4.1 Funding needs and opportunities

What funding is required: There is no complete estimate of the funding required to achieve a Just Transition globally. Some relevant data points and estimates, however, showcase the enormity of the challenge and opportunity. For example, with a focus on energy transition specifically and the SDGs more generally:

- The International Energy Agency (IEA) estimates that total clean energy investment to achieve Net Zero across energy infrastructure, electricity generation, low-emission fuels and electricity end-use sectors, needs to reach around \$4 trillion per annum by 2030⁴⁶
- A recent Energy Transitions Commission report puts global costs for reaching Net Zero by 2050 at approximately \$1.6 trillion a year, comprising \$1.3

FIGURE 1.9



trillion for the power sector and \$300 billion for all other sectors⁴⁷

- The UN Environment Programme (UNEP) estimates that the global cost of adaptation to climate impacts will grow to \$140-300 billion per year by 2030 and \$280-500 billion per year by 2050⁴⁸
- The UN estimates the gap in financing to achieve the SDGs at \$2.5 trillion per annum in developing countries alone^{49,50}
- Morgan Stanley reported that climate-related disasters cost the world \$650 billion from 2016-2018, just over a quarter of 1% of global GDP⁵¹

What funding is being provided: Actual funded amounts currently available for green or social financing, although on the rise, are still a fraction of what is needed:

- Global ESG thematic bond issuance has risen sharply in the last eight years, reaching close to \$450 billion in 2020.⁵² Green bonds are growing impressively but remain a niche in global debt markets. From less than \$1 billion a decade ago, issuance of green bonds reached \$280 billion in 2020. However, in 2019, green bond issuances still represented only about 3.5% of global bond issuances⁵³
- Green infrastructure investments are on the rise, in particular in renewable energy. However, to put this into context, these investments are only a fraction of total unlisted equity infrastructure investments to date, which again account for less than 1% of the overall asset allocation of institutional investors.⁵⁴ With \$52 billion newly committed, renewables funds outraised conventional energy funds by more than six times in 2020, according to the financial data provider Preqin. By mid-2021, investors had committed another \$30 billion into renewable energy private equity funds – that's as much as 25-times the investment in legacy energy sources⁵⁵
- Access to energy has grown from a niche market in 2012 and less than \$30 million of investment commitments to an established market with over \$300 million of commitments in each of 2016 = 2019⁵⁶
- In 2020, \$272 billion worth of sustainable infrastructure projects were announced, nearly double the levels seen a decade ago. Around 35% of all infrastructure projects globally are sustainable, up from 10% a decade ago⁵⁷
- Impact investments grew to an estimated \$715 billion in 2020⁵⁸. However, compared with total global institutional investor assets under management, estimated at \$154 trillion as of end-2020⁵⁹, impact investments remain marginal

Seizing the economic and investment opportunity

Seeing these investment gaps as openings for action, funding towards climate and social objectives is increasing. This movement reflects growing awareness that funding a Just Transition to Net Zero represents a significant economic opportunity. At a global level, the New

Climate Economy initiative estimates, based on its analysis, that “bold action could yield a direct economic gain of \$26 trillion through to 2030 compared with business-as-usual”⁶⁰.

In the UK, the Climate Change Committee estimates that while there needs to be a five-fold increase in Net Zero investment from about £10 billion per year in 2020 to around £50 billion in 2030, before peaking in 2035, these capital costs will be more than offset by major financial savings in operating costs.⁶¹ Calculating the latest carbon budget for the UK led the Committee to expect the level of the UK's GDP by 2035 to be around 2% higher with climate action than it would be continuing as is, as resources are redirected from fossil fuel imports to UK investment.

⁴⁷ Energy Transitions Commission (2020): “Making Mission Possible – Delivering a Net-Zero Economy”; <https://www.energy-transitions.org/publications/making-mission-possible/>

⁴⁸ UNEP (2021): “Adaptation Gap Report 2020”

⁴⁹ Estimates for total investment needs in developing countries alone range from \$3.3 trillion to \$4.5 trillion per year for basic infrastructure (roads, rail and ports; power stations; water and sanitation), food security (agriculture and rural development), climate change mitigation and adaptation, health, and education. At today's level of investment – public and private – in SDG-related sectors in developing countries, an average annual funding shortfall of some \$2.5 trillion over 2015-2030 remains.

⁵⁰ UNCTAD (2014): “World Investment Report – Investing in the SDGs: An Action Plan”; https://unctad.org/system/files/official-document/wir2014_en.pdf

⁵¹ CNBC (2019): “Climate disasters cost the world \$650 billion over 3 years – Americans are bearing the brunt: Morgan Stanley”; <https://www.cnbc.com/2019/02/14/climate-disasters-cost-650-billion-over-3-years-morgan-stanley.html?linkId=63598601>

⁵² Amundi and IFC (2021): “Emerging Market Green Bonds Report 2020”; https://www.ifc.org/wps/wcm/connect/publications_ext_content/ifc_external_publication_site/publications_listing_page/emerging-market-green-bonds-report-2020

⁵³ BIS (2020): “Quarterly review – Green bonds and carbon emissions: exploring the case for a rating system at the firm level”; https://www.bis.org/publ/qtrpdf/r_qt2009c.htm

⁵⁴ OECD (2016): “Progress report on approaches to mobilising institutional investment for green infrastructure”; https://www.oecd.org/cgfi/resources/Progress_Report_on_Approaches_to_Mobilising_Institutional_Investment_for_Green_Infrastructure.pdf

⁵⁵ Bloomberg (2021): “Private Equity Follows the Money – and the Money Is Ditching Fossil Fuels”; https://www.bloomberg.com/news/articles/2021-07-06/private-equity-is-ditching-fossil-fuels-over-climate-change-concerns?mc_cid=9e2e07a1f9&mc_eid=977e424e83

⁵⁶ GOGLA (2020): “Off-grid solar investment trends”; <https://www.gogla.org/resources/off-grid-solar-investment-trends-2019-2020>

⁵⁷ Refinitiv (2021): “Sustainable infrastructure: The green rush”; <https://www.refinitiv.com/en/infrastructure-investing/insights/sustainable-infrastructure>

⁵⁸ GIIN (2020): “2020 Annual Impact Investor Survey”; <https://thegiin.org/research/publication/impinv-survey-2020>

⁵⁹ Thinking Ahead Institute (2021): “Global Pensions Asset Study – 2021”; <https://www.thinkingaheadinstitute.org/research-papers/global-pension-assets-study-2021/>. The analysis includes pension funds, insurance companies, sovereign wealth funds, endowments and foundations, and mutual funds.

⁶⁰ 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

⁶¹ CCC (2020): “Sixth Carbon Budget”; <https://www.theccc.org.uk/publication/sixth-carbon-budget>

⁶² ABSA Bank (2021): "The Road to COP26: Opportunities, Challenges and the African Transition to Net-Zero"; <https://www.absa.africa/absafrica/our-stories/our-voices/2021/the-road-to-cop-26>

⁶³ Robeco: "Climate investing – Opportunity"; <https://www.robeco.com/en/sustainability/climate-investing/opportunity>

⁶⁴ IFC (2016): "Climate Investment Opportunities in Emerging Markets"; https://www.ifc.org/wps/wcm/connect/59260145-ec2e-40de-97e6-3aa78b82b3c9/3503-IFC_Climate_Investment_Opportunity-Report-Dec-FINAL.pdf?MOD=AJPERES&CVID=IBLd6Xq

⁶⁵ UNFCCC (2021): "Glasgow Climate Pact"; https://unfccc.int/sites/default/files/resource/cma2021_L16_adv.pdf

⁶⁶ UNFCCC: "Climate Finance in the negotiations"; <https://unfccc.int/topics/climate-finance/the-big-picture/climate-finance-in-the-negotiations>; see also Heinrich Boell Stiftung, ODI (2021): "Climate Funds Update"

⁶⁷ Public development banks are state-owned financial institutions, including MDBs and DFIs, that aim to deliver on policy objectives to support the economic development in a country or region. According to the AFD, there are around 450 public development banks across the globe: <https://www.afd.fr/en/actualites/six-things-know-about-public-development-banks>

In South Africa, according to Absa Bank, "investments built around renewable energy, sustainable transport solutions and nature-based rehabilitation could deliver 250% more jobs and 420% more value added in the economy compared to traditional fossil fuel investments".⁶²

In emerging markets more broadly, companies that seek to deliver climate solutions with clear social benefits, including renewables or smart technology developed for emerging markets, are increasingly coming into investors' focus.⁶³ The International Finance Corporation (IFC), for example, identified \$23 trillion worth of investment opportunities for climate-smart investments in emerging markets in their 2016 report on "Climate Investments Opportunities in Emerging Markets".⁶⁴

The Just Transition Elements introduced in this report reflect the systemic connectedness of environmental enhancement and social equity. By embracing the integrated application of the Just Transition Elements, there is a real chance to accelerate the effectiveness of public and private finance deployed towards climate and socially positive solutions.

1.4.1.1 PUBLIC FUNDING TOWARDS A JUST TRANSITION

Governments have been called to action in order to achieve long-term Net Zero objectives and are developing roadmaps to meet these. In addition to climate action at the national level, developed countries jointly promised in Copenhagen in 2009 to increase their annual climate-related finance support to developing countries to \$100 billion by 2020. At COP21 in Paris in 2015, 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.⁶⁵

Thematic initiatives: In recent years, several funds have been launched by the community of developed countries to provide financial assistance to emerging markets to support their transition towards Net Zero. These include those below as well as those coming out of COP26, listed in Appendix 2:⁶⁶

- **Global Environment Facility (GEF):** Established on the eve of the 1992 Rio Earth Summit to help tackle the world's most pressing environmental problems. The GEF is focused on enabling developing countries to invest in nature and supports the implementation of major international environmental conventions on issues including biodiversity, climate change, chemicals and desertification. As of December 2020, the GEF had approved over 830 projects amounting to \$4.1 billion. The GEF also administers the Special Climate Change Fund and the Least Developed Country Fund, which primarily support smaller-scale projects
- **Green Climate Fund (GCF):** Founded in 2010 within the framework of the United Nations Framework Convention on Climate Change (UNFCCC) as an operating entity to assist developing countries in adaptation and mitigation practices to counter climate change. With over \$10 billion pledged (and close to \$9 billion committed), the GCF is the world's largest climate fund, mandated to support developing countries raise and realise their NDC ambitions towards low-emissions and climate-resilient pathways
- **Adaptation Fund:** Established under the Kyoto Protocol of the UN Framework Convention on Climate Change. Since 2010, the Adaptation Fund has committed \$833 million to more than 120 projects and programmes targeting climate adaptation

Initiatives by MDBs/DFIs: In addition to the concerted effort of industrialised countries to support developing countries, MDBs and bilateral DFIs are needed to expand funding and accelerate Just Transition relevant projects, enterprises and financing vehicles. At the Finance in Common summit 2020,

SPOTLIGHT

Denmark's national collaboration model

Denmark introduced a new climate law in 2019, binding the country to emission reduction goals of 70% of 1990 levels by 2030, and Net Zero by 2050. The law also includes a commitment to deliver climate finance to developing countries.

In order to meet its targets, Denmark is working on a model of how government and the private sector can work together to mobilise capital, catalyse innovation, and share risks to jointly meet their country's Net Zero targets.

The government is creating climate partnerships, whereby policymakers provide the framework and conditions, while corporates (including energy companies across oil, gas and

renewables) contribute their expertise and investment into technology and infrastructure, with the aim of phasing out fossil fuels in electricity and heating.

Throughout this process, risk sharing among the parties has emerged as a major topic, given the required time horizons of these investments. As a result, incentives, subsidies, and regulations may be necessary to encourage capital flows. This is a topic that is explored in greater detail later in this report.

Source: Bain & Company (2021): "Global Energy and Natural Resources Report 2021 – Navigating the Energy Transition"

all public development banks⁶⁷ delivered a Joint Declaration of All Development Banks in the World, confirming that Just Transition is an integral part of international development and development finance efforts. In 2019 alone, MDBs committed \$61.6 billion towards climate finance.⁶⁸

Some important funding structures over the years include those below as well as those coming out of COP26, listed in Appendix 3:⁶⁹

- **Climate Investment Funds:** Besides government-driven climate funds, the MDB community created two Climate Investment Funds, including various programmes, to bridge the financing and learning gap in climate finance: the Clean Technology Fund and the Strategic Climate Fund. In 2008, the funds received pledges of \$8.5 billion from their 14 donor countries.
- **Forest Carbon Partnership Facility (FCPF):** The World Bank's Carbon Finance Unit established FCPF in 2008 to explore how carbon market revenues could be harnessed to reduce emissions from deforestation and forest degradation, forest conservation, sustainable forest management and the enhancement of forest carbon stocks (efforts known collectively as REDD+).
- **BioCarbon Fund Initiative for Sustainable Forest Landscapes:** This public-private partnership for mobilising funds for sequestration or conservation of carbon in the land use sector was established in 2004 and is managed by the World Bank.
- **Global Energy Efficiency and Renewable Energy Fund (GEEREF):** The European Investment Bank administers the European Union's GEEREF, a fund of funds launched in 2008, which invests in renewable energy and energy efficiency private equity funds in emerging markets.
- **Africa Climate Change Fund (ACCF):** The African Development Bank funds enhanced climate

finance readiness in African countries through the German-funded ACCF, established in 2014.

Blended transactions: Using their status, market networks and local expertise, MDBs and DFIs can and must continue to go where the private sector currently cannot, 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. These transactions 'blend' public or other impact-focused capital (i.e., capital whose primary objective is positive impact rather than a sole focus on financial performance) with private institutional capital. This helps to mobilise private capital into transactions by de-risking or otherwise enhancing investments (for more on blended finance see Section 2.5). Risks addressed by blending include credit, political, economic or currency risks, risks associated with untested and innovative business models or risks with respect to new fund managers entering or pivoting into emerging markets.

1.4.1.2 PRIVATE FUNDING TOWARDS JUST TRANSITION

Public monies will not be enough to meet the funding needed 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-2020.⁷⁰ All investors need to embrace the push towards a global transition that is just and fair for all. That said, investors do not act in isolation. Also the universe of intermediaries, advisors and consultants needs to do its part and move beyond short-term financial targets in order to achieve long-term and systemic change.

In 2020, in a Statement of Investor Commitment to Support a Just Transition on Climate Change, 161

⁶⁸ Heinrich Boell Stiftung, ODI (2021): Climate Funds Update; <https://odi.org/en/about/our-work/climate-funds-update/>

⁶⁹ Thinking Ahead Institute (2021): "Global Pensions Asset Study – 2021"; <https://www.thinkingaheadinstitute.org/research-papers/global-pension-assets-study-2021/>. The analysis includes pension funds, insurance companies, sovereign wealth funds, endowments and foundations and mutual funds.

⁷⁰ PRI: "Statement of Investor Commitment to Support a Just Transition on Climate Change"; <https://www.unpri.org/download?ac=10382>. Endorsed by 161 investors.

Statement of Investor Commitment to Support a Just Transition on Climate Change

"Investors can make an important contribution as stewards of assets, allocators of capital and as influential voices in public policy to make sure that the transition produces inclusive and sustainable development. There are multiple reasons which together create a compelling case for investors to support the just transition"

- **Societal Goals:** The Just Transition enables investors to align themselves to strategic global objectives such as those contained within the Paris Agreement, the Sustainable Development Goals along with international labour and human rights standards
- **Systemic Risk:** The Just Transition provides a way for investors to better manage the systemic risks of climate

change by linking the environmental and social dimensions of long-term economic performance

- **Fiduciary Duty:** The Just Transition is aligned with the fiduciary duty to capture the social and environmental drivers of value creation and serve beneficiary interests
- **Materiality:** The responsible management of workforce and community dimensions of climate change are increasingly material drivers for value creation
- **Opportunity:** The linkage of climate change with social factors provides a lens for investors to view new investment opportunities that generate returns and positive impact

Source: PRI: "Statement of Investor Commitment to Support a Just Transition on Climate Change"; <https://www.unpri.org/download?ac=10382>.

Key high-level asset classes for institutional investors

- **Equities** (stocks)
 - ~ Including global equities, emerging market equities, sustainable equities and ESG portfolios
- **Fixed income** (bonds)
 - ~ Including global fixed income, emerging markets debt, investment grade and high-yield debt and green bonds
 - ~ Three basic products: revenue bonds (funding particular projects), general obligation bonds (funding general activities of issuing body) and asset-backed securities (backed by specific assets)
- **Cash and cash equivalents**
 - ~ Cash, money market funds
- **Alternatives**
 - ~ Including private equity (including leveraged buy-outs and venture capital), private debt, real estate, infrastructure, and commodities

Today, the relevance of the typical asset class categorisation is under discussion. Experienced voices within the investing community are advocating for two changes: 1. reclassification of private debt alongside fixed income given its similar correlation and performance features; and 2. introduction of new asset classes reflecting the value of natural assets. These discussions can be expected to continue shaping and influencing investor behaviours and opening up further opportunities to scale capital towards the SDGs.

investors, representing \$10 trillion in assets, committed to supporting a Just Transition (see panel below).⁷¹

This statement was reinforced in the run up to COP26, as 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.⁷² On the back of COP26, this commitment is gaining further traction within the investor community. Despite increased awareness among investors of the urgent need for a Just Transition most have not gone beyond expressions of support for the objective. Expressions to date are largely aspirational without specific meaning, beyond climate, of how invested capital can contribute towards a Just Transition. Equally, emerging markets have not featured prominently in investments. Hence, the opportunity to introduce the three Just Transition Elements that we have outlined in this report and, from a geographic perspective, focus attention on investing in emerging markets.

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. This is because Just Transition is a relatively new concept in finance and has either been used in quite an abstract way or very narrowly to speak to the loss of jobs arising from an economic transition away from fossil fuels. Many investors are looking at climate investments (often with a Net Zero lens) or social investments (often with an SDG lens), yet few investment opportunities have bridged the gap and combined the two.

However, there are many investment opportunities available to private investors, across all asset classes, that combine climate and social objectives. The table below provides examples of direct and indirect transactions, within each asset class, that pursue climate or social objectives. While these are not Just Transition investments, the table intends to demonstrate that relevant investment opportunities exist. Many of the examples listed could be used as base examples that, with targeted modifications to their objectives and strategy, can fully satisfy the Just Transition Elements. Section 3 provides a more detailed view on select indirect transactions listed below within priority asset classes.

⁷¹ PRI: "Statement of Investor Commitment to Support a Just Transition on Climate Change"; <https://www.unpri.org/download?ac=10382>. Endorsed by 161 investors.

⁷² 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/>

⁷³ UK Government (2021): "Third of UK's biggest companies commit to Net Zero"; <https://www.gov.uk/government/news/third-of-uks-biggest-companies-commit-to-net-zero>

Climate and socially relevant transaction examples across asset classes

(Note: Examples listed below do not yet fully meet the requirements of the Just Transition Elements but indicate the potential for further alignment)

	Direct	Indirect	What Investors Can Do
Equities	Corporates Examples: Thirty of the UK's FTSE100 companies have signed up to the United Nations' Race to Zero campaign; e.g., Vodafone has pledged to reduce its own carbon emissions to zero by 2030 ⁷³	Listed funds or vehicles Examples: <ul style="list-style-type: none"> • Calvert Global Alternative Energy Fund • KBC Asset Management • Winslow Green Growth Fund 	<ul style="list-style-type: none"> • Select stocks with strong climate and social performance • Engage with companies to improve climate and social track record, including transparency and reporting (shareholder advocacy) • Engage with government bodies (policy advocacy)

	Direct	Indirect	What Investors Can Do
Bonds	Sovereign and municipal Green bonds Examples: <ul style="list-style-type: none"> EIB Climate Awareness Bond Green bonds issued by 16 sovereigns to date⁷⁴ 	Bond funds or investment vehicles Examples: <ul style="list-style-type: none"> Schroder International Selection Fund BlueOrchard Emerging Markets Climate Bond fund by BlueOrchard Green Credit Continuum (Greco) by Amundi and the European Investment Bank (EIB) Planet Emerging Green One by Amundi and IFC Masala bond programme by IFC (<i>Note: Alternative structure</i>) Asset-backed securities Examples: <ul style="list-style-type: none"> Room2Run synthetic securitisation by the African Development Bank (AfDB) 	<ul style="list-style-type: none"> Select bonds with strong climate and social performance For revenue bonds, review underlying projects and focus on use of proceeds Demand transparent and stringent climate and social reporting Demand securitisation structures backed by energy-efficient assets, e.g., an RMBS backed by energy-efficient buildings
	Social bonds Examples: <ul style="list-style-type: none"> Social bond by the Republic of Ecuador, raising \$400 million in 2020 (first social bond from a sovereign)⁷⁵ 		
	Corporate Green bonds Examples: <ul style="list-style-type: none"> Fannie Mae was the largest green bond issuer in 2020 with a total issuance of \$13 billion⁷⁶ Orsted green bond (corporate green bond of the year award; at the time of issuance it was the largest ever GBP green bond offering)⁷⁷ Standard Bank issued a \$200 million green bond in 2020 		
	Social bonds Examples: <ul style="list-style-type: none"> CaixaBank's inaugural social bond in 2019 at €1 billion⁷⁸ 		
Cash and cash equivalents	Cash at bank Examples: <ul style="list-style-type: none"> Banks with climate commitments and socially conscious banks such as ShoreBank, New Resource Bank or Triodos Bank 	N/A	<ul style="list-style-type: none"> Put money to work in banks with clear and demonstrated climate and social objectives The Global Alliance for Banking on Values (GABV) is a network of such financial institutions⁷⁹
	Money market instruments		

⁷⁴ ICLG (2021): "Green bond nations raise nearly GBP 100 billion"; <https://iclg.com/ibr/articles/16677-green-bond-nations-raise-nearly-gbp-100-billion>

⁷⁵ Environmental Finance (2020): "Social bond of the year, sovereign, and Award for innovation – bond structure (social): Republic of Ecuador"; [https://www.environmental-finance.com/content/awards/green-social-and-sustainability-bond-awards-2020/winners/social-bond-of-the-year-sovereign-and-award-for-innovation-bond-structure-\(social\)-republic-of-ecuador.html](https://www.environmental-finance.com/content/awards/green-social-and-sustainability-bond-awards-2020/winners/social-bond-of-the-year-sovereign-and-award-for-innovation-bond-structure-(social)-republic-of-ecuador.html)

⁷⁶ Climate Bonds Initiative (2021): "Record \$269.5bn green issuance for 2020: Late surge sees pandemic year pip 2019 total by \$3bn"; <https://www.climatebonds.net/2021/01/record-2695bn-green-issuance-2020-late-surge-sees-pandemic-year-pip-2019-total-3bn>

⁷⁷ Environmental Finance (2020): "Green bond of the year, corporate – Ørsted"; <https://www.environmental-finance.com/content/awards/green-social-and-sustainability-bond-awards-2020/winners/green-bond-of-the-year-corporate-orsted.html>

⁷⁸ Environmental Finance (2020): "Social bond of the year, bank – CaixaBank"; <https://www.environmental-finance.com/content/awards/green-social-and-sustainability-bond-awards-2020/winners/social-bond-of-the-year-bank-caixabank.html>

⁷⁹ Global Alliance for Banking on Values: <https://www.gabv.org/>

	Direct	Indirect	What Investors Can Do
Alternatives	Private equity and venture capital Private debt Infrastructure Real estate Commodities	Private equity and venture capital funds Examples: <ul style="list-style-type: none"> Emerging Consumer Fund III by Leapfrog Rise Fund by TPG Brookfield Global Transition Fund by Brookfield⁸⁰ Tropical Asia Forest Fund by New Forests African Development Partners III by DPI <hr/> Fund of funds Examples: <ul style="list-style-type: none"> Climate Innovation Fund by Credit Suisse AfricaGrow by Allianz Global Investors <hr/> Private debt funds Examples: <ul style="list-style-type: none"> Global Climate Partnership Fund by responsAbility Access to Clean Power Fund by responsAbility Africa Credit Opportunities Fund 2 by Ninety One Emerging Markets Loans Fund by FMO IM and NN IP Microfinance Fund by Triodos Investment Management InsuResilience Investment Fund by BlueOrchard <hr/> Infrastructure funds Examples: <ul style="list-style-type: none"> Energy Fund 4 by Actis Emerging Markets Infrastructure Fund by Ninety One Infrastructure Climate Resilient Fund by AFC Capital Partners <hr/> Real estate funds Examples: <ul style="list-style-type: none"> IHS Fund II by International Housing Solutions <hr/> Hedge funds Examples: <ul style="list-style-type: none"> Autonomy Capital's global macro strategy includes over 60 countries, considering the "global drive towards sustainability"⁸¹ 	<ul style="list-style-type: none"> Prioritise opportunities that demonstrate a combination of climate and social objectives from strategy to execution Develop a set of consistent screening and due diligence questions for all managers to assess incorporation of climate and social objectives Encourage managers with track record to innovate and bring to market investment propositions that combine climate and social objectives Analyse opportunity within local contexts of capital deployment with consideration of countries' climate priorities Demand consistent and clear reporting of performance against climate and social objectives

Source: The table is based on the Institute for Responsible Investment and Boston College for Corporate Citizenship's "Handbook on Climate-Related Investing across Asset Classes", supplemented by our own research.

⁸⁰ Environment Journal (2021): "Brookfield's New \$7.5 billion Climate-Focused Fund"; <https://environmentjournal.ca/brookfields-new-7-5-billion-climate-focused-fund/>

⁸¹ Autonomy Capital: Seeking to uncover uncommon opportunity in developed and emerging markets; <https://autonomycapital.com/strategies/>

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.

1.4.2 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 this 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 1.10.

When combined, these strategies offer a positive impact approach to climate and social investing that can contribute to achieving a Just Transition that delivers a sustainable and inclusive society for all. 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 microfinance or building 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 including an explicit focus on decent jobs and community support (see Section 3 for more case studies and examples of vehicle strategies).

Regardless of the primary area of priority or emphasis, all three Elements must be present to qualify as a Just Transition investment.

As strategies can be anchored in or led by the climate or the social Element of a Just Transition, 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, food and agriculture strategies that strengthen livelihood opportunities for smallholder farmers and introduce climate resilience, as well as strategies that target the growing pool of nature-based solutions (see Figure 1.11 for further examples).

FIGURE 1.10

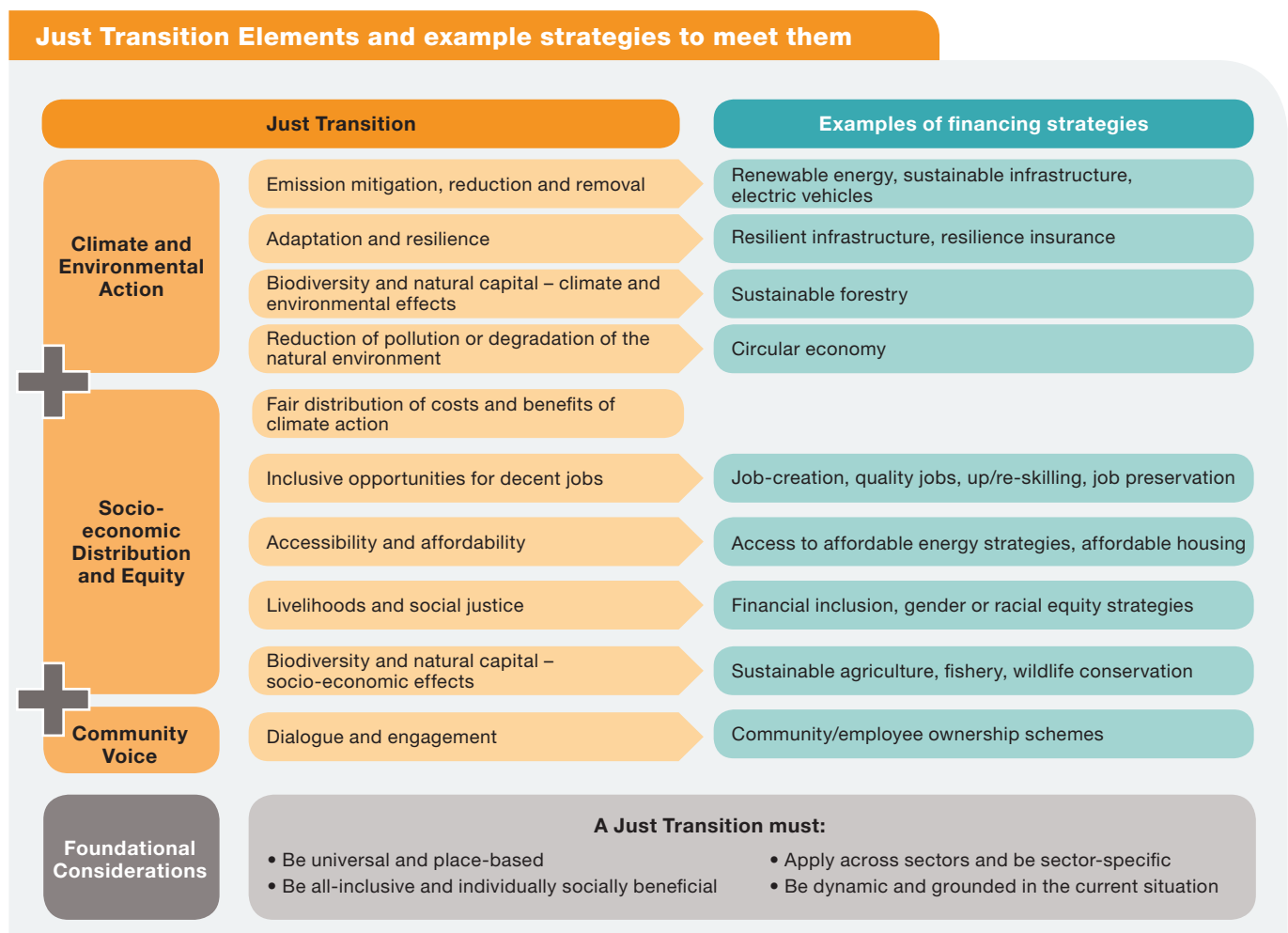
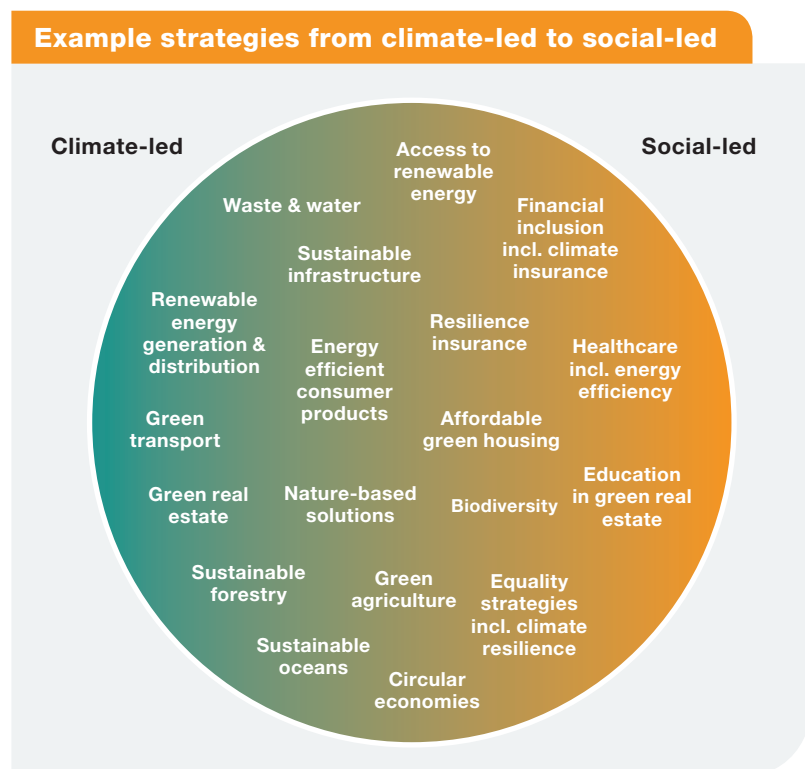


FIGURE 1.11



This report intends to provide guidance to investment efforts applying a common Just Transition approach that explicitly integrates all three Elements of Climate and Environmental Action; Socio-economic Distribution and Equity; and Community Voice across strategies, geographies and sectors. The guidance does not predetermine the manner in which the three Elements are satisfied by an investment. 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 the following sections of this report.

1.4.2.1 JUST TRANSITION ELEMENT 1: CLIMATE AND ENVIRONMENTAL ACTION

The Just Transition Climate and Environmental Action Element includes four sub-elements: emissions mitigation, reduction and removal; adaptation and resilience; biodiversity and natural capital; and reduction of pollution or degradation of the natural environment.

Moving the world to Net Zero can be achieved through two complementary investment areas: climate mitigation or reduction action and carbon removal. To reduce net emissions to zero, focus is needed on both pathways: those that accelerate the reduction of emissions of harmful GHGs and those that protect natural solutions and accelerate the development of new solutions that capture or remove those gases.

On emissions mitigation and reduction, supply and demand need to be addressed simultaneously. On the supply side, actions are needed to decarbonise

electricity and heat production through the use of low-carbon solutions. One clear focus must be the transition out of fossil fuels and into renewables, wherever possible, to reduce the supply of high carbon energy. On the demand side, a clear focus should be on the introduction of energy efficiency measures to reduce the demand for heat and energy. Demand-side initiatives include advancing low-emission innovations like electric cars, increasing the energy efficiency of buildings or adopting energy-efficient products and appliances, as well as reducing the consumption of energy- and GHG-intensive products through behavioural and lifestyle changes (e.g., reducing the consumption of meat and dairy, using trains instead of cars or aeroplanes).⁸²

In addition, carbon removal (or sequestration) measures are required to remove or capture any remaining carbon balance that has not been mitigated by reduction action. 'Negative emissions' actions can include the enhancement of natural carbon sinks such as forest restoration or other carbon capture and storage technologies.

The second sub-element is about climate adaptation, i.e., building the resilience of populations, communities and regions most affected by climate change and helping them to adapt to changing climatic conditions. Adaptation investment areas include, for example, measures in farming, measures enhancing efficient water usage, or the building of flood protections.

The third sub-element on biodiversity relates to strategies that, by improving life on the planet, have positive climate effects, such as sustainable forestry engagement or strategies that pursue a circular economy.

The fourth sub-element on pollution or degradation of the natural environment relates to strategies that have positive environmental effects, such as the circular economy.

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.

1.4.2.2 JUST TRANSITION ELEMENT 2: SOCIO-ECONOMIC DISTRIBUTION AND EQUITY

Within the second Element, Socio-economic Distribution and Equity, the first sub-element regarding a fair distribution of costs and benefits is more relevant for public finance as a distribution question is less likely to be in the focus of investment vehicles. The others, including inclusive opportunities for decent jobs, accessibility and affordability of products and services, livelihood enhancement and social justice, and biodiversity strategies that improve our socio-economic wellbeing, are relevant for both public and private finance initiatives.

⁸² IPCC (2018): "Special Report on Global Warming of 1.5°C"; p 362; <https://www.ipcc.ch/sr15/>

⁸³ CDC Group (2020): "Investing for clean and inclusive growth – Climate Change Strategy"; https://assets.cdcgroup.com/wp-content/uploads/2020/07/01181554/CDC-climate-change-strategy_FINAL-FOR-PUBLICATION-1.pdf

⁸⁴ Rockefeller Foundation: "The Global Energy Alliance for People and Planet (GEAPP)"; <https://www.rockefellerfoundation.org/initiative/global-energy-alliance-for-people-and-planet-geapp/>

⁸⁵ IIGCC: "About Us"; <https://www.iigcc.org/about-us/>

⁸⁶ 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>

⁸⁷ Net Zero Asset Managers initiative (2021): "Announcement"; <https://www.netzeroassetmanagers.org/net-zero-asset-managers-initiative-announces-41-new-signatories-with-sector-seeing-net-zero-tipping-point>

⁸⁸ Markets Insider (2021): "Almost half of all global assets under management are now geared towards net-zero goals, according to a group of fund managers"; <https://markets.businessinsider.com/news/stocks/net-zero-asset-managers-initiative-esg-hsbc-climate-change-2021-7>

⁸⁹ PRI: "Statement of Investor Commitment to Support a Just Transition on Climate Change"; <https://www.unpri.org/download?ac=10382>. Originally endorsed by 161 investors

⁹⁰ UNEPFI (2021): "Global Investor Statement: Investors urge govts 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/>

⁹¹ GFANZ (2021): "The Glasgow Financial Alliance for Net Zero – Our progress and plan towards a net-zero global economy"

⁹² Bloomberg (2021): "Private Equity Follows the Money – and the Money Is Ditching Fossil Fuels"; https://www.bloomberg.com/news/articles/2021-07-06/private-equity-is-ditching-fossil-fuels-over-climate-change-concerns?mc_cid=9e2e07a1f9&mc_eid=977e424e83

⁹³ Bloomberg (2021): "Private Equity Follows the Money – and the Money Is Ditching Fossil Fuels"; https://www.bloomberg.com/news/articles/2021-07-06/private-equity-is-ditching-fossil-fuels-over-climate-change-concerns?mc_cid=9e2e07a1f9&mc_eid=977e424e83

CDC Group, the UK's DFI, for example, considers three components within the "social building block" of their climate change strategy, seeking a transition "which is socially inclusive of worker rights, gender and communities".⁸³

- 1 Job creation, re- and up-skilling in new low-carbon and resilient sectors
- 2 Addressing negative effects on communities from changes in industrialisation
- 3 Addressing negative effects of job loss in high-polluting sectors

As another example, the Global Energy Alliance for People and Planet (GEAPP) includes affordability and accessibility of environmentally-linked initiatives for those in low- and middle-income countries to ensure there are socio-economic considerations included in positive environmental solutions.⁸⁴

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

1.4.2.3 JUST TRANSITION ELEMENT 3: COMMUNITY VOICE

The third Element, Community Voice, can incorporate a spectrum of components that help to improve social dialogue and agency, from local engagement and participation in decision making to direct economic participation. It is paramount that stakeholders, in particular those affected by transition action, are heard and that their views and needs are responded to in any financing transaction purporting to contribute to a Just Transition. A Just Transition finance initiative must be grounded in, and responsive to, the needs of the people affected; it should also provide workers and communities with a voice and a seat at the table, when planning its aims, goals and activities (for more see also Section 3.3 and Appendix 4).

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

1.4.3 Overview of select financing initiatives that align with a Just Transition

The critical role of finance in, and the immense funding gap that exists for, the advancement of a Just Transition has been discussed above. Funding needs to be urgently redirected, leveraging the current momentum for climate justice and a Just Transition across the global financial community. There has been a significant show of interest and commitment by asset owners, asset managers and the DFI community in the last few years, thanks to the growing attention being brought to the issues around climate change and to the need for global action and solutions.

Select key initiatives by financial actors that integrate one or more Elements of a Just Transition include:

- The *Institutional Investors Group on Climate Change* (IIGCC) was founded in 2012 as the European membership body for investor collaboration on climate change and the voice of investors taking action for a prosperous, low carbon future. The IIGCC today has more than 360 members, mainly pension funds and asset managers, across 22 countries, who have over €49 trillion in assets under management⁸⁵
- The *Joint Declaration of All Development Banks in the World* at the Finance in Common summit in 2020, confirming that a Just Transition is an integrated part of international development and development finance efforts⁸⁶
- The *Net Zero Asset Managers Initiative*, launched in December 2020, is recognised by the UNFCCC Race to Zero campaign. It sees "asset management firms committed to supporting emissions reductions in the real economy, developing investment products that are geared towards Net Zero and encouraging clients to invest in a climate friendly way".⁸⁷ According to Markets Insider, almost half of all global assets under management are now geared towards Net Zero goals, after 41 more firms joined the Net Zero Asset Managers initiative in July 2021. The group now has 128 signatories, which manage approximately \$43 trillion of the \$100 trillion-plus asset management industry, saying that this moved the sector closer to a "net zero tipping point". Although not yet a Just Transition initiative, it is a marked change⁸⁸
- The *Statement of Investor Commitment to Support a Just Transition on Climate Change* includes 161 investors, representing \$10 trillion, endorsing a Just Transition;⁸⁹ and the *Global Investor Statement to Governments* on the Climate Crisis included 587 investors, representing \$46 trillion⁹⁰
- 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 goals⁹¹

Individual institutional investors are also taking action, including:⁹²

- The US' third-largest public pension fund, the *New York State Common Retirement Fund's* pledge, in December 2020, to reduce its GHG emissions to Net Zero across its investments by 2040
- The US' second-largest public pension fund, the *California State Teachers' Retirement System* (CalSTRS)'s announcement to create a sustainable portfolio for private markets and invest between \$1 billion to \$2 billion over the next couple of years⁹³
- The world's biggest sovereign wealth fund,

Norway's *Norges Bank Investment Management* (NBIM) announced its intention to sell out of companies that are poorly performing on ESG issues⁹⁴

- In 2020, *Blackstone* announced its plans to cut carbon dioxide emissions from its new investments by 15% within the first three years of buying the assets⁹⁵
- In 2020, the *BT Pension Scheme* (BTPS) in the UK announced plans to reinvest its entire £55 billion portfolio to achieve Net Zero carbon emissions by 2035⁹⁶
- In 2021, the *Ontario Teachers' Pension Plan* committed to reaching net-zero emissions across its investment portfolio by 2050⁹⁷
- In April 2021, Amundi launched its *Just Transition for Climate* fund, an actively managed European fixed income portfolio with quantifiable objectives around energy transition and social cohesion⁹⁸
- In 2021, Aviva Investors launched an *Aviva Investors Climate Transition Global Credit Fund*⁹⁹

In addition, there are important **supporting initiatives**, increasing the awareness and inclusion of Net Zero and Just Transition objectives in companies' and investors' actions and reporting:

- The UN's *Principles for Responsible Investment* (PRI), the world's leading proponent of responsible investment, works to understand the investment implications of ESG factors, and to support its international network of investor signatories in incorporating these factors into their investment and ownership decisions¹⁰⁰
- The Financial Stability Board established the *Task Force on Climate-related Financial Disclosures* (TCFD) to develop recommendations for more effective climate-related disclosures that could promote more informed investment, credit and insurance underwriting decisions and, in turn, enable stakeholders to better understand the concentrations of carbon-related assets in the financial sector and the financial system's exposures to climate-related risks¹⁰¹
- The *Just Transition Centre*, established by the International Trade Union Confederation (ITUC), has been promoting the practical implementation

of Just Transition; it has published a business guide to Just Transition with the B Team Business Initiative¹⁰²

- The *World Benchmarking Alliance* (WBA) has launched Just Transition metrics, aiming to assess 450 of the world's most influential companies in high-emitting sectors on what they are doing to respect the rights of workers, communities and the most vulnerable as they work towards low-carbon goals. The pilot Just Transition Assessment covers 180 companies across three sectors: oil and gas companies, electric utilities and automotive manufacturers. The WBA is also developing benchmarks that will compare companies' performance to the SDGs. For example, in 2021, it released its first gender benchmark, ranking 35 apparel companies on their contribution to SDG 5: Gender Equality and Women's Empowerment¹⁰³
- *Climate Action 100+* (CA100+) brings together over 570 investors with more than \$54 trillion in assets under management to coordinate investor engagement with 167 companies that account for over 80% of corporate industrial greenhouse gas emissions. The first iteration of the CA100+ Net Zero Company Benchmark was launched in March 2021. The benchmark assesses companies across 10 overarching indicators, with related sub-indicators and metrics, including the publication of short-, medium- and long-term GHG reduction targets as well as climate policy engagement. For companies in the upstream oil and gas, electric utilities and automotive sectors, CA100+ provides supplementary capital allocation assessment indicators¹⁰⁴

Initiatives such as those cited above demonstrate a growing awareness of, and movement to, address one or more Just Transition Elements. While this awareness and movement is welcomed, many of these initiatives continue to focus solely on the climate challenges the world faces. Much more activity is needed to achieve the combined climate, socio-economic and community objectives that the integrated Just Transition Elements introduced in this report are designed to support.

⁹⁴ ESG Investor (2020): "Major European Asset Owners Intensify Net Zero Support"; <https://www.esginvestor.net/major-european-asset-owners-intensify-net-zero-support>

⁹⁵ Blackstone (2020): "Our Next Step in ESG: A New Emissions Reduction Program"; <https://www.blackstone.com/insights/article/our-next-step-in-esg-a-new-emissions-reduction-program/>

⁹⁶ Blackstone (2020): "Our Next Step in ESG: A New Emissions Reduction Program"; <https://www.blackstone.com/insights/article/our-next-step-in-esg-a-new-emissions-reduction-program/>

⁹⁷ Ontario Teachers Pension Plan (2021): "Ontario Teachers' Pension Plan commits to net-zero emissions by 2050"; <https://www.otpp.com/news/article/a/ontario-teachers-pension-plan-commits-to-net-zero-emissions-by-2050>

⁹⁸ Institutional Asset manager (2021): "Amundi launches first Just Transition for Climate strategy"; <https://www.institutionalassetmanager.co.uk/2021/04/08/298379/amundi-launches-first-just-transition-climate-strategy>

⁹⁹ Aviva (2021): "Aviva Investors expands Climate Transition range with launch of Climate Transition Global Credit Fund"; <https://www.avivainvestors.com/en-gb/about/company-news/2021/05/aviva-investors-expands-climate-transition-range-with-launch-of-climate-transition-global-credit-fund/>

¹⁰⁰ PRI: "Principles for Responsible Investment"; <https://www.unpri.org/pri/about-the-pri>

¹⁰¹ Taskforce on Climate-related Financial Disclosures: "About"; <https://www.fsb-tcfd.org/about>

¹⁰² International Trade Union Confederation: "Just Transition Centre"; <https://www.ituc-csi.org/just-transition-centre>

¹⁰³ World Benchmarking Alliance: "Just Transition"; <https://www.worldbenchmarkingalliance.org/just-transition>

¹⁰⁴ Climate Action 100+: <https://www.climateaction100.org>

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 Activating markets towards the SDGs and a Just Transition

As laid out in Section 1, the funding **needs and opportunities** to achieve the United Nations' SDGs in general, and a Just Transition in particular, are vast. Public funding is not sufficient; sizeable private monies are available but not yet directed towards SDG investment. This funding gap is particularly acute in emerging markets. Directing investment flows towards investment vehicles aligned with the SDGs is especially important if capital flows are to meet environmental objectives in a socially-inclusive and fair manner.

The prior section of this report acknowledges momentum from both public and private sector actors in response to the climate and Covid-19 crises. However, this momentum has not yet

directed sufficient capital at scale towards the SDGs nor mobilised capital that is aligned with advancing a Just Transition that integrates Climate and Environmental Action, Socio-economic Distribution and Equity, and Community Voice. Investment activity motivated by addressing the climate crisis has too often prioritised singular climate solutions in the pursuit of Net Zero without reflecting and incorporating socio-economic considerations as well as community voice.

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 and a Just Transition. This opportunity exists in both developed and emerging markets and across

asset classes, within existing investment products and those yet to come to market.

This report calls on asset owners and managers to:

- 1 Step up **now**
- 2 Move **beyond a siloed focus** on separate climate or social considerations and to integrate these considerations within their portfolios across asset classes
- 3 Expand their **use of instruments and tools** that can address some of the barriers holding capital back

- 4 Proactively pursue investments in **emerging markets**, where the impacts of climate change (largely generated by developed countries) and socio-economic challenges are most acute

This 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.

2.3 Background to the scope of this report

2.3.1 Why this report focuses on institutional investors

The size of the opportunity set in advancing the SDGs in general, and a Just Transition in particular, demands mobilisation of capital across the full spectrum of capital (see Section 1.2.1 for the spectrum of capital). This report focuses on the mobilisation of institutional investors given that the amount of capital they hold and control, estimated at \$154 trillion as of the end of 2020,¹⁰⁵ has the potential to be transformative. The report acknowledges the different types of institutional investors as well as those organisations that influence their investment activity. As responsible, sustainable and impact investing practices gain awareness and traction, now is the time to call on investors to step up their existing commitments to the SDGs in *developed markets*. But given the pull of various market forces combined with public sentiment, this is also the moment for institutional

investors to move beyond their comfort zones and deploy increasing amounts of capital into SDG investments in *emerging markets*.

2.3.2 Why this report focuses on emerging markets

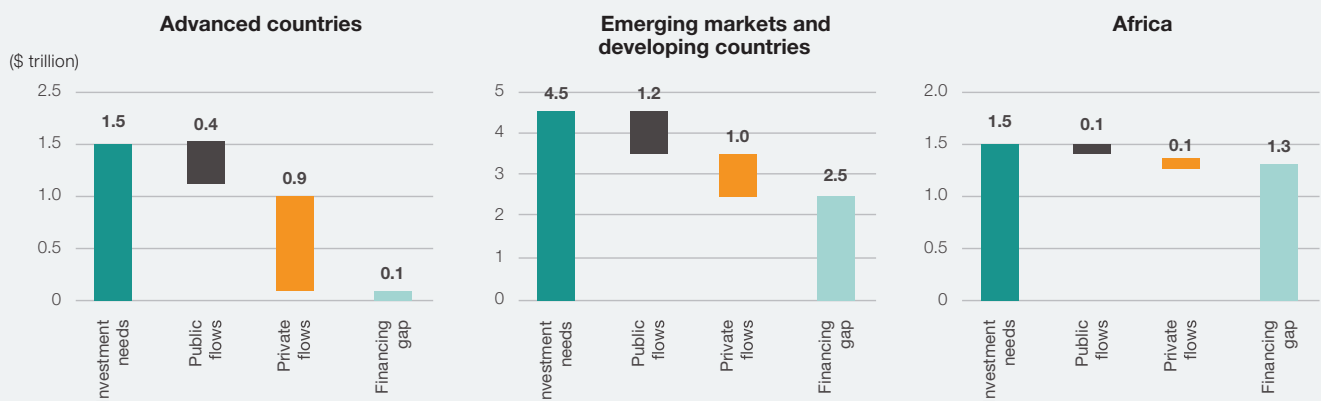
Additional capital to achieve the SDGs in general, and a Just Transition in particular, is urgently needed across the world. While recognising that opportunities to invest exist in both developed and emerging markets, this report focuses on emerging markets¹⁰⁶ as they represent the biggest opportunity gap. In addition, historically, institutional investors have largely been on the periphery when it comes to investing significantly in developing countries. This geographic challenge applies to institutional investor participation in local listed markets and investment in private alternative asset classes.

¹⁰⁵ 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

¹⁰⁶ As defined in Section 1, the terms 'emerging markets' and 'developing countries' include both emerging and frontier markets for the purpose of this report; based on the World Bank country classification system, that would include upper-middle income countries, lower-middle income countries and low income countries; all other countries are referred to herein as 'developed'

FIGURE 2.1

SDG annual financing gap



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

2.3.3 Why this report focuses on investment vehicles

The focus on institutional investors, on the one hand, and emerging markets, on the other, has led the report to focus 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 professional management with market access and expertise and diversification and therefore can help to reduce portfolio risk.

2.3.4 Why this report prioritises private asset classes and fixed income

Investment to achieve the SDGs needs to be applied 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 tend to inform and shape mainstream finance offerings. This dynamic should be encouraged.

Among private investments, this report prioritises vehicles in four private asset classes: **private equity** (including direct and fund of funds vehicles), **private debt**, **infrastructure** and **real estate**.

These four private asset classes represent actionable pathways familiar to asset owners and managers that can be successfully expanded to mobilise more capital to achieve the SDGs and, specifically, Just Transition objectives. They offer significant and market-ready opportunities to shape the design of investment vehicles that further the SDGs and have the ability to satisfy the proposed integrated Just Transition Elements. In this way,

they can foster replication and market momentum.

Within publicly listed assets, the report focuses on **fixed income**. This reflects the high investor appetite for familiar products that can produce an attractive and reliable yield and liquidity. In particular, we focus on the potential for emerging market bonds aligned with the SDGs and Just Transition objectives. *(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.)*

SDG investments and the proposed Just Transition Elements are not limited to the profiled public and private asset classes. Rather, SDG investments can and should be included across all asset classes. We expect that the increase in volume and velocity of capital deployed in the selected asset classes will stimulate more activity towards the SDGs across all asset classes.

2.3.4.1 RATIONALE FOR THE PRIORITISATION OF PRIVATE ASSETS IN GENERAL

Private investments are often the most powerful entry point for investments that seek to achieve meaningful environmental and social objectives as they provide greater investor influence and control. Their relevance is even more pronounced in emerging markets, owing to the lack of mature public, regulated markets and the importance of generating flows of additional capital into investable propositions.

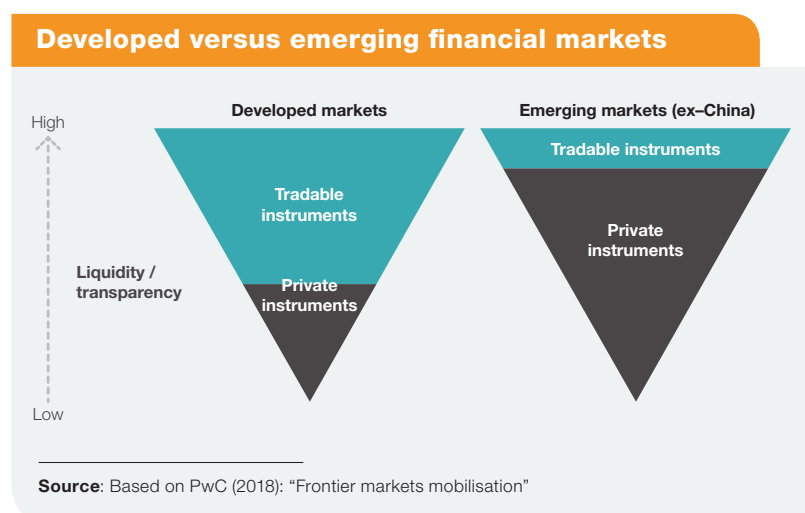
Lack of mature public, regulated markets in emerging economies

Public investment refers to securities available on an exchange or an over-the-counter market. Public exchanges in developed economies are highly regulated and provide investors with daily liquidity and stringent governance and reporting standards. Companies that issue listed securities are usually of a certain size and maturity. All of these features are intended to reduce risk for investors. Consequently, shares and bonds publicly listed in developed markets are generally considered the backbone of financial markets and tend to make up the lion's share of institutional asset allocation.

The majority of emerging markets, conversely, entirely lack public markets. Where they do exist, they are mostly small and provide access only to a few large corporations and banks (see Figure 2.2). These markets often do not meet developed markets' standards and criteria and operate with very thin trading volumes that limit participation by institutional investors.

Equities in emerging markets: There are about 70 major stock exchanges globally trading assets with a total market capitalisation of \$113 trillion as

FIGURE 2.2



of June 2021.¹⁰⁷ Of these exchanges, 15 have a total market capitalisation of over \$2 trillion – none of which are located within Africa or Latin America. The 15 largest exchanges account for close to 70% of the cumulative global market capitalisation.¹⁰⁸ In emerging markets, the largest exchanges are concentrated in China.¹⁰⁹

Fixed income in emerging markets: The International Capital Markets Association (ICMA) estimated the global fixed income market to amount to \$128 trillion in August 2020, of which about \$87 trillion was in sovereign bonds and \$41 trillion in corporate bonds.¹¹⁰

Sovereign bonds were predominantly located in the US (\$22 trillion), China (\$20 trillion) and Japan (\$12 trillion). In comparison, ICMA estimated the entire African sovereign bond market amounted to just north of \$1 trillion. South Africa was the largest issuer with \$329 billion of outstanding bonds. After South Africa, Egypt was the only sizeable issuer at around \$240 billion.¹¹¹

The corporate bond market (by country of issuer incorporation) is also dominated by the US (\$11 trillion) and China (\$7 trillion).¹¹² Looking again at Africa, in 2020 the continent's total corporate bond value amounted to only around \$150 billion, of which about \$96 billion was in South Africa.¹¹³

The distribution of emerging market fixed income is limited by its credit profile. Often, assets with sub-investment grade credit ratings cannot be held by institutional investors, particularly insurance

companies as they trigger high equity capital requirements under Solvency II regulations, for example. Corporate ratings generally are limited by the so-called 'country ceiling' based on the jurisdiction's sovereign bond rating (with some upwards flexibility for strong issuing corporates, in particular in developed countries).¹¹⁴

Using the rating agency Moody's as an example, 97% of all of its corporate ratings are at or below the corresponding sovereign rating. This gap creates significant challenges for institutional investors looking at emerging markets, as the majority of the more frontier economies are rated sub-investment grade or deeply speculative (see Figure 2.3).

Looking forward, there are two courses of action to consider. The first is to encourage emerging markets issuers to attract more institutional capital at a transactional level, both from within their domestic capital markets and internationally. The second is to see how emerging markets generally can strengthen their capital markets' infrastructure, size and depth to allow for continuous flows of investment in listed equities and bonds.¹¹⁵ The first action is addressed in subsequent sections of this report by exploring ways to enhance market receptivity of fixed income offerings. The second action is beyond the direct scope of this report, with the acknowledgment that policy makers should continue to prioritise interventions that bolster emerging markets' operating infrastructure.¹¹⁶

FIGURE 2.3

Distribution of OECD countries by credit risk rating

Based on an analysis by the UK's Foreign, Commonwealth & Development Office (FCDO, formerly Department for International Development) on low- and middle-income countries that had a rating in 2019, the median rating for these countries was sub-investment grade at B+. The median for all low- and middle-income countries would be lower since many of the 65 unrated countries would likely be rated below B+. Private sector borrowers (excluding state-owned enterprises) usually achieve a rating of at least 1–3 notches below the credit rating of their country – too low to attract meaningful institutional investor capital.

Distribution of Countries on OECD DAC list 2018–2020

Country classification	Number	Sovereign risk rating	Number
Least developed countries	47	A- or better	3
Other low income	2	BBB	10
Lower middle income	38	BB	16
Upper middle income	58	B	45
Total	145	CCC or worse	6
		Unrated	65
		Median rated	B+

Source: DFID (2019): "Internal – Mobilisation teamwork planning"

¹⁰⁷ WFE (2021): "Dashboard"; <https://focus.world-exchanges.org/issue/august-2021/dashboard>

¹⁰⁸ WFE (2021): "Market Statistics"; <https://focus.world-exchanges.org/issue/august-2021/market-statistics>

¹⁰⁹ WFE (2021): "Market Statistics"; <https://focus.world-exchanges.org/issue/august-2021/market-statistics>

¹¹⁰ ICMA (2020): "Bond market size"; <https://www.icmagroup.org/Regulatory-Policy-and-Market-Practice/Secondary-Markets/bond-market-size/>

¹¹¹ ICMA (2020): "Bond market size"; <https://www.icmagroup.org/Regulatory-Policy-and-Market-Practice/Secondary-Markets/bond-market-size/>

¹¹² ICMA (2020): "Bond market size"; <https://www.icmagroup.org/Regulatory-Policy-and-Market-Practice/Secondary-Markets/bond-market-size/>

¹¹³ ICMA (2020): "Bond market size"; <https://www.icmagroup.org/Regulatory-Policy-and-Market-Practice/Secondary-Markets/bond-market-size/>

¹¹⁴ There has been more flexibility in Europe (Moody's, e.g., typically allows for corporate issuances to be up to six notches above the government bond rating, Fitch up to three notches). But such flexibility is considerably lower in other regions and usually applies only in exceptional cases where companies are recognised as market leaders, have strong financials, mostly hard currency revenues and operate in industries protected by the state (e.g., through tariff barriers)

¹¹⁵ The issue has been recognised and activities seeking to strengthen local public markets are being pursued, e.g., by the UK government's MOBILIST programme

¹¹⁶ Global Investors for Sustainable Development Alliance (2021): "Increasing private finance mobilization: Recommendations for development banks and the global development community"

SEC Thailand: Sustainable Bond Issuance Guide

The **ASEAN Low Carbon Energy Programme (LCEP)** is a £15 million aid programme that is part of the UK's prosperity programming. It promotes inclusive economic growth by providing assistance to targeted government ministries and agencies on green finance and energy efficiency. Gender and inclusion are mainstreamed across all of the programme's interventions.

A notable deliverable of the LCEP is the **Sustainable Bond Issuance Guide** that was recently published by the Securities and Exchange Commission Thailand, aimed at developing the

sustainable bond market in the country. This document seeks to provide market players in Thailand with information on the different sustainable bond types and standards, as well as step-by-step guidance on the process to issue green, social, sustainability, transition and sustainability-linked bonds. The Guide explicitly recognises that sustainable bonds can drive both enhanced climate as well as gender equality related impacts, both of which are necessary for a Just Transition.

Source: Securities and Exchange Commission Thailand (2021): "Sustainable Bond Issuance Guide"

Greater investor influence and control

A further argument supporting the prioritisation of private markets (in addition to fixed income) in order to scale private capital is the degree of influence a provider of capital can assert to align that capital with the impact being pursued. Assuring alignment between the source and use of capital is a common challenge for all investments; however, the stakes are higher for investments that seek to further the SDGs where positive change in the lives of people or place is explicitly targeted.

The ability to assure such alignment is generally greater with private transactions. When subscribing to the publicly listed shares of a company there is little, if any, ability to shape the company's business activities. Although significant energy and money is expended on shareholder advocacy initiatives in public markets, an individual investor has mostly little opportunity to influence a company's behaviour.

In private markets, alignment between the source and use of capital can be assured in the terms and conditions drawn up for the investment vehicle. Generally, the closest alignment is achieved in private equity where ownership rights translate into direct influence at the company's governance table and over how an investee uses the capital provided. Private debt investments rely on covenants and other contractual undertakings to ensure alignment with the impact objectives that underpin the capital committed.

Investors seeking to invest to advance the SDGs need to have assurance of the reliability of delivering the vehicle's stated impact objectives. It is important for the vehicle to interrogate the investees' use of proceeds, business operations, environmental footprint, diversity and other social aspects of a company or project, and, in some cases, influence along a company's supply chain. Investing with an explicit focus to integrate people and planet priorities invites more direct alignment between sources of capital and its uses.

2.3.4.2 RATIONALE FOR THE PRIORITISATION OF PRIVATE EQUITY AND PRIVATE DEBT

Turning to private equity and private debt, specific reasons to include these two asset classes are:

- **Familiarity:** Institutional investors are familiar with and understand these asset classes
- **Prevalent asset classes:** As a proxy for purposeful investments in emerging markets, the Global Impact Investing Network's (GIIN) Impact Investor Survey of 2020¹¹⁷ shows that the respondents' impact investments in emerging markets are predominantly in private equity and private debt (see Figure 2.4)

2.3.4.3 RATIONALE FOR THE PRIORITISATION OF INFRASTRUCTURE AND REAL ESTATE

Infrastructure and real estate are prioritised for the following reasons:

- **Climate relevance:** Although institutional investors' investments in these asset classes have to date focused on developed markets, it is understood that both the infrastructure and the real estate sectors have major implications for climate change and need to be addressed across the globe in order to achieve Net Zero targets. As described in the sectoral considerations in Section 1.3.1.4, major contributors of emissions include transport, buildings and energy
- **Developmental and socio-economic relevance:** In addition to climate relevance, infrastructure and real estate both contribute significantly to country-level development objectives, including employment and access to, and affordability of, basic services and livelihood essentials, in particular to underserved individuals, households and communities¹¹⁹






















¹¹⁷ The GIIN Impact Investor Survey included a wide array of investors active in the impact investing space, 67% of which categorised themselves as 'market rate' investors. While the survey is focused on impact investors and therefore includes only a limited number of mainstream institutional investors, it provides a data point showcasing the importance of the private equity and private debt markets in developing countries

¹¹⁸ GIIN (2020): "2020 Annual Impact Investor Survey"; <https://thegiin.org/research/publication/imp-inv-survey-2020>

¹¹⁹ The Economist Intelligence Unit (2019): "The critical role of infrastructure for the Sustainable Development Goals"

FIGURE 2.4

Asset allocation by impact investors

	Overall	Geographic focus	
		DM-focused Investors	EM-focused Investors
Private debt	21% 	9% 	36% 
Public equity	19% 	27% 	3% 
Private equity	17% 	13% 	25% 
Real assets	17% 	30% 	0%
Publicly traded debt	17% 	15% 	22% 
Equity-like debt	1% 	0%	2% 
Deposits & cash equivalents	1% 	1% 	0%
Other	8% 	5% 	12% 
n	289	139	124
Total AUM (USD million)	220,914	123,131	80,168

Source: GIIN (2020): "Annual Impact Investor Survey 2020"

2.3.4.4 RATIONALE FOR PRIORITISATION OF FIXED INCOME

Fixed income is also prioritised as an asset class for the following reasons:

- **Material and familiar asset class:** Bonds are generally the most significant asset class for institutional investors within their asset allocation strategies. In emerging markets, according to GIIN (see Figure 2.4), publicly traded debt accounts for 22% of assets under management, making it the third-largest asset class reported by impact investors. This percentage is even higher for mainstream investment portfolios, where fixed income comprises, on average, 40% of institutional investor portfolios¹²⁰
- **Pipeline of issues:** There is a steady flow of issuances from companies and sovereigns, despite some of the market infrastructure challenges referenced above, with the expectation that the number, volume and frequency of issues will increase in the coming years

- **Climate relevance:** The green and sustainability bond markets are strong and growing fast, with average annual growth of 95% for green bonds since the market started in 2007 (see Section 1.4.1)¹²¹

- **Developmental and socio-economic relevance:** As it has grown, the green bond market has started to include social objectives, driving also the growth of sustainability and social bonds (see Section 3.4.6 for an overview of thematic bonds). In recent years, markets have seen issuances of blue bonds, gender bonds,

¹²⁰ Based on Natixis Investment Managers, Global Survey of Institutional Investors conducted by CoreData Research in October and November 2020. The survey included 500 institutional investors in 29 countries throughout North America, Latin America, the United Kingdom, Continental Europe, Asia and the Middle East

¹²¹ Climate Bonds Initiative (2020): "\$1 Trillion Mark Reached in Global Cumulative Green Issuance: Climate Bonds Data Intelligence Reports: Latest Figures"

SPOTLIGHT

UK Green Financing Framework and green gilts

The **UK Green Financing Programme** is a series of green gilt issuances and a green retail savings bond. The programme will finance expenditure associated with tackling climate change and other environmental challenges, by financing or refinancing projects/schemes that will fund infrastructure, create green jobs and mainstream green financial products. The government has committed to reporting on the social co-benefits of this green spending, following the Impact Investing Institute's Green+ Gilt proposal.

The UK's inaugural green gilt sale in September 2021 received the highest ever bids for a UK government bond sale; the £10

billion raised made it the largest sovereign green bond at the time of issuance.

Investor appetite has been demonstrated by the further three issuances released subsequently, two of which were wholesale and one retail. The first £10 billion wholesale bond was 10x oversubscribed; the second wholesale £6 billion bond, with a tenor of 32 years, was 12x oversubscribed.

Sources: Carbon Trust (2021): "Pre-issuance impact report on the UK government green financing programme"; Financial Times (2021): "UK's debut 'green gilt' sale draws blockbuster demand"; UK Government (2021): "Greening Finance: A Roadmap to Sustainable Investing"; Impact Investing Institute (2020): "Investors with £10 trillion in assets call for the UK to issue a green+ sovereign bond"

Covid-19 recovery bonds and more.¹²² There is a ready opportunity to extend green bond tools and approaches to consider more explicitly issuances with a socio-economic objective¹²³

- **Transparency:** One of the core conditions of any fixed income investment is how the proceeds are to be used. Using proceeds for climate and social projects that demonstrate a direct contribution to underserved individuals, households and communities provides a clear link to a Just Transition. There has been growing criticism of the integrity of green and social bond offerings and whether the capital mobilised does advance positive environmental or social results. This report's proposed integrated Just Transition

Elements provide an opportunity to introduce clarity of objectives in fixed income vehicles that are marketed with positive climate and social language. Although not all climate vehicles can be expected to advance a Just Transition, embracing clear objectives will encourage and support delineation of investment products.

This Section has laid out the rationale for this report's focus – and the reasons for prioritising certain investors, markets, asset classes and means of investment in order to mobilise capital to finance the SDGs at pace and at scale, with particular consideration of capital flows in, and to, emerging markets.

2.4 Institutional investors are critical to achieving the SDGs

2.4.1 Overview

2.4.1.1 WHO ARE INSTITUTIONAL INVESTORS?

Institutional investors are typically understood as large organisations investing on behalf of other beneficiaries. The term primarily refers to pension funds and insurance companies. It can also include endowments, foundations, charities, sovereign wealth funds (SWFs), banks and credit unions, family offices and private funds (such as mutual funds, hedge funds, private equity/debt funds and venture capital funds, or real estate trusts). For the purpose of this report, we consider institutional investors to be **asset owners**. Private funds and their managers are considered under the asset manager discussion.

There are differences between the types of institutional investors listed above. Such differences need to be consciously considered and addressed when talking about capital mobilisation (e.g., in terms of mandate, time horizons, regulatory obligations in their respective jurisdictions, and governance challenges) which can lead to different capital allocation patterns. But for the purpose of this report, we refer to the entire group of institutional investors as a single community – and highlight specific differences where relevant.

across a variety of fund types, including mutual funds, hedge funds, private equity and private debt funds. These managers do not invest on their own account but in their clients' name and based on their clients' investment policies and mandates. They are stewards of third-party capital, with tremendous influence and responsibility for the capital entrusted to them.

Large institutional investors often manage much of their developed market equities and fixed income assets themselves. For other strategies, including private asset classes, they tend to rely on external managers. Smaller asset owners often employ asset managers to manage all of their assets. McKinsey estimates that around three-quarters of financial assets are managed directly by asset owners, while the remainder is outsourced.¹²⁴

Investment consultants are another important group of actors in the institutional investor universe. Investment consultants formulate investment and allocation strategies for clients in accordance with their respective financial goals and often support asset owners in their manager selection.¹²⁵

Managers and consultants often drive and define the investable universe for institutional investors. It is therefore vital that both are incentivised to support propositions that advance the SDGs. Initiatives to improve the alignment, stewardship and accountability of mandates between asset owners, asset managers and investment consultants are being driven by several groups, including the Global Investors for Sustainable Development (GISD) Alliance.

2.4.1.2 WHO IS MAKING THE ASSET ALLOCATION AND INVESTMENT DECISIONS?

When considering the investment behaviours and decisions of institutional investors, the role of **asset managers** is significant. Managers play an active role managing assets for institutional asset owners

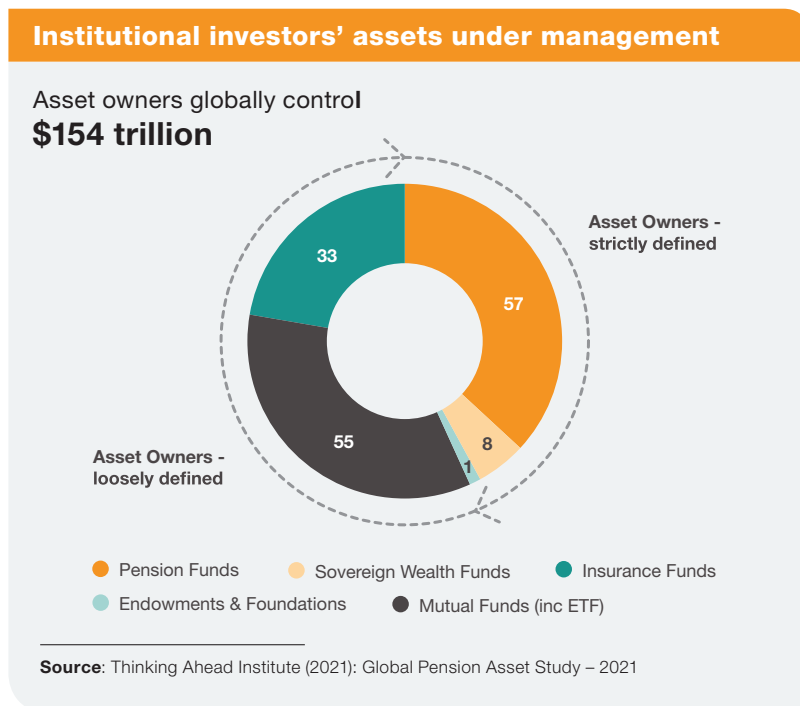
¹²² Blue bonds are bonds that fund commitments towards oceans, water related initiatives and sustainability; gender bonds are bonds that fund commitments towards the improvement of lives of women; Covid recovery bonds are bonds that fund commitments towards Covid-19 recovery. Disaster or catastrophe relief bonds are a further area of growth

¹²³ Impact Investing Institute and LSE (2021): "The UK's Green Gilt: Demonstrating the Contribution to Jobs and Levelling Up"; <https://www.impactinvest.org.uk/publications/the-uks-green-gilt-demonstrating-the-contribution-to-jobs-and-levelling-up/>

¹²⁴ BlackRock (2014): "Who owns the assets?"

¹²⁵ Investopedia (2019): "Investment Consultant"

FIGURE 2.5



However, in response to the 2008–2012 global financial crisis and the subsequent low interest rate environment, investors have been engaged in a search for yield and greater diversification given the high correlation between listed equities and fixed income markets.¹²⁹ This has led to a greater focus on alternative assets, including growth-oriented assets such as private equity or venture capital and income-generating assets such as real estate, infrastructure or natural resources.¹³⁰

2.4.1.5 INSTITUTIONAL INVESTORS AND RESPONSIBLE, SUSTAINABLE AND IMPACT INVESTING

As noted in Section 1.2.1 and further analysed in the report by Workstream A of the Impact Taskforce, interest in applying ESG and impact standards is gaining traction across the investor community. Although the starting point of integrating ESG factors into investment decisions has been defensive, with a focus on managing investment risk and avoiding harmful activities (i.e., responsible investing), movement along the spectrum of capital is capturing more attention, from sustainable investing to impact investing that actively seeks robust financial returns and positive impact.

Indicators of growing institutional investor interest include:

- Over 3,000 investors have signed up to the UN backed *Principles for Responsible Investment* (PRI), including over 500 asset owners;¹³¹ in April 2021 the PRI released a new report outlining pension beneficiary preferences on ESG issues and a four-step guide for asset owners¹³²
- The *Task Force on Climate-related Financial Disclosures* (TCFD), chaired by Michael R.

2.4.1.3 HOW BIG IS THE INSTITUTIONAL INVESTOR UNIVERSE?

The Thinking Ahead Institute estimates global institutional investors' assets under management (AUM) to amount to approximately \$154 trillion. This includes pension funds, insurance companies, SWFs, endowments and foundations and mutual funds (see Figure 2.5).¹²⁶ To put this in context, the 2019 gross domestic product (GDP) of the United States was around \$21 trillion. Only a small proportion of institutional assets are held in emerging markets. For example, the African Development Bank (AfDB) estimates that African institutional investors held about \$1.8 trillion in 2020.¹²⁷

2.4.1.4 HOW ARE INSTITUTIONAL INVESTORS ALLOCATING ASSETS?

Institutional investors typically allocate their assets between four main asset classes: listed equities, fixed income (bonds), cash and cash equivalents, and 'alternatives'. The latter includes real estate, infrastructure (often grouped together with real estate as real assets), private equity and debt, hedge funds, commodities and other usually less liquid, often longer-term assets (see also panel in Section 1.4.1.2). Historically, listed equities and fixed income have dominated most institutional investors' asset allocations. Relatively few have significant direct exposure to most of the alternative assets. The Blended Finance Taskforce estimated in its 2019 report that infrastructure investments accounted for less than 1% of pension fund assets.¹²⁸

"In the space of six or 12 months, investors have gone from thinking about ESG as a side issue to thinking about it as completely core to the future of their funds. It is a big shift. And in my career, I haven't seen a shift quite like it."

Roger Urwin, advisor to the MSCI

Source: MSCI (2021): "Investment Insights" 2021

¹²⁶ Thinking Ahead Institute (2021): "Global Pensions Asset Study – 2021"; <https://www.thinkingaheadinstitute.org/research-papers/globalpension-assets-study-2021/>

¹²⁷ AfDB (2017): "Unleashing the potential of institutional investors in Africa"; https://www.afdb.org/sites/default/files/documents/publications/wps_no_325_unleashing_the_potential_of_institutional_investors_in_africa_c_rv1.pdf

¹²⁸ Blended Finance Taskforce (2018): "Better finance, better world"

¹²⁹ Pensions and investments: "In Quest for Diversification, Institutional Investors Take a New Look at Private Markets"; https://www.pionline.com/aberdeen_privatemarkets20

¹³⁰ Pensions and investments: "In Quest for Diversification, Institutional Investors Take a New Look at Private Markets"; https://www.pionline.com/aberdeen_privatemarkets20

¹³¹ PRI: "Principles for Responsible investment"; <https://www.unpri.org/pri/about-the-pri>

¹³² "Taskforce on Climate-related Financial Disclosures"; <https://www.fsb-tcfd.org/about/>

Bloomberg, counts more than 2,300 supporters across 88 countries¹³³

- In its 2021 investor survey of some 200 investors owning approximately \$18 trillion of assets, Morgan Stanley Capital International (MSCI) observed a clear trend towards an increased integration of ESG factors into investors' decision-making processes; MSCI further noted that this trend has been accelerated by Covid-19 and climate-related events, including wildfires in Australia and California and the warming in the Arctic, building "a powerful narrative around ESG investing"
- The green bond market has exploded in recent years (see Section 1.4.1 and Figure 3.6).
- The EU is developing a 'EU taxonomy', a science-based classification system to establish a list of economic activities that can be considered environmentally sustainable. The objective is to "create security for investors, protect private investors from greenwashing, help companies to become more climate-friendly, mitigate market fragmentation and help shift investments where they are most needed"¹³⁴
- The European Union (EU) *Sustainable Finance Disclosure Regulation* (SFDR), introduced in March 2021, has set out specific rules on what sustainability-related information financial market participants and financial advisors need to disclose to avoid green-washing of financial products and advice¹³⁵
- In a growing number of jurisdictions, fiduciary duties are shifting from a single focus on financial performance to include environmental and social considerations as well

¹³³ MSCI (2021): "Investment Insights 2021"

¹³⁴ European Commission: "EU taxonomy for sustainable activities"; https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/eu-taxonomy-sustainable-activities_en

¹³⁵ S&P Global: "What is the Impact of the EU Sustainable Finance Disclosure Regulation (SFDR)"; <https://www.spglobal.com/marketintelligence/en/news-insights/blog/what-is-the-impact-of-the-eu-sustainable-finance-disclosure-regulation-sfdr>

2.4.1.6 MANAGERS ENGAGING MORE WITH IMPACT INVESTING AND ATTRACTING INSTITUTIONAL ASSET OWNERS

New models of impact manager evolving

As the impact investing market develops, several trends in asset management are emerging:

Mainstream managers moving into impact:

Mainstream asset managers are recognising the opportunity to attract capital from institutional asset owners who are beginning to compare managers on the basis of their impact practice and performance as well as their financial performance. The Operating Principles for Impact Management, launched in April 2019 by 60 institutions (see panel below), have been signed by a total of 141 asset managers across 34 countries, representing close to \$420 billion in assets (as of 30 September 2021). Examples include:

- Texas Pacific Group (TPG)'s Rise Funds, which invest in companies driving measurable social and environmental impact alongside business performance and strong returns. The first Rise Fund raised \$2 billion in 2017; TPG's second fund, Rise Fund II, attracted \$2.5 billion in 2020; in July 2021, TPG announced the first closing of its TPG Rise Climate Fund, having raised \$5.4 billion
- Kohlberg Kravis Roberts (KKR)'s \$1.3 billion Global Impact launched in 2018, financing companies that provide commercial solutions to an environmental or social challenge, focusing on the Americas, Europe and Asia
- Bain Capital's US-focused Bain Double Impact Fund II closed in 2020 at \$800 million, up from \$390 million for the first fund

SPOTLIGHT

Impact investors - the pioneers

'Impact investors' are playing a pioneering role in deploying capital to generate positive social and environmental results, paving the way for institutional investors. Impact investors include development finance institutions (DFIs), multilateral development banks (MDBs), foundations and certain family offices. Several insurance companies and pension funds, including faith-based investors, have made allocations to impact investing, demonstrating it is possible for large institutional investors to deploy capital in pursuit of positive impact.

Many have capitalised investments with demonstrable impact results by, for example:

- 1 Demonstrating and developing the investability of emerging markets through track record and performance data, thereby growing the size of the investable universe
- 2 Backing emerging managers by taking a risk on first-time

managers with compelling strategies, many of which have now grown to a stage of attracting institutional capital while continuing to seed further cohorts of new managers

- 3 Stimulating and spreading market expertise, local networks and access to local transactions
- 4 Providing anchor funding and de-risking support to select transactions and blended funds in order to mobilise institutional capital into impactful investments in emerging markets.

Many impact investors have higher risk appetite and benefit from flexible or more patient capital. They are thus willing to invest in high-impact enterprises, earlier stage companies, innovative business models or more challenging jurisdictions. Their needs-driven and pioneering role in the search for intentional and measurable impact is crucial in meeting the Sustainable Development Goals and Just Transition targets.

Operating Principles for Impact Management

Principle 1

Define strategic impact objective(s), consistent with the investment strategy.

Principle 2

Manage strategic impact on a portfolio basis.

Principle 3

Establish the manager's contribution to the achievement of impact.

Principle 4

Assess the expected impact of each investment, based on a systematic approach.

Principle 5

Assess, address, monitor and manage potential negative impacts of each investment.

Principle 6

Monitor the progress of each investment in achieving impact against expectations and respond appropriately.

Principle 7

Conduct exits considering the effect on sustained impact.

Principle 8

Review, document and improve decisions and processes based on the achievement of impact and lessons learned.

Principle 9

Publicly disclose alignment with the Principles and provide regular independent verification of the alignment.

Source: "Operating Principles for Impact Management"

Impact managers growing: At the other end of the manager spectrum, formerly niche and small impact managers are now building sufficient size and track record to attract institutional investors. Examples include:

- LeapFrog Investments is a purpose-driven asset management company, whose Emerging Consumer Fund III raised \$743 million, which has entered into a \$500 million strategic partnership with Temasek, the market-leading investment company headquartered in Singapore
- responsAbility, founded in 2003, has to date invested over \$11 billion across almost 70 countries and has \$3.5 billion of AUM
- Bridges, founded in 2002, has to date raised \$1 billion of capital after the close of its Growth Business, Long-term Capital and Social Outcomes vehicles

Manager partnerships: A third observable trend among asset managers is the growth in partnerships between mainstream and impact managers (see Section 2.6.7). These have included the partnership between NN Investment Partners and Dutch development bank FMO to launch the Emerging Markets Loans Fund, a \$272 million private debt fund. Other ventures include the acquisition of impact managers by mainstream houses, such as Schroders' acquisition of BlueOrchard in 2019¹³⁶ or Goldman Sachs' 2015 acquisition of Imprint Capital.¹³⁷

MDBs and DFIs adopting manager roles:

A further important impact investment trend is MDBs and DFIs taking on the role of manager for third-party institutional capital. An example is International Finance Corporation Asset Management Company (IFC AMC), which is investing third-party capital alongside the IFC in emerging markets. IFC AMC funds include the IFC Global Emerging Markets Fund of Funds and the IFC African, Latin American, and Caribbean Fund. FMO Investment Management is another example (for further information, see Section 2.6.7.3).

¹³⁶ Schroders (2019): "Schroders acquires majority stake in leading impact investor BlueOrchard"; https://www.schroders.com/en/media-relations/news-room/all_news_releases/schroders-acquires-majority-stake-in-leading-impact-investor-blueorchard/

¹³⁷ Goldman Sachs (2015): "Deepening a Commitment to Sustainability, GSAM Acquires a Leading Impact Investing Firm"; <https://www.goldmansachs.com/our-firm/history/moments/2015-imprint-capital.html>

- There is also a growing trend towards manager specialisation, with established strategies becoming more focused through spin-offs and platform extensions, such as Brookfield's Global Transition Fund, which announced a \$7 billion closing in July 2021, or the above mentioned TPG Rise Climate Fund, announced in the same month

Institutional investors' management arms moving into impact:

Further contributing to the development of the impact investment market, a number of institutional investors have expanded their investment management arms to offer sustainable products to third parties. Leading asset management offerings include AXA Investment Management, Nuveen and Allianz Global Investors' impact investing platform.



Schroders' acquisition of BlueOrchard

In 2019, Schroders acquired a majority stake in the impact investment manager BlueOrchard.

"Schroders' partnership with BlueOrchard supports the expansion of its sustainability capabilities. This will help to better serve clients who are increasingly seeking investments which have a beneficial impact on society and the environment, as well as generating positive financial returns. It also accelerates the growth of Schroders in private debt and private equity investments in emerging markets."

Source: Schroders (2019): "Schroders acquires majority stake in leading impact investor BlueOrchard"

SPOTLIGHT

Key thematic trends in impact investing

- A growing focus on gender, building a gender lens into investment strategies and an extension to combine gender with other equity themes, such as racial justice, the LGBTQIA+ community, and intersectional identities
- A continued focus on the environment, moving from the impact investment niche into more mainstream investment models
- A focus on technology for inclusion, whereby digital infrastructure is helping to leapfrog traditional distribution models

Source: Palladium (2021): "4 Impact Investing Trends to Watch in 2021"

The trend towards managers that combine scale and credibility is crucial to the achievement of the SDGs. At the same time, it is imperative that the integrity of offerings is scrutinised on a consistent and transparent basis, as further outlined in the report of the Impact Taskforce's Workstream A. Combined, these trends will provide competitive clarity among managers and their offerings, while also expanding awareness as to whether and how progress towards the SDGs is being advanced by invested capital.

While the focus on scale is central to this report, the importance of fostering and investing in new generations of impact managers – that may scale in the future – cannot be overemphasised. Many impact investors fund such emerging managers with a view to growing the universe, in particular with a view to the building of local manager ecosystems in emerging markets.

Efforts being made to standardise ESG and impact management

Extensive efforts to improve standardisation and the robustness of impact performance measurement and management are also under way. This is in response to growing investor, regulator and media concerns about the use of ESG and impact marketing labels on investment products without proper accountability of the marketed claims, leading to claims of 'greenwashing' and 'impact washing'.

Key initiatives to strengthen the way in which investment products and those who manage them can be assessed on impact practice and performance include the Impact Management Project (IMP)¹³⁸ and the International Financial Reporting Standards Foundation (IFRS)'s efforts on sustainability-linked reporting.¹³⁹ The IFRS announced the formation of an International Sustainability Standards Board (ISSB) at COP26 that will develop global baseline sustainability standards. The ISSB will integrate both the Climate

Disclosures Standards Board (CDSB), which aims to include climate-related matters into financial reporting, and the Value Reporting Foundation (VRF – which houses the Integrated Reporting Framework and the SASB Standards).¹⁴⁰ Another climate-related initiative is the TCFD, which was formed by the Financial Stability Board (FSB) and provides recommendations on the disclosure of information on the financial implications of climate-related risks and opportunities. Increasingly, institutional investors and regulators are focusing on quality assurance of TCFD reporting. Current reporting often separates climate and social indicators but outcomes need a joint approach in order for asset owners and managers in particular to understand, assess and monitor the interdependence between environmental and social objectives.

Universe of supporting advisors/intermediaries is increasing

A growing universe of intermediaries and advisers is providing critical support to asset owners and managers seeking to invest for impact. These range from mainstream placement agents and large investment banks with sustainability client groups to specialised firms with impact investment expertise. On the buy-side, some investment advisors and consultants (which count many large institutional investors as clients) have developed capabilities to source, underwrite and monitor impact products. For example, J.P. Morgan has created a development finance institution-like offering to advance its development-oriented advisory services in private investment in emerging markets.¹⁴¹

Media and event focus on impact is increasing

Press coverage of impact investing in mainstream publications, including by the Financial Times and Bloomberg (including Bloomberg New Energy Finance (BNEF) and Green reporting channels), and the inclusion of impact topics at major conferences is growing rapidly. More and more institutional investors are participating in impact investing events. Organisers of such events include the GIIN, the Global Private Capital Association (GPCA, formerly EMPEA), the Global Steering Group (GSG) and the National Advisory Boards (NABs), amongst many others.

2.4.1.7 PARTICIPATION BY DEVELOPED MARKETS INSTITUTIONAL INVESTORS

Most emerging markets are either absent from or make up only a minuscule portion of the portfolios of institutional investors based in developed markets. According to data collected from

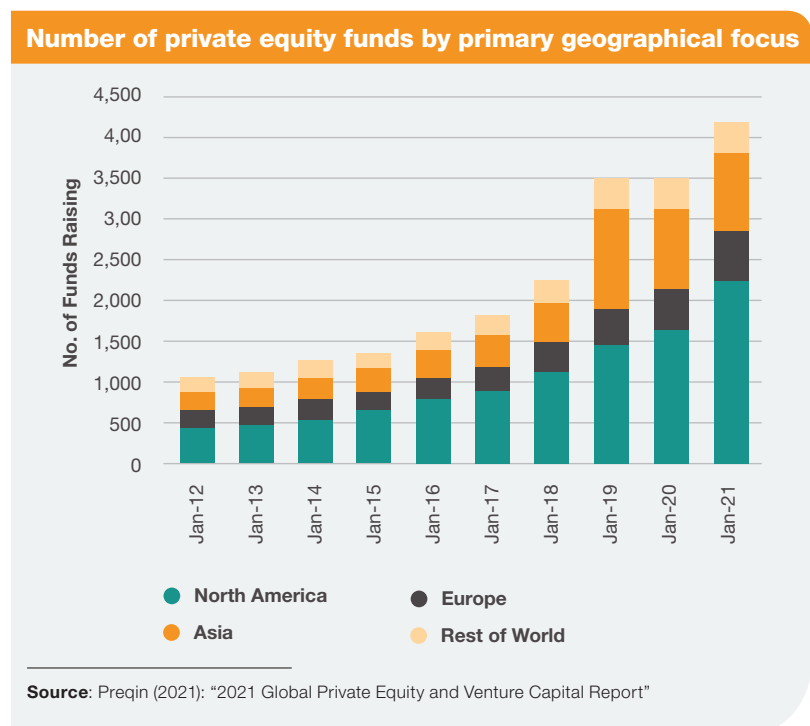
¹³⁸ IMP: "A forum for building global consensus on how to measure, assess and report impacts on people and the environment"; <https://impactmanagementproject.com/>

¹³⁹ IFRS: "Sustainability-related Reporting"; <https://www.ifrs.org/projects/work-plan/sustainability-reporting/>

¹⁴⁰ IFRS: "An update on the ISSB at COP26"; <https://www.ifrs.org/news-and-events/news/2021/11/An-update-on-the-ISSB-at-COP26/>

¹⁴¹ J.P. Morgan (2020): "J.P. Morgan Launches Development Finance Institution"; <https://www.jpmorgan.com/solutions/cib/investment-banking/2020-dfi-announcement>

FIGURE 2.6



2.4.1.8 PARTICIPATION OF EMERGING MARKETS INSTITUTIONAL INVESTORS

Encouraging and supporting international institutional investors to invest more into emerging market propositions that advance the SDGs and a Just Transition does not provide the complete solution, however. To scale up private capital for positive impact and build sustainable financing routes and ecosystems within developing countries, it is also important to strengthen local institutional capital providers and local capital markets.

Such activity is still mostly at a very early stage in these markets. Rising wealth levels and a growing institutionalisation of savings and capital markets are helping to grow the local institutional investor universe, contribute to the development of local securities markets and improve the stability of the financial systems. Local institutional investors typically have a greater understanding and knowledge of their local investment landscape and associated risks. So they are well positioned to make investment decisions about local assets. Many emerging markets' institutional investors are looking for local investment opportunities and are an important source of funding for local currency denominated emerging markets assets.¹⁴⁶

But it is still the case that underdeveloped capital markets (see also Section 2.4.2), a general lack of investable pipeline, excessive regulation or the lack of investor sophistication often constrain the ability of institutional investors to pursue local investments.

For example, in Africa, a conservative investment outlook and regulatory constraints mean that many African institutional investors favour sovereign bonds over other (mostly scarce) listed assets, including equities and corporate bonds, and tend to invest in more mature exchanges such as Morocco or South Africa. Although private equity, real estate and infrastructure are growing as asset classes in Africa, they are often viewed as inadequate or too risky. Between 2011 and 2017 African institutional investors accounted for a mere 1% of private placement in infrastructure. In 2018, the African Investment Forum called for more regional investments from African institutional investors, claiming they amounted to no more than 10% of the total portfolios.¹⁴⁷ Increasingly, therefore, asset managers are looking to encourage sovereigns into the space.¹⁴⁸ The Africa Finance Corporation (AFC), for example, has developed a partnership with the Nigerian government for an infrastructure fund, seeded by the Central Bank of Nigeria (which is also an AFC shareholder), the Nigerian Sovereign Investment Authority (NSIA), and the AFC, with initial funding of about \$2.5 billion. This familiar pattern is found in other emerging market environments.

¹⁴² Morgan Stanley (2021): "Emerging Market Allocations: How Much to Own?"

¹⁴³ Blended Finance Taskforce (2018): "Better finance, better world"; including in their analysis pension funds, insurance companies, SWFs, banks, private equity funds and asset/wealth managers

¹⁴⁴ 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>

¹⁴⁵ Impact Investing Institute (2021): "Impact investing in emerging markets: Opportunities for institutional investors"; <https://www.impactinvest.org.uk/our-case-studies/emerging-markets/>

¹⁴⁶ OECD (2021): Mobilising institutional investors for financing sustainable development in developing countries: Emerging evidence of opportunities and challenges.

¹⁴⁷ Société Générale (2020): The Rise of Institutional Investments in Africa; <https://www.securities-services.societegenerale.com/en/insights/views/news/rise-of-institutional-investments-africa/>

¹⁴⁸ African Business (2021): AFC can help transform infrastructure investment in Africa

Morgan Stanley, global investors have allocated between 6% and 8% of their portfolio to emerging markets.¹⁴² In 2019, the Blended Finance Taskforce estimated institutional investors' asset allocation in private alternatives in emerging markets at just \$2.1 trillion.¹⁴³ A survey by Preqin shows that few private equity funds have a geographic focus outside of North America, Europe or Asia (see Figure 2.6).

However, a survey of 300 institutional investors and wealth managers in 2020 by Vontobel Asset Management found that more than half of respondents expect to increase their allocation in equities and bonds to emerging markets in the following five years in a search for new sources of return and alpha.¹⁴⁴ There is also growing evidence of institutional investors making impact investments in emerging markets across all asset classes.¹⁴⁵

The Covid-19 pandemic has, however, frustrated this trend in the short term, with many investors keeping allocations steady or even reducing allocations as they seek more conservative positions.

Although there is positive traction, many institutional asset owners in developed markets continue to struggle to place emerging markets investments within their existing mandates and asset allocation strategies (see also below in the barriers discussion in Section 2.4.2).

Action is needed to create accessible allocations for emerging markets investments and appropriate incentives for asset managers and consultants to include relevant transactions in institutional investors' portfolios.

Mobilising local institutional investors with their deeper understanding of the local investment ecosystem provides a significant near-term opportunity. Local capital investment could empower more domestic capital to contribute to achieving the SDGs at a local level and would instil confidence among international players. The multiplier effect on domestic savings and earnings could also offer further support to local governments as they seek to fulfil national development plans.

2.4.2 Institutional investors' key barriers to investing in emerging markets in private transactions

Institutional investors (as asset owners) face real and perceived barriers to participating in emerging markets' private transactions, which we explore below. Such barriers can be classified as either external or internal. Most apply across asset classes, but some are particularly relevant for certain asset classes, such as ratings for fixed income and private debt investment offerings. Similarly, while most barriers detailed affect all institutional investors, some present more significant impediments to certain institutional investors because of their regulatory status. For capital to move at scale, these barriers need to be acknowledged and adequately addressed. Throughout the following sections we showcase examples of how one or more of these barriers can be successfully navigated to unlock capital flows.

2.4.2.1 EXTERNAL BARRIERS

Institutional asset owners, even when willing and qualified to invest in pursuit of impact, often struggle to find investable assets in emerging markets for the following reasons:

- **Real or perceived investment risks**

Although higher-income emerging markets are increasingly on the radar screen of investors seeking yield, many lower-income markets' macro-economic and political risks are considered substantial and are often not well understood by institutional investors.

~ *Macro risks*, including political and economic stability, are difficult to quantify and risk mitigation can be complex – or even impossible. Legal risks include unenforceable or weak property rights, restrictions on repatriation of capital, weak bankruptcy and insolvency frameworks and limited minority shareholder rights. Foreign exchange risks

are also often substantial and impossible or expensive to hedge as many emerging economy currencies are volatile, thinly traded and at times subject to political interference

~ *Lack of quality* data exacerbates macro risks, preventing proper analysis of opportunities against relevant benchmarks and leading to increased risk perception

~ *Expected returns* in emerging markets are often not higher than in developed markets and hence fall short of what investors require in order to accept (real and perceived) risks. With respect to impact investments there continues to be a perceived trade-off between financial returns and impact, despite growing evidence challenging this assumption

- **Lack of size and pipeline**

Apart from a few distinct sectors within higher-income developing countries (such as finance, telecoms and mining), direct investment opportunities in emerging markets are mostly too small for institutional asset owners to consider. Likewise, there are few local investment funds and other intermediated vehicles aggregating direct investments, and they are usually significantly smaller than their developed market counterparts. Most investments by institutional investors are currently focused on the so-called BRICS countries (Brazil, Russia, India, China and South Africa), where most of the sizable and mature deals occur. Other markets are fragmented and mostly below the size thresholds of institutional investors. Looking at opportunities that explicitly pursue positive local impact towards the SDGs, the challenge becomes even more pronounced as impact strategies are often smaller in size and include new business models that are often perceived as higher risk.

- **Lack of reliable information**

Private investments in emerging markets often provide non-standardised, limited and at times unreliable information. This presents challenges across the investment cycle, but particularly during the due diligence assessment of an investment opportunity. There is little pricing transparency on private investments. Historical performance data and track record are often missing. Emerging markets funds frequently target early-stage enterprises or enterprises that are pursuing less proven business models, making assessment and relative value decisions difficult. Reporting is often weak and lacks the standardisation that institutional asset owners demand.

- **Lack of liquidity**

Liquidity is a major concern in the investment decision-making of institutional investors, even those whose balance sheets are structured with

The evolving understanding of fiduciary duty: Example from the UK

Responsible, sustainable or impact investing approaches are often wrongly perceived to be incompatible with the fiduciary duty of pension fund trustees to act in the best interest of their scheme members. In the UK, since a landmark case in 1985, many have seen this duty as synonymous with maximising short-term financial return. This interpretation has been increasingly questioned, however, as it may leave pension funds exposed to risk over the long term and prevent them from capitalising on the opportunities offered by responsible, sustainable and impact investments.

Pension scheme trustees have an obligation to use their powers to achieve the pension scheme's purpose – namely, to provide retirement benefits for its members. But investment professionals are becoming aware of risks to financial returns arising from weaknesses in companies' environment, social and governance (ESG) profile. Those risks must be considered in relation to a pension scheme's investment time horizon, which can usually be measured

in decades. Many companies now have significant risk exposure in the transition to a low-carbon global economy. Social issues, including diversity and inclusion, workforce protections within companies and their supply chains, and health and wellbeing can also impact the long-term success of an investee company.

An investment that enhances the risk/return profile of an investment portfolio, while also generating a positive social and/or environmental impact, will therefore generally be consistent with trustees' fiduciary duty.

Reflecting this evolving understanding of fiduciary duty, there are now many instances of such investments across UK pension portfolios including investment in environmental infrastructure, waste management, sustainable forestry, social housing, private equity, private debt and venture capital.

Source: Impact Investing Institute (2020): "Impact investing by pension funds: Fiduciary duty – the legal context"

long-term liabilities. Whereas traditional traded asset classes usually offer daily liquidity, this is not the case with private investments,^{149,150} and even less so in emerging markets. In private equity, the immaturity of investment markets in most emerging market jurisdictions (both with respect to capital markets, with a view to a future initial public offering (IPO), and with respect to mergers and acquisitions activity by financial and strategic investors) restricts visibility on exit opportunities. As a consequence, some investors automatically charge liquidity premiums to transactions without acknowledging the potential matching of their long-term liabilities with the long-term investment opportunities.

- **Lack of ecosystem of suitable intermediaries**

Historically, institutional investors have typically worked with asset managers and consultants with whom they have long-standing relationships. These managers and consultants are usually focused on liquid asset classes in developed markets whereas SDG-focused impact managers, while building track record and gaining market momentum, have historically been rejected by asset owners as lacking adequate size and track record.

- **Statutory and general law duties and regulatory requirements**

Institutional investors' mandates are often directly or indirectly restricted by regulatory oversight and requirements. For example, pension fund trustees need to meet fiduciary responsibilities, which may be perceived as limiting focus to financial returns,¹⁵¹ and comply with statutes and law.

Insurance companies operate under the Solvency II framework, binding them to match assets and liabilities (meaning that they will largely need to invest in their liabilities' countries and currencies) and providing stringent liquidity requirements and rules on capital adequacy. These latter rules effectively limit the investable universe to fixed income with investment-grade ratings as capital charges are significantly higher for non-investment grade transactions. Financial institutions also need to adhere to capital adequacy rules under Basel III. Regulators themselves often lack awareness of, and familiarity with, emerging market loss rates and other market indicators, which further exacerbates the way in which existing regulation is applied to emerging market investment opportunities.

- **Credit ratings**

Most emerging markets' sovereign ratings are sub-investment grade, providing an extra challenge for many institutional investors, particularly those that incur high capital charges for sub-investment grade debt assets (see also the discussion of ratings in Section 2.3.4.1).

- **Costs**

Emerging markets transactions are often expensive to execute, particularly when they are being undertaken as a new activity for an investor. While building the experience and knowledge base inside an investment organisation, underwriting emerging markets deals may require extensive support from external advisors. Impact transaction management can further add to the overall costs of a vehicle.

¹⁴⁹ Law Commission (2017): "Pension funds and social investment"

¹⁵⁰ APPG on Alternative Investment Management (2019): "UK Pension Schemes and Alternative Investments"

¹⁵¹ See Impact Investing Institute (2020). "Impact investing by pension funds: Fiduciary duty – the legal context"; <https://www.impactinvest.org.uk/wp-content/uploads/2020/11/Impact-investing-by-pension-funds-Fiduciary-duty-%E2%80%93-the-legal-context.pdf>; and PRI (2020): "The modern interpretation of fiduciary duty"; <https://www.unpri.org/fiduciary-duty/the-modern-interpretation-of-fiduciary-duty/6538.article>

Credit ratings

In considering the **important role of credit ratings** in moving institutional capital, questions within the industry have been raised regarding the **criteria, benchmarks and processes used** to generate ratings for emerging markets issuers. Without diluting the rigour of ratings analysis, it should be possible to update current approaches to ensure that relevant benchmarks are applied (e.g., collateralised loan obligations (CLO) models of homogeneous assets do not offer a useful reference point for emerging markets multi-sectoral assets), models are calibrated and current country level track record is used as input. If ratings processes are not thoughtfully examined and calibrated, e.g., with respect to portfolio correlation, they will continue to keep emerging markets issuers stubbornly below the investment-grade threshold required by most institutional investors.

There are further questions about the current market separation between **credit and sustainability ratings**. Investors increasingly recognise that the performance of an investment should be assessed on both its financial and sustainability results, so is it not time that the ratings agencies take the same step? Some commentators have also suggested exploring ways to use credit ratings so that issuers are incentivised to use proceeds of bond issues to deliver explicit environmental and social impact.

Sharing relevant performance data with rating agencies and a joint engagement on the re-calibration of certain models to reflect emerging market realities may enhance the agencies' ability to assess real risks and reduce penalties on emerging markets issuers for perceived uncertainties or diversification/correlation mismatches.

2.4.2.2 INTERNAL BARRIERS

Beyond external factors, institutional asset owners also face internal barriers that prevent them from engaging more meaningfully in private transactions in emerging markets:

- **Limited risk appetite**
Institutional investors' mandates usually default to restrict risk taking, often exacerbated by regulatory requirements as described above. This limits their ability to invest in illiquid investments that are perceived as risky, especially within emerging markets.
- **Rigid allocation policies, guidelines or frameworks and mandate restrictions**
Allocation policies and frameworks often do not account for private 'alternative' assets and/or emerging markets. Changing such frameworks often requires significant effort and time.
- **Lack of awareness and access**
Given their historic inexperience in emerging markets investments, and in impact investments, institutional asset owners often lack the required networks and market connectivity to source suitable pipeline.
- **Staff capabilities, expertise and market familiarity**
Institutional investors often lack in-house expertise to analyse private and emerging markets investments. When extending their investment focus to such markets, resources need to be assessed including to what extent they should look to specialist intermediaries for help, build in-house expertise, or adopt a combination of the two. The familiarity required with local market practices and cultural differences in order to provide for an effective

investment process is not to be underestimated. The need to invest in building some baseline capability of expertise is a requirement for any asset owner serious about investing to advance the SDGs.


• Incremental effort

On listed exchanges in developed countries, pricing is transparent and information is typically readily available and standardised, leading to an efficient sourcing, assessment and execution process. Private transactions, and those in emerging markets especially, usually require more time, effort and specialist expertise to identify, perform due diligence on, execute and monitor deals, demanding more human capital investment. Given the need to consider risks which may be less familiar to the asset owner, specialised external advisors are generally required, including local legal counsel and accounting and sector experts. Consequently, many asset owners charge a 'complexity premium' or similar underwriting fees, adding to the overall costs of these deals.

2.4.2.3 OVERVIEW OF POTENTIAL APPROACHES TO ADDRESS BARRIERS


To increase institutional investor allocations to advance the SDGs generally, and a Just Transition specifically, particularly in emerging markets, investment vehicles need to be designed to overcome the external and internal barriers faced by asset owners.

In the table on the next page, we assess the key barriers to institutional investment in emerging market impact and how they are being, and can be further, addressed.



Barrier	Relevance across institutional investor types and asset classes	Possible approaches to address the barrier	Actors to support the proposed approaches
External			
Real or perceived risks of investments and returns <ul style="list-style-type: none"> • Real and perceived macro risks relating to geography and market • Insufficient track record and data points • Uncertainty and/or level of expected returns 	Universal	<p>There are multiple structuring approaches (see also Section 2.5 on blending) including various instruments and tools that can help address the risk/return challenge, bridging the information asymmetry (for perceived risks) and mitigating the real risk. Such instruments can be concessional or at market rate. A few examples include:</p> <ul style="list-style-type: none"> • Subordinated capital, including first-loss equity, junior debt and other (for more, see Section 2.6.1) • Credit guarantees (for more, see Section 2.6.2) • Insurance, e.g., political risk (for more, see Section 2.6.3) • Concessional returns or shared upside participation • Grant funded technical assistance facilities, that provide direct capacity support to investees and selectively to managers for the establishment of new vehicles • Hedging <div>  SPEED Platform </div> <p>The Special Situations Partnership to Expedite Energy Decarbonisation (SPEED) Platform is a platform designed to identify, prioritise and invest into strategic energy system tipping points to accelerate near-term, Net Zero-aligned energy transitions.</p> <p>It aims to mobilise \$10 billion by investing \$1 billion into projects with significant systemic emissions reduction. The ambition is to avoid 10 giga tonnes CO₂e through catalysing systemic shifts in energy markets.</p> <p>Financial returns and measurable emissions reduction will be blended into a single decision metric – climate adjusted internal rate of return.</p> <p>The vehicle provides a flexible capital structure, combining climate-first fiduciary capital with an explicitly catalytic pool. The fund aims to syndicate transactions to increase scale of impact and align partners.</p> <p>The platform will also provide advisory services and community engagement.</p> <p>Source: SPEED information</p> <p>An additional approach, in particular where the challenge is perceived risk, is the provision of relevant (e.g., performance) data and track record, to help investors in their risk assessment. More and contextualised information across asset classes can spur institutional investor participation.</p> <p>Related are partnership approaches; e.g., many MDBs and DFIs offer syndication platforms, where institutional investors can participate pari passu in the originating MDB's loan, benefiting from their superior market knowledge (and even preferred creditor status).</p>	<p>Impact investors (including MDBs, DFIs and private impact investors) across risk mitigating instruments, performance data and partnerships</p> <p>Insurance companies (insurance products)</p> <p>Donors (for grants)</p> <p>Hedging providers</p>

Barrier	Relevance across institutional investor types and asset classes	Possible approaches to address the barrier	Actors to support the proposed approaches
External			
Lack of size and available pipeline	Universal	<p>Syndication and co-investment opportunities are offered by many MDBs and select DFIs (see also above).</p> <p>MDBs and DFIs can be enabled by their shareholders to consider more proactive selling of some of their more mature assets, either directly or through securitisation structures, thereby allowing institutional investors to step into performing assets with relevant track record. Such efforts require consideration of internal changes, including amendments to the internal incentivisation structures and, potentially, changes to team composition and capabilities.</p> <p>The increased use of fund of funds structures (or similar platforms), aggregating smaller vehicles into a combined portfolio is another route to sizable and diversified transactions.</p> <p>Dedicated managers, with growing track record, are ramping up pipeline; investors can engage with these 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. To effectively galvanise capital flows at scale, the full investment lifecycle requires continued attention.</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>

Barrier	Relevance across institutional investor types and asset classes	Possible approaches to address the barrier	Actors to support the proposed approaches
External			
		<div>  Global Energy Alliance for people and the planet </div> <p>In June 2021, the IKEA Foundation and the Rockefeller Foundation announced the establishment of a joint \$1 billion global Energy Alliance platform to fight climate change and energy poverty by catalysing investments in distributed renewable energy with a focus on the availability of investable deals.</p> <p>The platform aims to reduce 1 billion tonnes of greenhouse gas emissions and empower 1 billion people with distributed renewable energy, focusing on sources such as mini-grids, rather than central sources like power plants.</p> <p>“While funding to support energy transition has increased at a global level, many organisations struggle to identify viable, investment-ready projects. As a result, many emerging economies still depend on unreliable and polluting energy sources. By creating a platform to deploy catalytic capital more efficiently, and at scale that supports the expansion of local renewable energy projects, governments will be better able to achieve renewable electrification and development targets.”</p> <p>Source: Ikea Foundation (2021): Ikea Foundation and Rockefeller Foundation join forces to set up a historic \$1 billion initiative to catalyse investments in distributed renewable energy</p>	

Barrier	Relevance across institutional investor types and asset classes	Possible approaches to address the barrier	Actors to support the proposed approaches
External			
		 Breakthrough Energy Ventures <p>Breakthrough Energy was founded in 2015 by Bill Gates and several organisations that seek to help lead the world to Net Zero emissions by 2050 by supporting research and development, investing in companies that turn green ideas into clean products and tools, and advocating for policies that speed innovation from lab to market.</p> <p>Breakthrough Energy Ventures, announced in 2016 as an investor-led fund, to date has raised over \$2 billion from a group of ultra high-net-worth individuals. The fund provides patient, flexible funding to technology companies across sectors, aiming to help building “the new, cutting-edge companies that will lead the world to net zero emissions” and ensuring affordable, reliable and clean energy for all.</p> <p>While the fund seeks to make money, it targets investments that can demonstrate that they can scale up to achieve a reduction of at least 500 million metric tonnes in annual CO₂ emissions – about 1% of global emissions.</p> <p>Source: Breakthrough Energy</p>	
Lack of reliable information	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>DFIs and MDBs can do more (and need to be enabled by their shareholders to do more) 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.¹⁵² Impact investors are well-positioned to continue to challenge the traditional perception that there is an inverse relationship between social or environmental impact and financial return. It is the actors with relevant, market-specific track record who are best placed to share such data and information, with appropriate analysis and context.</p>	MDBs/DFIs hold long term data; other impact investors have also accumulated valuable data over several years


¹⁵² Some DFIs and MDBs have started this effort, see Global Emerging Risk Database Consortium (GEMs); <https://www.gemsriskdatabase.org/>

Barrier	Relevance across institutional investor types and asset classes	Possible approaches to address the barrier	Actors to support the proposed approaches
External			
		<div>  GEMs database </div> <p>The Global Emerging Markets (GEMs) Risk Database Consortium, established in 2009, is one of the world's largest credit risk databases for emerging markets. It pools (anonymised) data on credit defaults, recovery rates and credit ratings on its members' loans. Its member institutions are 24 MDBs and DFIs.</p> <p>Source: GEMs Risk Database Consortium</p> <p>Possible approaches that address information asymmetries include:</p> <ul style="list-style-type: none"> • Partnership structures, including syndication platforms (see above) • Sharing of performance data and information (see above) • Use of local advisors • Technology solutions that are showing promise • Funding support to local managers to develop more efficient information systems to extrapolate data from operating businesses 	
Lack of liquidity	Universal; a particular challenge for private equity is high uncertainty of exits; within asset classes, low liquidity may be a problem for securities and related vehicles listed on emerging markets exchanges that lack trading depth	<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 premia.</p> <p>For private equity, more sales of assets by impact investors, in particular MDBs and DFIs, would create a deeper secondary market, increasing investor confidence of sufficient access and liquidity.</p> <div>  Creating liquidity: Schroder BSC Social Impact Trust </div> <p>Big Society Capital (BSC) in partnership with Schroders, designed the Social Impact Trust, listed on the London Stock Exchange, creating liquid and freely tradable shares and providing retail investors with access to private market impact investment for the first time, hence bringing in additional capital to help social enterprises and charities.</p> <p>Source: Big Society Capital (2021): "Schroder BSC Social Impact Trust plc: Investing to improve lives in the UK"</p>	Particularly MDBs and DFIs, but also other impact investors; supported by advisors, such as investment banks

Barrier	Relevance across institutional investor types and asset classes	Possible approaches to address the barrier	Actors to support the proposed approaches
External			
Lack of ecosystem of suitable intermediaries	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 and supported by investors and development agencies by way of first-time manager allocations, development support for fund design, shortened capital raising cycles, as well as grant support for bolstering management teams.</p> <p>Partnership models can also help overcome this barrier and there is increasing activity in bringing more examples to market for investor participation. See also Section 2.6.7 for more information on partnerships.</p>	<p>Asset managers, investment consultants, investment banks and other advisors</p> <p>Across financial market actor types</p>
Statutory and general law duties and regulatory requirements	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 can work more effectively 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> <p>Examples of ongoing discussions include the active debate of fiduciary duty and the relevance of ESG considerations. The Impact Investing Institute's Impact Investing Principles for Pensions paper calls for pension funds to adopt a 'transitional mindset' and include in their considerations financial risk mitigation with respect to societal and environmental risks, and also the search for opportunities by identifying resilient and 'future-fit' companies.¹⁵³ The UNEP Finance Initiative and the UN PRI issued a report that states that fiduciary duties require investors to:¹⁵⁴</p> <ul style="list-style-type: none"> • "Incorporate ESG issues into investment analysis and decision-making processes, consistent with their investment time horizons • Encourage high standards of ESG performance in the companies or other entities in which they invest • Understand and incorporate beneficiaries' and savers' sustainability-related preferences, regardless of whether these preferences are financially material • Support the stability and resilience of the financial system • Report on how they have implemented these commitments" 	Law and policy makers and regulators working with asset managers and engaged institutional investors


¹⁵³ Impact Investing Institute (2021): "Impact Investing – Impact Investing Principles for Pensions"

¹⁵⁴ PRI and UNEP Finance Initiative (2021): "Fiduciary duty in the 21st century"

Barrier	Relevance across institutional investor types and asset classes	Possible approaches to address the barrier	Actors to support the proposed approaches
External			
		<p>Another example is EIOPA's recent discussion around climate adaptation insurance products.</p> <div>  <p>EIOPA on climate adaptation insurance</p> <p>The European Insurance and Occupational Pensions Authority (EIOPA) investigates the opportunity for (re)insurers to contribute to climate adaptation and mitigation and provide non-life insurance products based on risk-based pricing and contractual terms and with multi-year duration.</p> <p>EIOPA explores whether such contracts deserve lower capital charges and if it should incorporate 'impact underwriting' concepts in distribution and governance requirements.</p> <p>Source: Big Society Capital (2021): "Schroder BSC Social Impact Trust plc: Investing to improve lives in the UK"</p> </div>	
Credit ratings	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. As discussed in Section 2.3.4.1, 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"> • Diversification across emerging markets but also across developed and emerging markets (e.g., BlueOrchard's Schroder International Selection Fund BlueOrchard Emerging Markets Climate Bond fund) includes developed markets bonds to achieve an investment-grade average rating of its overall global bond portfolio (see Section 3.4.6) • Guarantees, in particular by highly rated MDBs and DFIs, can provide substantial support to vehicle portfolios' ratings • Insurance, including non-payment insurance coverage or particular risk coverage, such as political insurance • Subordinated capital 	Ratings agencies working with actors that have data and regional/sector experience (asset managers, impact investors, etc.)

Barrier	Relevance across institutional investor types and asset classes	Possible approaches to address the barrier	Actors to support the proposed approaches
External			
Costs	Universal, across asset classes and investor types	<p>Costs of private transactions, particularly in emerging markets, are higher than institutional investors generally accept in listed markets.</p> <p>Investors prepared to invest in emerging markets will need to make some investment to build a degree of internal capacity to make investment decisions, an investment that can be expected to be realised by greater volume of investment activity. Fair assessment of the fees required by managers operating in emerging markets to execute on their investment strategy in the local context warrants consideration and flexibility.</p> <p>Targeted and time-limited grant support to vehicles may at times help cover certain upfront or transaction costs where a vehicle pursues new and riskier avenues in private emerging markets transactions.</p>	Donors or impact investors
Internal			
Limited risk appetite	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 SWFs typically can have more appetite for longer investment time horizons	<p>Although institutional investors need to satisfy their risk/return requirements in making investment decisions, it is important to disaggregate these requirements to identify the parts of portfolios where SDG emerging markets investments can fit. Quantifying long-term liability exposures with investment opportunities that match these exposures can open new investment activity. This analysis can support a specific allocation within the investor's portfolio for emerging markets' SDG investments.</p> <p>A specific allocation offers a starting point for an investor to operate within their existing tolerances while building experience in and performance data on emerging markets' SDG investments.¹⁵⁵</p> <p>When allocating to these assets, investors can engage with market actors, including impact investors, MDB/DFIs and leading managers, to ensure that deals and vehicles are structured to satisfy their requirements. Early engagement and partnerships can ensure that concerns are being addressed, in particular, by using blended structures (including the use of risk mitigation and protection through insurance, guarantees, subordinated capital layers and others).</p> <p>In addition, investors can actively engage with MDBs and DFIs to establish a better view on risks, based on real data and track record in relevant markets.</p> <p>Approaches that can be pursued to address risk appetite include:</p> <ul style="list-style-type: none"> • Allocation commitment • Diversification • Guarantees and insurance • Subordinated capital 	<p>Institutional investor leadership; potentially specialised advisor support</p> <p>All</p>

¹⁵⁵ Impact Investing Institute (2021): "Impact Investing in Emerging Markets: The Opportunities for Institutional Investors (webinar summary)"; <https://www.impactinvest.org.uk/events/impact-investing-in-emerging-markets-opportunities-for-institutional-investors/>

Barrier	Relevance across institutional investor types and asset classes	Possible approaches to address the barrier	Actors to support the proposed approaches
Internal			
Rigid allocation policies or frameworks and mandate restrictions	Universal, across asset classes and investor types; an important driver for change is the institution's leadership and the voice of its members	<p>Amendment of mandates, policies and allocation frameworks, allowing for more investment engagement in emerging markets and to support the SDGs, is an area for proactive internal engagement.</p> <p>Where the asset owner is a pension fund, the mandate may be published to scheme members/pension holders to highlight the progress in reflecting a commitment to the SDGs in executing investment responsibilities.</p> <p>Incentives may also be set for asset managers and investment consultants to actively pursue relevant transactions.</p> <p>In addition, a growing group of asset owners led by the Global Investors for Sustainable Development (GISD) Alliance is working to reframe mandates with at least a positive tilt towards investing in the SDGs through the lens of alignment, stewardship and accountability to address these barriers.</p>	Institutional investor leadership (trustees/boards) and shareholders
Lack of awareness and access	Universal, across asset classes and investor types	<p>There are ways to access transactions that can help deliver the SDGs, particularly in emerging markets, such as partnerships and syndication platforms, in particular working with MDBs and DFIs or SDG-focused investment managers such as the ILX Fund and others.</p> <div data-bbox="523 1093 1082 1464">  <p>SPOTLIGHT ILX Fund</p> <p>The ILX Fund, managed by Cardano Development, is an SDG-focused emerging markets credit fund, investing in diversified portfolios of loans originated and structured by DFIs through syndication structures, hence seeking to provide investors with a balanced risk and return proposition.</p> <p>Source: ILX Fund</p> </div> <p>Engagement with more mature impact managers can also be established. Many funds provide for co-investment, allowing investors to start direct engagement alongside a vehicle and its professional manager.</p> <p>There is also a growing universe of specialist advisors that can support in-house teams and provide access to relevant deals.</p> <p>With increased engagement, awareness and direct deal access should follow.</p>	All, including impact investors (MBDs/DFIs, private), asset managers, advisors, etc.
Staff capabilities, expertise and market familiarity	Universal, across asset classes and investor types	Same as above.	

Barrier	Relevance across institutional investor types and asset classes	Possible approaches to address the barrier	Actors to support the proposed approaches
Internal			
Incremental effort	Universal, across asset classes and investor types	<p>Private transactions, in particularly in emerging markets are often more intensive to assess, at least initially if the asset owner does not yet have experience considering such deals.</p> <p>While appreciating the time and effort required in underwriting any new set of opportunities, asset owners can resist the common request to charge a 'complexity premium' or similar underwriting fees. Although there is a legitimate need for investors to get comfortable with the underlying risk/return of the proposition, 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, as set forth in Section 1.4.</p> <p>There is a growing universe of 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 can be expected to reduce the required effort over time.</p>	All, including institutional investors but also asset managers, advisors, including investment consultants and investment banks, to invest time and resources to educate and learn

Section 2.6 provides a more detailed discussion on some of the instruments and tools mentioned above and shows some of these instruments and tools 'in action', providing specific examples of institutional investor participation.

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, including boards, management or trustees. Consequently, early engagement with targeted investors and distinct partnerships and co-creation of vehicles are important to get significant money into Just Transition solutions in emerging markets.

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.

2.5 The role of blended finance in structuring solutions

2.5.1 Overview of blended finance

2.5.1.1 BACKGROUND

Blended finance is a structuring approach enabling private commercial capital to invest in impactful opportunities. The approach has received increased attention particularly when applied to investing in emerging markets. Blended structures are often used to address one of the main barriers of private investors: risk (whether actual or perceived) and return. 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.

2.5.1.2 DEFINITION

The Organisation for Economic Co-operation and Development (OECD) defines blended finance as “the strategic use of development finance for the mobilisation of additional finance towards sustainable development in developing countries”.¹⁵⁶ It is recognised that blended finance is, however, used not only in emerging markets but also developed markets. In practice, this approach to finance blends capital that has a developmental mandate with capital which does not, in order to attract more private capital into relevant investments by making them more investable. Blended capital can be provided either at market or concessional rates. In recent years, there has been significant movement in both commercial and concessional blending instruments and structures.

The critical element of any blended investment transaction is to be clear why the blending is needed. Successful blended finance deals demonstrate a clear rationale for the amount and use of capital with different expectations and terms, e.g., in the different capital layers in the blended structure. This clarity enables participating institutional investors to determine whether and how their risk issues are being resolved by the other capital in the deal.

Platforms including the Sustainable Development Investment Partnership (SDIP), Climate Policy Initiative (CPI)'s Climate Finance Lab and Convergence, the global network for blended finance, are working to connect, educate and support investors to execute blended finance transactions more efficiently in order to increase private sector investment in emerging markets. Convergence publishes case studies to inform the investment community and supports the incubation

The OECD DAC Blended Finance Principles

- 1 Anchor blended finance use to a development rationale
- 2 Design blended finance to increase mobilisation of commercial finance
- 3 Tailor blended finance to local context
- 4 Focus on effective partnering for blended finance
- 5 Monitor blended finance for transparency and results.

Source: OECD (2021): “The OECD DAC Blended Finance Guidance”

and launch of blended finance deals that have the potential to influence the market.

In order to establish a common policy framework and understanding, OECD Development Assistance Committee (DAC) members adopted, in 2017, ‘Blended Finance Principles’, aiming to ensure that blended finance is deployed and used effectively (see panel above).

The ultimate objective of all these efforts is to increase development impact and crowd-in private investments with minimum concessionality and increased trust and transparency.

2.5.2 Overview of blending types

According to the Blended Finance Taskforce, there are numerous tools available to address different investor risks, which are context-dependent and must be evaluated at the local level (see Figure 2.7). The primary blended finance instruments to address these risks include:^{157,158}

- **Guarantee:** A guarantee is a promise of performance to the beneficiary if a third party fails to perform. Guarantees can cover different types of risk, such as credit, liquidity or currency risks (for more detail, see Section 2.6.2)
 - ~ Example provider: GarantCo, Swedish International Development Cooperation Agency (Sida)
- **Insurance:** An insurance provides protection by promising to compensate for a specified loss or damage in return for payment of a specified premium. Insurance products in the blended finance context can cover different risks, such as political risks (for more detail, see Section 2.6.3)

¹⁵⁶ OECD: “Blended Finance”; <https://www.oecd.org/dac/financing-sustainable-development/blended-finance-principles/>

¹⁵⁷ Blended Finance Taskforce (2018): “Better finance, better world”

¹⁵⁸ What are considered blending tools and instruments depends across the literature; e.g., a securitisation is, by others, not considered a blending per se

~ Example provider: Multilateral Investment Guarantee Agency (MIGA)

- **Hedging:** Hedging reduces the risk of adverse price movements in a currency (can also apply to other assets and their associated earning stream)

~ Example provider: The Currency Exchange Fund (TCX)

- **Subordinated capital:** Subordinated or junior capital protects senior investors by taking a subordinated ranking and hence prior losses on the value of the security. Subordinated capital can be in the form of equity or debt (for more detail, see Section 2.6.1)

~ Example provider: Kreditanstalt für Wiederaufbau (KfW) and the German Federal Ministry for Economic Cooperation and Development (BMZ)

- **Securitisation:** Securitisation refers to the process of transforming a pool of illiquid assets into tradable financial instruments (securities) (for more detail, see Section 2.6.4)

~ Example provider: European Investment Bank (EIB), African Development Bank (AfDB)

- **Contractual mechanisms:** Various contractual and project finance arrangements can support the development of companies, including bankable infrastructure projects with public and private offtake agreements¹⁵⁹ or agricultural processing companies with offtake agreements

~ Example provider: Ofgem

- **Results-based incentives:** Results-based instruments provide incentives and disincentives

to achieve the desired outcomes or results, tying at least a portion of payments to achievement

~ Example provider: Bill and Melinda Gates Foundation

- **Grants:** Grants are capital which is paid in without any expected repayment or compensation over a fixed period of time. In the blended finance context, it often relates to money used for technical assistance or project preparation to bring a project to bankability

~ Example provider: The Rockefeller Foundation

These blending tools can be implemented at various levels, including project, fund, fund-of-funds, institutional or market level.

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 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.¹⁶⁰ To date, most of these investments have been private investments, as opposed to publicly listed equities or bonds.¹⁶¹

¹⁵⁹ An offtake agreement is an agreement pursuant to which the offtaker buys all or a substantial portion of the output from a facility or enterprise, hence providing a reliable revenue stream

¹⁶⁰ Convergence et al. (2018): "Who is the Private Sector? Key Considerations for Mobilizing Institutional Capital through Blended Finance"

¹⁶¹ Blended Finance Taskforce (2018): "Better finance, better world"

FIGURE 2.7

Blended finance de-risking methods

	RISKS									
	MACRO		CREDIT/COMMERCIAL			TECHNICAL		FINANCE	INFRA SPECIFIC	
	Political/ country risk	Currency risk	Credit risk	Liquidity risk	Demand risk	Construc- tion risk	Operation risk	Access to capital	Lack of pipeline	Offtake 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"



Philanthropic capital

Philanthropic funders are key providers of concessional blending capital across sectors and regions, offering different instruments, including subordinated capital, guarantees and grant funded technical assistance support.

They are important actors in the mobilisation discussion, in particular in deeper impact vehicles, where they can play a catalysing role.

According to the UBS Global Philanthropy report, there are more than 260,000 foundations across 39 countries, 60% of which are in Europe and a further 35% in North America. These foundations are estimated to hold assets

in excess of \$1.5 trillion. A recent example of a philanthropic initiative launched at scale is the Bezos Earth Fund aiming to spend \$10 billion on transformational solutions for environmental justice in one decade.

Activating philanthropic players to participate in the higher risk capital layers of investment vehicles, rather than within individual transactions, is an opportunity for scale.

Source: Harvard University Kennedy School of Government (2018): The Global Philanthropy Report: Perspectives on the global foundation sector; Bezos Earth Fund

2.5.3 Blending trends

According to Convergence's 'The State of Blended Finance' report, one significant downward trend is that blended finance flows have dropped substantially, by 50% year-on-year in 2020. As the report notes, this precipitous drop is likely due to donors and investors pivoting to protect existing portfolios and programmes during the Covid-19 pandemic.¹⁶² The sharp decline aside, funds continue to be the largest recipients of blended finance flows, particularly private equity funds. In terms of geography, Sub-Saharan Africa continues to be the primary destination of flow. Agriculture,

specifically climate-smart agriculture, has seen increased interest in the last year, with health also having received further focus with the recent pandemic. With respect to blended finance within the DFI community, Figure 2.8 gives an overview of the geographical breakdown of DFIs' concessional finance deployment in 2019 according to EDFI.¹⁶³

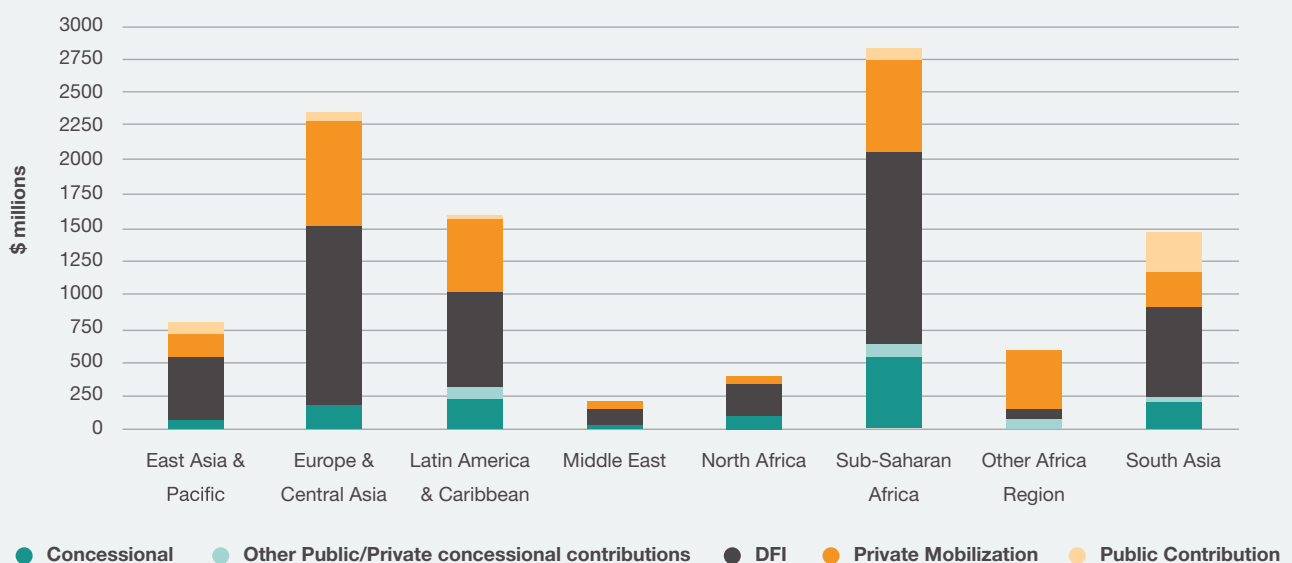
Compared to 2018, committed DFI concessional funds increased by about 29% in 2019 with a growing focus on low-income and lower-middle income countries. There was a 70% increase in the total volume of projects financed, with 80% growth in private mobilisation and a doubling of

¹⁶² Convergence (2021): "The State of Blended Finance 2021"

¹⁶³ EDFI (2020): "DFI Working Group on Blended Concessional Finance Private Sector Projects", Joint Report, December 2020 Update

FIGURE 2.8

Total DFI blended concessional finance project cost by region*



* Note: The 'Other Africa' region represents volumes in Africa that are not able to be separately broken out into 'North Africa' and 'Sub-Saharan Africa'.

Source: EDFI (2020): "DFI Working Group on Blended Concessional Finance for Private Sector Projects"

Mobilisation using blended finance

According to Convergence, “the mobilisation mandate is still a tertiary business for development organisations (exemplified by an annual allocation of only around 2–3% of official development assistance (ODA) to private sector mobilisation), and a secondary focus for MDBs and DFIs. Very few have meaningful mobilisation targets and activities (except for the Multilateral Investment Guarantee Agency (MIGA), which is expressly focused on mobilisation).” The mobilisation of MDBs, according to their 2016–19 results, depicts a direct mobilisation ratio of around \$0.40 of private capital for every \$1 of their own resources”.

Convergence further states that “each dollar of concessional capital in a blended fund mobilises on average \$4 in commercially-priced capital. The average private sector mobilisation ratio has been only 1.10, with \$2.90 coming from non-private sector sources (i.e., MDBs and DFIs)”.

Source: Convergence (2021): “The State of Blended Finance 2021”

DFI contributions. Sectors seeing the strongest growth included agribusiness, climate finance and small and medium sized enterprises (SME) finance. The percentage of senior loans in 2019 declined compared to 2018, with a consequential higher percent of subordinated debt and guarantees/ risk-sharing facilities. The trends referenced above highlight two challenges:

- The need to identify and expand sources of capital willing to accept higher risk in capital structures, particularly on a concessional basis
- The need for MDBs/DFIs to utilise blended capital in ways that expand private capital mobilisation

It is possible to consider blended finance on a market level. Appendix 1 includes an analysis produced by SYSTEMIQ explaining how blended finance can play a vital role in supporting the energy transition in South Africa.

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 and (i) use it where it is truly needed to mobilise investors and (ii) 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 being 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 an asset class such as emerging market private debt or infrastructure, which demonstrate strong fundamentals but are associated with high perceived risk.

In the following section we profile in detail some of the tools and instruments that can be used to mobilise institutional capital at acceptable levels of risk, with and without blended finance.

2.6 Instruments and tools to accelerate and expand the flow and effectiveness of capital into investment

Having explored the barriers to investment, this Section provides a deeper dive into some of the instruments and tools that are helping to direct institutional capital to finance the SDGs, particularly in emerging markets. The potential of these instruments and tools to be expanded is evidenced by real examples that demonstrate how capital can be mobilised at scale. It is important that these instruments and tools are not considered in isolation. They can be effectively combined in order to direct significant amounts of institutional capital into relevant investments. It is also important to reiterate that there is no one solution that fits all. Institutional investors have specific requirements, appetites and challenges, so solutions need to be designed with specific investors in mind. MDBs and DFIs feature in nearly all of the instruments and tools highlighted, underscoring their vital role in mobilising institutional capital.

2.6.1 Subordinated capital

Background

Subordinated or junior capital, be it in the form of equity or debt, protects senior investors by taking a subordinated capital tranche in a vehicle's capital structure.

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, and at times a boost to their financial returns if the junior tranche accepts lower returns in the transaction structure. Such tranching may also be driven by regulatory requirements faced by certain institutional investors.

The capital structure may also offer several risk layers to suit investors with different risk appetites. Subordinated capital layers can be concessional, where the provider of the capital is willing to accept unremunerated risk, or at market rate, which

allocates the risk/return differently between the investor participants.

Sometimes, junior tranche investors benefit from deeper market knowledge, information and data, allowing them to accept certain risks, that are perceived by institutional investors as an investment barrier, e.g., information asymmetry and risk perception. At times, they also have the appetite and flexibility to take on more risk in the pursuit of the investment strategy and intended impact outcomes of the vehicle.

Structure

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'.

This basic concept can manifest itself in different ways (see Figure 2.9). The capital tranches can be equity and/or debt; there can be one or more subordinated capital layers; and the relative size of the junior tranches versus the senior tranche may vary depending on the (perceived) risk profile of the vehicle. Another differentiating factor may be that, as already noted, the junior tranche may or may not have a concessional return profile.

Mobilisation of capital

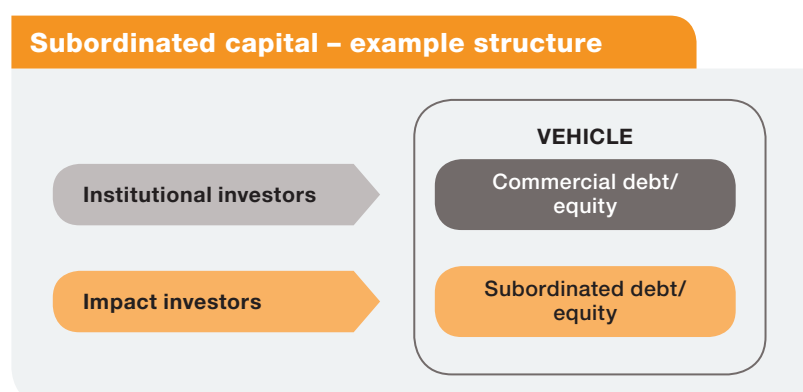
Subordinated capital is probably the most widely used blended finance tool in vehicle structuring for impact investing where the perception of risk may deter participating investors. While syndication platforms, discussed later in this report, have demonstrated significant volumes of mobilised capital, 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 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.¹⁶⁴

This differential supports the consistent narrative of this report that all actors, including MDBs and DFIs, need to move beyond their current comfort zone; given their development mandates, it is reasonable to expect subordinated capital to go further in attracting more private capital than development institution capital over time. Regarding geographic divergence, Convergence observed that the average observed leverage ratio (including MDBs

¹⁶⁴ Convergence (2018): "Leverage of Concessional Capital"; <https://www.convergence.finance/resource/35t8lVft5uYMOG-OaQ42qgS/view>

FIGURE 2.9



and DFIs) in Latin America and the Caribbeans at 5.1x had been twice that of Sub-Saharan Africa at 2.4x. Larger funds (>\$250 million) also generally achieved higher leverage levels,¹⁶⁵ which may be due to commercial investors investing more in larger funds due to their size requirements and focus on more mature investments.

Advantages and challenges

Advantages: In principle, subordinated capital is a straightforward tool that can be used across asset classes and there are no prerequisite requirements regarding, for example, credit ratings. Consequently, it is the most widely used credit enhancement tool used by impact investors.

Challenges: The power of subordinated capital to reallocate the perception of risk and mitigate real risk in a deal is limited by the scarcity of supply. There are simply too few investors willing and able to provide subordinated capital in emerging markets vehicles and too many investors demanding high levels of subordination.

A further challenge regularly encountered in the structuring of layered capital vehicles is sizing. Risk-taking capital is scarce and should be used consciously and responsibly. All actors, including senior investors, subordinated investors and managers, need to be disciplined in determining the size of a junior layer. First, the drivers of the required subordination (for example, actual risks that are backed up by data, perceived risks or regulatory requirements) should be clearly determined and articulated. Second, available data, financial modelling and scenario analysis tools should be used to size the subordinated tranches, minimising them to what really is necessary, to allow senior investors to commit and address the impact goal agreed.

Relevance

Subordinated capital is relevant and used across asset classes and fund types. It is also relevant as an effective credit enhancement across institutional investor types. It is most effectively used to address an investor's risk appetite, particularly when an investor is entering a new market or strategy. The expectation is that the investor's risk appetite will increase over time as they gain experience, resulting in less or no subordinated capital being required to participate in a similar opportunity in future.

Providers

Providers of subordinated capital are typically development agencies, foundations (including private foundations) and select family offices. DFIs at times provide subordinated capital but are also often on the receiving end of risk mitigation layers. Some

DFIs and MDBs are stepping up their deployment of subordinated capital to vehicles with the specific objective of mobilising the private sector funding – yet there is much more to be done.

Examples

Examples of vehicles that use a layered capital structure are showcased later in this report and include AllianzGI's AfricaGrow Fund (see Section 3.4.2), BlueOrchard's InsuResilience Investment Fund (see Section 3.4.3), and Ninety One's Emerging Africa Infrastructure Fund (see Section 3.4.4).

2.6.2 Guarantees

Background

The OECD defines guarantees as “a type of insurance policy protecting banks and investors from the risks of non-payment”,¹⁶⁶ whereby certain risk is transferred to the guarantor.¹⁶⁷ 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 have multiple uses in development finance. A typical example is guarantees issued to financial institutions in emerging markets. These can be structured in different ways to achieve various objectives: de-risk underlying portfolios and enable them to improve pricing to the underlying borrowers; increase loan volumes; or to lend to borrowers that are otherwise considered too risky and unbankable. By de-risking a proposition they allow institutional investors to participate in investments they would not be able to do, based on their risk appetite or limited prior experience with the investment opportunity.

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. Credit enhancement at an aggregated level can improve the scale and reach of investment vehicles willing to go into areas perceived as higher risk (be it in terms of market, sector, business model, etc.). In their pursuit of the SDGs, such vehicle or portfolio level guarantees have the potential to mobilise significant institutional investor support. A GIIN report on guarantees in the US found that the median guarantee amount was \$2 million and a median fund or project size was \$20 million, creating a 10x mobilisation ratio of guarantees in the US impact market.¹⁶⁸ In emerging markets

¹⁶⁵ Convergence (2018): “Leverage of Concessional Capital”; <https://www.convergence.finance/resource/35t8lVft5uYMOG-OaQ42qgS/view>

¹⁶⁶ OECD (2014): “External Financing for Development – Guarantees for development”; <https://www.oecd.org/dac/financing-sustainable-development/GU-RANTEES%20report%20FOUR%20PAGER%20Final%2010%20Mar%2014.pdf>

¹⁶⁷ OECD (2021): “The role of guarantees in blended finance”; <https://www.oecd.org/dac/the-role-of-guarantees-in-blended-finance-730e1498-en.htm>

¹⁶⁸ GIIN (2017): “Scaling the use of guarantees in US community investing”; <https://thegiin.org/research/publication/guarantees-issue-brief>

investment vehicles guarantees are relatively nascent. There is, however, significant demand to grow this instrument as an alternative credit enhancement tool alongside cash funded subordinated capital.

Guarantees have an array of features and forms. They can:

- Cover different instruments – e.g., equity or debt
- Cover different types of risk – e.g., credit risks, construction risks, FX risks or liquidity risks
- Be applied at different structural levels – e.g., a single loan or pooled portfolio/fund
- Provide full or partial coverage
- Differ on the exact payments they cover – e.g., principal and/or interest
- Sit subordinated to or pari passu with the investors they provide coverage to
- Be unfunded or funded: in a funded guarantee, cash is set aside by a party for the benefit of the transaction; an unfunded guarantee is the contractual obligation by a party to pay and is typically relying on the rating of the guarantor

Structure

Guarantees can be applied differently in different structures. Figure 2.10 shows an example of a

partial guarantee that sits pari passu with part of the commercial funding, i.e., part of the commercial funding absorbs losses simultaneously with the guarantee.

Mobilisation of capital

A powerful use of guarantees is for the mobilisation of private capital. For example, the European Fund for Sustainable Development (EFSD) Guarantee from the EU has stated a mobilisation target ratio of 10x.¹⁶⁹ GuarantCo to date has achieved a mobilisation ratio of up to 3x.¹⁷⁰ The multiplier potential of guarantees to address the risk (actual and perceived) barrier of institutional investors and mobilise capital at scale is significant.

Advantages and challenges

Advantages: Guarantees have several advantages as a risk mitigation instrument. They typically do not require an immediate outflow of funds by the guarantors, enabling them to use their balance sheet more efficiently. This also invites creative design in considering the maximum size appropriate to a specific investment opportunity.

Beyond directly helping to mobilise private capital, guarantees can also be a useful tool to free up capital on the balance sheets of institutions (particularly banks), allowing them to extend new loans, often directing such new loans to underserved borrower segments such as SMEs. For example, the Swedish International Development Agency (Sida) extended a \$155 million sovereign loan guarantee to the Asian Development Bank (ADB), which freed up three times the amount guaranteed on the ADB's balance sheet for new lending.

Challenges: Although a tool with tremendous mobilisation power, guarantees need to be carefully structured. Consideration needs to be given to the specific risks covered by the guarantee. But to avoid moral hazard behaviour by the beneficiary, alignment questions also need to be asked relating to the events that will trigger payment of the guarantee. Alignment considerations become increasingly important depending on the level of cover provided.

Given their strengths, the question is why guarantees are not more widely used. One limiting factor for non-banks is that unfunded guarantees usually require high investment-grade rating. Funded guarantees, on the other hand, require an organisation to put cash aside and are hence not very efficient. Another challenge can be the need for an appropriate institutional set up, including in-depth structuring knowledge for what can be quite a complex instrument.

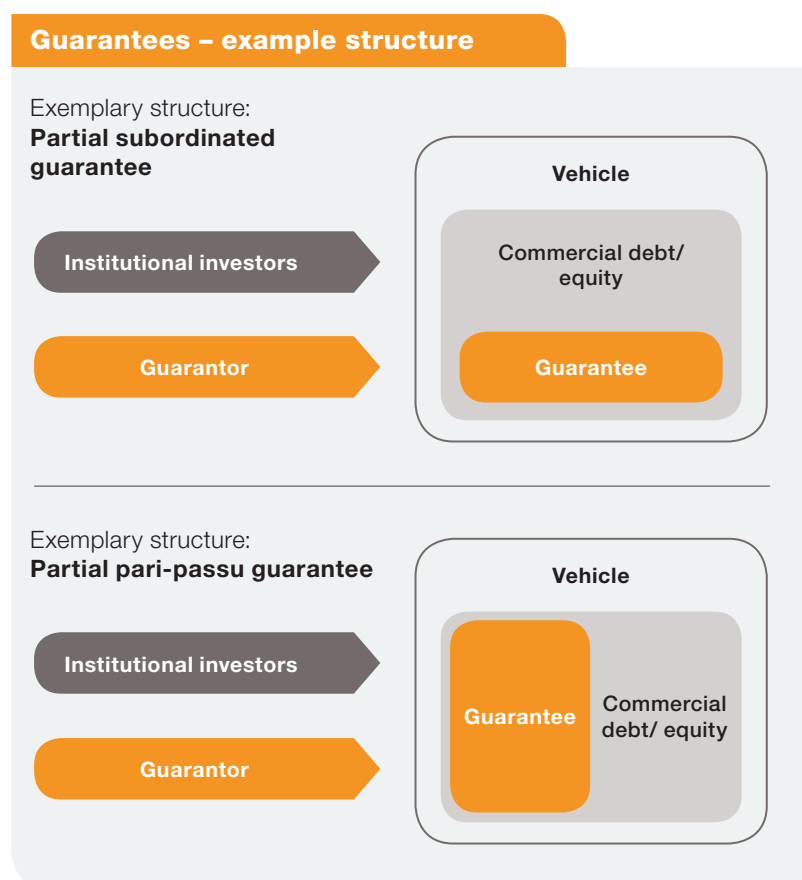
Relevance

Guarantees are generally relevant across sectors and asset classes – particularly infrastructure.

¹⁶⁹ 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

¹⁷⁰ 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>

FIGURE 2.10



On the institutional investors side, guarantees are typically an effective tool across investor types to mobilise capital.

Providers

The main providers of guarantees in transactions that further the SDGs are government agencies, DFIs and MDBs that benefit from their governments' sovereign credit ratings. Some of these specialise in the provision of guarantees:

- Sida, the Swedish International Development Cooperation Agency, provides flexible guarantees across many different sectors and investment levels
- The United States Agency for International Development (USAID) provides partial guarantees mainly at the individual loan level through its Development Credit Authority (DCA)
- GuarantCo, part of the Private Infrastructure Development Group (PIDG) backed by a number of governments, provides guarantees for infrastructure projects across Africa and Asia
- InfraCredit Nigeria, established by GuarantCo and the Nigerian Sovereign Investment Authority, provides local currency guarantees to enhance the credit of debt instruments issued to finance infrastructure projects in Nigeria¹⁷¹
- InfraZamin Pakistan, an initiative by the PIDG developed by GuarantCo, provides credit guarantees for infrastructure-related debt instruments in Pakistan¹⁷²
- The European Fund for Sustainable Development (EFSD), a €5.1 billion guarantee vehicle, was launched by the EU in 2021

Governments themselves can also be a provider of guarantees. Notably, emerging market governments often leverage their ability to issue sovereign guarantees to guarantee development projects in their own countries.

Examples

- In emerging markets guarantees are to date primarily used directly, in particular with commercial banks and infrastructure projects
- There are 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. The fund has a junior layer as well as a senior tranche. It also has risk tools from partners such as Sida, the US International Development Finance Corporation (DFC) and MFX Solutions¹⁷³
- Among alternative structures, a well-recognised example is the IFC's MCPP Infrastructure B-loan programme with Allianz and Axa. These are supported by an IFC investment in a 10% subordinated capital layer, which allows the

respective facilities to achieve the investment-grade profile that the investors need for their own internal capital requirements. IFC's investment in turn benefits from a partial credit guarantee from Sida¹⁷⁴

2.6.3 Insurance

Background

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.

There are two main ways in which insurance can mobilise private capital into emerging markets. 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 MBDs/DFIs. For example, an insurance company can provide unfunded non-payment credit insurance (or a similar guarantee product) to share the risk of MDB or bank loans. This allows the MDB or commercial bank lender to provide larger loans or move risk capital to other opportunities, thereby increasing its lending capacity. Unfunded insurance products are also an effective way to scale up the participation of insurance companies, allowing them to engage in SDG-relevant loans in emerging markets through the liability side of their business, allowing them to leverage their risk capital instead of using their often-restricted investment funds and using their insurance risk expertise.

Insurance companies have risk-bearing capacity and established businesses that specialise in assessing risk. They also have appetite for emerging markets financial risks, which are uncorrelated to other risks they typically cover (such as life, property or liability), providing important diversification for their portfolio.^{175,176}

There is a significant opportunity to unlock further participation of insurance companies by building out the use of unfunded insurance products, in particular strategies and vehicles that seek to efficiently pool insurances provided for single loans or the use of portfolio-level insurances. This could include a replication of models pioneered by the MDBs from emerging markets banks as well as from seasoned asset managers of large debt funds. One constraint to this expansion is the depth and history of performance data that MDBs have and that insurance companies often need for their underwriting. As this market expands beyond MDB players, supporting credit enhancement may

¹⁷¹ GuarantCo (2020): "Developing local currency guarantors to support the development of local capital markets: InfraCredit Nigeria and beyond"; <https://guarantco.com/blended-knowledge/developing-local-currency-guarantors-to-support-the-development-of-local-capital-markets-infracredit-nigeria-and-beyond-2/>

¹⁷² InfraCo Asia: <https://infra-coasia.com/our-portfolio/inframain-pakistan/>

¹⁷³ SunFunder (2021): "SunFunder completes SET Fund with new investors including OeEB and Bank of America"; <https://www.sunfunder.com/post/sunfunder-completes-set-fund-with-new-investors-including-oeeb-and-bank-of-america>

¹⁷⁴ IFC: "MCPP Infrastructure"; <https://www.ifc.org/wps/wcm/connect/4c9e0868-1232-4212-b4f2-a5c39d177afa/MCPP+Infrastructure+-Flyer+2018.pdf?MOD=AJPERES&CVID=mcoa4bt>

¹⁷⁵ ADB and IFC (2019): "MDB Joint Report – Credit Insurance Extract"; <https://www.adb.org/sites/default/files/institutional-document/672691/mobilization-private-finance-mdbs-dfis-2019.pdf>

¹⁷⁶ IFC EM Compass (2018): "Note 52"; https://www.ifc.org/wps/wcm/connect/c3df56c2-0532-4d0f-b79c-0696b0c8d326/EMCompass_Note_52-MCPPCreditInsurance_R3+-+April+12.pdf?MOD=AJPERES&CVID=mbstuiT

¹⁷⁷ ADB and IFC (2019): "MDB Joint Report – Credit Insurance Extract"; <https://www.adb.org/sites/default/files/institutional-document/672691/mobilization-private-finance-mdbs-dfis-2019.pdf>

be required, at least initially.

To date, insurers working with MDBs have mainly underwritten financial institutions and infrastructure debt; however, they have expressed a willingness to expand into new sectors, including agriculture and health care.¹⁷⁷

Another potential area of expansion for unfunded insurance products could be local currency lending (see also under Section 2.6.3), which is a challenging area for many impact investors, including MDBs. Unfunded insurance structures can allow more insurers to support local-currency lending, drawing on MDBs' often privileged access to emerging-market currency pools and ability to raise capital in local markets. The ADB has developed and used template insurance contract language for local currency transactions in multiple emerging markets.¹⁷⁸

Structure

As discussed, there are two insurance structures to consider: the first is a de-risking offering aiming to address a specific risk in an investment vehicle; the second is a balance sheet enhancement that allows the lending institution to materially expand its lending activity. In both cases, the purchased insurance operates in a manner similar to a guarantee, whereby certain losses are covered.

Mobilisation of capital

In structures where the specialised insurance provider covers distinct risks, such as political risk, the mobilisation result depends on the quantum of risk perceived and the corresponding amount of coverage.

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 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 IFC used close to \$800 million in 2020 and expanded its relationships with insurance companies under its MCPP Financial Institutions Group (FIG) platform significantly in June 2020.¹⁷⁹

Advantages and challenges

Advantages: Insurance can be very effective in seeking to reduce the risks holding an institutional investor back from deploying capital.

There is also a growing universe of insurance companies ready to offer insurance to enable lending institutions to free up their balance sheet capital for further lending. Both structures have demonstrated their ability to materially expand and accelerate the flow of private capital towards the SDGs in emerging markets.

Challenges: As these transactions are replicated

in the market, it is necessary to consider alignment between the insurer and the recipient of the insurance coverage (and avoidance of moral hazard). For example, market participants are testing the limits of maximum participation of insurers relative to the need for lending institutions to retain so-called skin in the game.

Relevance

The first structural modality, i.e., insurance provided by a specialist institution, is useful across asset classes and institutional investor types, enhancing the risk profile of the targeted deals and hence catalysing institutional investor participation.

The second structural modality is most applicable when seeking avenues to expand the availability of debt to emerging market entities with products and services that advance the SDGs. This multiplier effect has significant potential for material growth.

Providers

- MIGA is one of the most prominent providers of political risk insurance in emerging markets. Given the size and growth of this market, MIGA is actively engaged in the reinsurance market, stimulating other insurers to participate
- Another provider is the African Trade Insurance Agency (ATI), which provides political risk insurance predominantly in Nigeria (petroleum imports) and Angola (oil industry)¹⁸⁰
- For non-payment credit insurance, the growing universe of experienced insurance providers include Liberty Specialty Markets and Munich Re

Examples

- Actis' Energy 4 fund uses political risk insurance in its investment projects, where possible
- The IFC's MCPP's FIG structure works with a number of international insurance providers who provide partial insurance cover to the 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.

2.6.4 Securitisation

Background

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 their cashflows as securities to investors, typically rated and tranching, backed by the loan portfolio.

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

¹⁷⁸ ADB and IFC (2019): "MDB Joint Report – Credit Insurance Extract"; <https://www.adb.org/sites/default/files/institutional-document/672691/mobilization-private-finance-mdbs-dfis-2019.pdf>

¹⁷⁹ ADB and IFC (2019): "MDB Joint Report – Credit Insurance Extract"; <https://www.adb.org/sites/default/files/institutional-document/672691/mobilization-private-finance-mdbs-dfis-2019.pdf>

¹⁸⁰ ATI (2012): "Political Risk Insurance: A Tool to Unlock Business Potential in Africa"; http://fanaf.org/article_resources/file/fanaf_presentation_by_ati_feb2012_22.pdf

portfolios. Securitisation can allow these players to free up their balance sheets, while also allowing institutional investors to participate in loans across different risk tranches in accordance with their risk appetite. While the current securitisation focus is around MDBs and DFIs, growing demand is likely to come from larger asset managers.

Structure

There are different securitisation structures, the main categories being fully funded (true sale) or synthetic. With the latter, risk is transferred via credit derivatives or guarantees, while the exposure remains on the originator's balance sheet.

Synthetic securitisations are currently the main tool considered by MDBs, as only the credit risk is transferred to the counterparty while legal title to the assets remain with the MDB, reducing potential concerns regarding preferred creditor status and rating.

Mobilisation of capital

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. Such structures may also allow private players to get access to MDBs' and DFIs' portfolios by purchasing securities beyond individual syndication efforts. But securitisation is still very new in emerging markets. It is yet to be seen if these structures will be adopted on a larger scale, as MDBs are currently incentivised primarily to manage the deployment and retention of capital on their own balance sheet.

Expanding securitisation transactions by MDBs/DFIs will have implications for their business models. Specifically, they will need to focus more on origination, including project and transaction preparation, which will have operational cost and human capital implications. But the mandate of MDBs and DFIs to invest for development, combined with their demonstrated track record of building investment portfolios, means they are the most appropriate agent to stimulate the securitisation market. By accepting this role, they will provide a familiar pathway for institutional investors seeking to invest to achieve the SDGs in emerging markets.

Advantages and challenges

Advantages: As a tool to attract more institutional capital to address the SDGs in emerging markets, securitisations can free up the balance sheets of investors (MDBs/DFIs) with current emerging markets exposure, allowing the reallocation of that funding to new opportunities. 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.

Challenges: Although familiar in developed markets, securitisations can be relatively complex and costly to establish, particularly at the outset. If MDBs and DFIs are to be the (initial) focal point

for securitisation efforts, it will be necessary to engage with the credit rating agencies to address the parameters for securitisations (and also the use of guarantees) so that MDBs can retain their AAA rating and preferred creditor status.

Relevance

As discussed, securitisation in emerging markets is still at an early stage and currently mainly discussed with respect to the private debt portfolios of MDBs and potentially DFIs. If and when gaining traction, participation in securitisations could be interesting across institutional investor types.

Examples

- Room2Run is the AfDB's synthetic structure, securitising a portfolio of AfDB private sector loans. The securitisation was anchored by Mariner Investment Group, a US asset manager, alongside the Africa50 infrastructure fund.¹⁸¹ 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 Africa¹⁸²
- In 2019, responsAbility securitised a \$175 million portfolio of microfinance loans, offering three tranches of notes. While the DFC anchored the senior notes, pension funds such as Alecia and Calvert Impact Capital invested in the mezzanine and junior notes¹⁸³

2.6.5 Local currency financing

Background

There is a lack of long-term local currency financing for impact projects in many developing countries due to underdeveloped and volatile local financial markets and the absence of appropriate local currency financing instruments. Domestic funding markets tend to be constrained by poorly regulated local bond markets. Hedging solutions, that might counter local currency funding gaps, are mostly underdeveloped, costly or unavailable, especially in frontier markets.

¹⁸¹ PRI (2019): "PRI Awards 2019 case study: Room2Run"; <https://www.unpri.org/showcasing-leadership/pri-awards-2019-case-study-room2run/4848.article>

¹⁸² Africa50: "Room2Run Synthetic Securitisation"; <https://www.structuredcreditinvestor.com/article.asp?article=SCI%20Capital%20Relief%20Trades%20Awards%202019&PubID=250&ISS=25035&SID=70757&SM=ALL&SearchStr=Africa50>

¹⁸³ responsAbility (2019): "responsAbility closes USD 175 million microfinance securitization"; <https://www.responsability.com/en/press-releases/responsability-closes-usd-175-million-microfinance-securitization>

What local currency finance is available tends to be short-term. The consequences of currency mismatches can be particularly harmful when they are used for infrastructure projects, such as electric power or toll roads, or for financing local businesses. When funded with hard currency loans, especially SMEs are vulnerable to local currency depreciation, which can significantly increase costs to a young enterprise and ultimately a vulnerable consumer base that is least equipped to absorb additional costs.

USD loans may offer lower interest rates and longer tenors than local currency loans. But these advantages can be more than offset if the funded projects or enterprises in a country have mostly local currency revenues and the exchange rate depreciates significantly. In order to align borrowers' operations with their financing, and strengthen local capital markets, an increased focus on local currency funding is required.

There are some approaches that seek to counter the prevalence of hard currency financing in developing markets, including:

- Non-market solutions, such as The Currency Exchange Fund (TCX), provide opportunities to hedge local currency loans. However, many currencies remain too costly to hedge, hedges are simply not available, or the amounts are often limited and not available for required tenors nor in a deliverable format
- Unfunded guarantee products (e.g., partial credit guarantees) can be used to mobilise local lending. However, the legal framework in many higher risk, less developed countries does not support their use. Often there are no third parties willing to provide the funds to be guaranteed, particularly for long-term projects (see also Section 2.6.3 above)

The limitations need to be addressed in individual countries by policy makers, regulators and market participants to develop local capital markets over the longer term. But the immediate need for critical development finance in local currency needs multilateral solutions that are also supported by developed countries. This would help to:

- Unlock domestic bank financing and hedging solutions, by covering credit risk
- Extend the flexibility and offering of available hedging solutions, in particular with respect to volumes, duration or the availability of swap types (e.g., fixed/floating rate)
- Enable local bond issuances by covering credit risk
- Provide local currency loans

Mobilisation of capital

In general, local currency should first be sourced through market-based counterparts (international and/or domestic) and capital markets-based solutions wherever available. Only then should non-market based solutions be pursued, such as

hedging through TCX or multilateral local currency facilities.

Advantages and challenges

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

Providers

- 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 TCX). Non-residents in a country may not be allowed to access local currency and special approvals are needed from the local Ministry of Finance, Central Bank or Securities Regulator for such access
- There are also a few impact-driven solutions that seek to provide local currency funding or increase the ability to hedge emerging markets facilities

Examples

- A local currency facility is deployed by the IFC within the International Development Association (IDA) Private Sector Window (PSW) of the World Bank Group. The PSW Local Currency Facility (LCF) is designed to complement existing solutions and to fill existing hedging gaps with respect to high impact projects in relevant countries. The facility bears the credit risk of non-traditional hedging counterparts and currency and interest rate risks of selected local currency investments originated by the IFC for projects in the relevant countries. The IFC itself bears the commercial credit risk of the projects. The LCF serves as an enabler of local currency solutions by de-risking some of the available instruments, helping create new instruments and fill gaps that existing commercial and non-commercial entities are not able to address, or address fully
- The EU Market Creation Facility 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 financial intermediary clients to provide more funding to financial institutions. These entities in turn are in a position 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 risk¹⁸⁴
- The IFC's Masala bond programme is another example of an MDB-led structure seeking to unlock local currency funding and to deepen India's capital markets (see also Section 3.4.6 for more information)

¹⁸⁴ 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

- See also InfraCredit Nigeria above, which provides Naira-denominated guarantees to enable infrastructure projects to raise debt finance in local currency from the domestic market

2.6.6 Performance data and information

Background

The lack of reliable market information is a major stumbling block to the mobilisation of private capital in emerging markets. In particular, lack of investment performance-related data is causing a major blockage, leading investors to demand substantial risk premiums or not invest at all.

However, many institutions, especially MDBs and DFIs that have been working in these markets for many years, hold a large quantity of relevant data, particularly crucial data on investment performance. The GEMs (Global Emerging Markets) database was therefore established in 2009 as a joint initiative between the European Investment Bank (EIB) and the IFC – see example below. There have been other efforts to collect data and publish limited data sets by, e.g., the Global Private Capital Association (GPCA, formerly EMPEA) or Preqin.

Mobilisation of capital

The lack of data and information asymmetry present a major hurdle to capital mobilisation in emerging markets. 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 vast 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 be perceived as a core tool to the furtherance of the SDGs and a global public good.

Advantages and challenges

The advantages are clear, as described above. The challenges are around transparency and a universal effort to make data a public good. Issues also need to be addressed around data protection, confidentiality, commercial sensitivity and liability when making data available to the wider public.

Relevance

Making data available is relevant across asset classes and for all types of institutional investors.

Providers

Relevant providers include all holders of data active in emerging markets, including impact investors

in general, but MDBs and DFIs in particular as they own a large amount of relevant market and performance data, given that some of them have invested for decades in the target emerging markets.

Example

- The GEMs database was established in 2009 as a joint initiative between the EIB and the IFC. It has grown to include 24 members across MDBs and DFIs. Members have access to aggregated GEMs statistics encompassing, e.g., observed default rates, rating migration matrices and recovery rates by geography, sector, time-period and various other dimensions
- While highly useful and relevant, GEMs data is currently only available to member institutions. In order to mobilise institutional investors at commensurate capital costs that reflect actual (rather than perceived) risks, it is crucial to make such data available to all. The ILX Fund (see Section 2.4.2.3), e.g., is an innovative fund seeking to use the GEMs data to provide investors with access to a diversified portfolio of loans originated by MDBs and DFIs

2.6.7 Partnerships

In this Section we highlight three important types of partnership that can move and mobilise institutional capital towards the SDGs.

2.6.7.1 SYNDICATION PARTNERSHIPS

Overview

Syndications are an important way to mobilise capital towards the SDGs and 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 express 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.

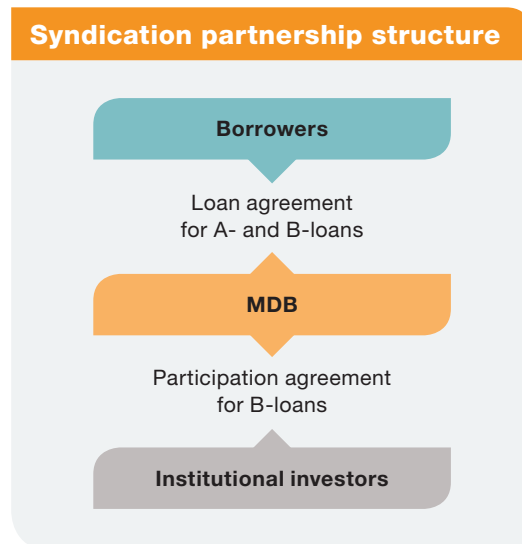
Since the IFC's first B-loan, mobilised about 60 years ago, loan syndications have been MDBs' primary tool to attract private capital into their target markets.

In order to streamline the process and provide institutional investors with a diversified pool of loans, the IFC introduced its MCPP, providing for a structured way for institutional investors to partner with the IFC (see Spotlight panel on the next page).

Structure

Depending on the partnership, syndications can

FIGURE 2.11



have different structures – see figure 2.11 for the basic form.

Mobilisation of capital

The mobilisation rates for syndication platforms are typically around 1–2x. The IFC's mobilisation rate on its loan, is around 1.5x.

Advantages and challenges

Advantages: Key advantages of the MCPP platform approach include the ability to provide investors with bespoke portfolios, based on pre-agreed parameters, in a cost-efficient way as they participate in larger loans. Beyond the bespoke criteria, the platform can also be tailored to different investor needs and restrictions, as shown by the MCPP's FIG offering (see above) which

explicitly targets insurance companies and their particular strengths.

Challenges: The largest limiting factor is the MDB's limitations in sourcing and executing transactions. This is exacerbated by the fact that in many cases the MDBs are not really incentivised to syndicate large parts of their balance sheets due to the need to generate internal profits. The ability to syndicate is also restricted by the need to maintain a portion of the balance sheet for alignment reasons.

Relevance

These platforms are relevant for all institutional investors, as they can be tailored to the investor type's specific needs and preferences. With many of these investors the value proposition is centred around diversification, cost effectiveness and scale. Credit enhancement can be added where necessary.

Providers

Many MDBs and DFIs pursue syndication strategies. However, there are not yet many portfolio-based programmes.

Examples

- The IFC's MCPP is probably the largest syndication platform focused on the SDGs and emerging markets
- The ILX Fund, an SDG focused emerging markets credit fund (see also Section 2.4.2.3 above), is another example whereby the ILX Fund allows institutional investors to invest in a diversified portfolio of MDB and DFI loan participations

SPOTLIGHT

International Finance Corporation's Managed Co-Lending Portfolio Program

Launched in 2013, the Managed Co-Lending Portfolio Program (MCPP) is the International Finance Corporation (IFC)'s **syndication platform to allow investors to increase or get first-time exposure to emerging market debt investments.**

The MCPP provides investors with a platform for participation in a diversified portfolio of emerging market projects across multiple sectors, covering infrastructure, financial institutions and the real economy. The MCPP leverages the IFC's track record and market knowledge to source opportunities that cater to individual investor needs. The platform provides an efficient way for investors to make one large allocation of capital, delegating authority to the IFC to create a diversified portfolio of loans on their behalf, effectively sub-participating in IFC loans that meet the mandate's criteria. All investments are commercially structured and designed to address development needs.

The platform includes three main strategies: (a) general sector agnostic loan participation (structured as Trust Funds or through B-loans); (b) infrastructure; and (c) financial institutions (FIG) providing tailored credit insurance solutions, targeting

insurance companies.

The programme currently has approximately \$10 billion of total funds raised across eight MCPP facilities.

MCPP One Planet was announced at COP26, seeking to scale up the IFC's MCPP platform. One Planet creates a new global platform for climate smart-investment providing emerging market loans in line with the Paris Agreement. The platform intends to provide loans of up to \$3 billion to private enterprises in developing economies, combining institutional investors' contributions with IFC's own funds. The platform will leverage a range of partnership structures. In one, the Development Finance team of Allianz Global Investors will manage a vehicle on behalf of investors, while the IFC will originate and administer the loans on behalf of the vehicle in addition to providing first loss protection.

Source: IFC: Managed Co-Lending Portfolio Program (MCPP); Allianz GI (2021): "IFC and Allianz Group enter partnership for 1.5°C-aligned investments in emerging markets"; https://www.allianz.com/en/press/news/commitment/environment/211103_Allianz-IFC-and-Allianz-Group-enter-partnership-for-1-5-degrees-celcius-aligned-investments-in-emerging-markets.html

SPOTLIGHT

Global Investors for Sustainable Development Alliance

The Global Investors for Sustainable Development (GISD) Alliance, convened by the UN Secretary General, seeks to deliver concrete solutions to scale-up long-term finance and investment in sustainable development. The Alliance consists of 30 leaders of major financial institutions and corporations spanning all the regions of the world.

Source: Global Investors for Sustainable Development (GISD) Alliance; <https://www.gisdalliance.org/>

2.6.7.2 CO-CREATION PARTNERSHIPS

Overview

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

Structure

Structures coming out of co-creation processes can take various and tailored forms, driven by the institutional investor's requirements. They can include, among others, investment vehicles or managed accounts.

Mobilisation of capital

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.

Advantages and challenges

Advantages: Co-creation offers investors a tailor-made investment proposition.

Challenges: The key challenge is the willingness by the participating parties to put effort into an often time-consuming process. This requires clear intention and the readiness to embark on a joint journey that often requires compromise and a certain flexibility to achieve a meaningful result.

Relevance

Co-creation is relevant across asset classes and institutional investor types.

Examples

- While still too few in number, there are several co-creation efforts entering the market. Institutional investors that have been at the forefront of developing suitable products include AXA and Allianz
- Distinct co-creation initiatives 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 (see Spotlight panel on the left), and the Rockefeller Foundation's Global Energy Alliance for People and Planet
- See also under management partnerships below, as such partnerships usually entail a collaborative co-creation process by the respective asset managers

2.6.7.3 CO-MANAGEMENT PARTNERSHIPS

Overview

Co-management partnerships are vehicles where different managers with complementary skill sets and expertise, in particular a mainstream asset manager and an impact manager or DFI, cooperate. This cooperation can be fund

SPOTLIGHT

Global Social Impact Fund – GSII and MAPFRE co-management partnership

The **Global Social Impact Fund (GSIF)** is an open-ended private debt fund which invests in the growth of social business in Sub-Saharan Africa which already have a proven business model, targeting the world's poorest people.

The GSIF is a product of the co-creation and management partnership between Global Social Impact Investments (GSII), a Madrid-based investment manager, and MAPFRE AM, the asset management arm of Spain's largest insurer and the country's largest independent asset manager. GSIF was developed from

a shared commitment to generate positive impact. MAPFRE developed a strategy to carry out impact investing, expanding upon its responsible investing portfolio. GSII came in as a partner, supporting on design, monitoring and impact reporting. To date, MAPFRE AM has committed €20 million to the GSIF as seed capital whilst also acting as investor advisor to the fund.

Source: Information provided by manager

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. The cooperation typically combines the deep market expertise and connections of the impact manager with the extensive management and back-office experience and capital raising and investor relations capabilities of the mainstream manager.

Structure

The form of cooperation can vary and is bespoke to each situation and the parties involved. This can be a partnership for a particular fund or take the form of an actual acquisition or formal long-term partnership.

Relevance

Co-management is relevant across asset classes and for all institutional investor types.

Examples

- NN Investment Partners and FMO Investment Management partner on the Emerging Markets Loans Fund, a \$272 million private debt fund (see Section 3.4.3 for more information)
- GSII and MAPFRE's, Spain's largest insurer, co-creation and management partnership for GSIF (see Spotlight panel on the previous page)
- The EIB and Allianz Global Investors (AllianzGI) announced the creation of the new co-managed Emerging Market Climate Action strategy fund at COP26 (see Spotlight panel in Section 3.4.2)
- Acquisition examples include Schrodgers' acquisition of BlueOrchard in 2019¹⁸⁵ (see Spotlight panel in Section 2.4.1.6) or Goldman Sachs' 2015 acquisition of Imprint Capital¹⁸⁶

¹⁸⁵ Schrodgers (2019): "Schrodgers acquires majority stake in leading impact investor in BlueOrchard"; https://www.schrodgers.com/en/media-relations/news-room/all_news_releases/schrodgers-acquires-majority-stake-in-leading-impact-investor-blueorchard/

¹⁸⁶ Goldman Sachs (2015): "Deepening a Commitment to Sustainability, GSAM Acquires a Leading Impact Investing Firm"; <https://www.goldmansachs.com/our-firm/history/moments/2015-imprint-capital.html>

2.6.7.4 OTHER INNOVATIVE PARTNERSHIPS

Overview

There are other, innovative partnerships in the market used in impact investing, including public-private partnerships, such as the Dutch Good Growth Fund (see Spotlight panel below), or outcomes structures 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. With more and more proof points, the market is evolving and investors should keep an eye on the further development and use of such structures.

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



SPOTLIGHT

Dutch Good Growth Fund

Launched in 2014, the Dutch Good Growth Fund (DGGF) was established by the Dutch Ministry of Foreign Affairs and targets two main groups:

- 1 **Dutch entrepreneurs** that want to do business in emerging markets, by providing loans, participations, guarantees, export credit insurance and export finance (administered by Invest International, which until 1 October 2021 was the Netherlands Enterprise Agency)
- 2 **Local emerging markets SMEs**, by investing in funds that target SMEs, acting as a €350 million fund of funds (managed by PwC and Triple Jump)

The DGGF aims to improve development results in terms of economic growth (through improvement of production capacity and technology transfer from Dutch companies), job creation and social improvements (particularly since the fund targets female and young entrepreneurs in fragile countries and selects Dutch SMEs that meet corporate social responsibility standards).

Source: OECD (2016): "Private Sector Peer Learning: Mechanism Profiles: Dutch Good Growth Fund (DGGF), Netherlands Enterprise Agency"

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.



Outcomes contracts

Social outcomes contracts are a relatively new way to design and deliver public services in a way that can be transformative.

A common structure in outcomes contracts relates to financing public bodies (e.g., municipalities, local commissions, etc.). The commissioner commits to paying for the achievement of agreed delivery milestones linked to measurable improvements in people's lives. Payment is based on outcomes, not on a fee-for-service basis – the traditional procurement payment structure.

Examples of outcomes contracts include those launched by Bridges Fund Management, which

to date has supported 52 outcomes contracts with £68 million in outcomes payments achieved. The Education Outcomes Fund, which is supported by UKAID, Ford Foundation, UBS Optimus Foundation and a number of other partners, is a fund aiming to improve learning and employment outcomes of 10 million children and youth.

Source: Bridges Fund Management: Social Outcomes Contracts; Education Outcomes Fund; <https://www.bridgesfundmanagement.com/outcomes-contracts/>
<https://www.educationoutcomesfund.org/>

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 this 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.

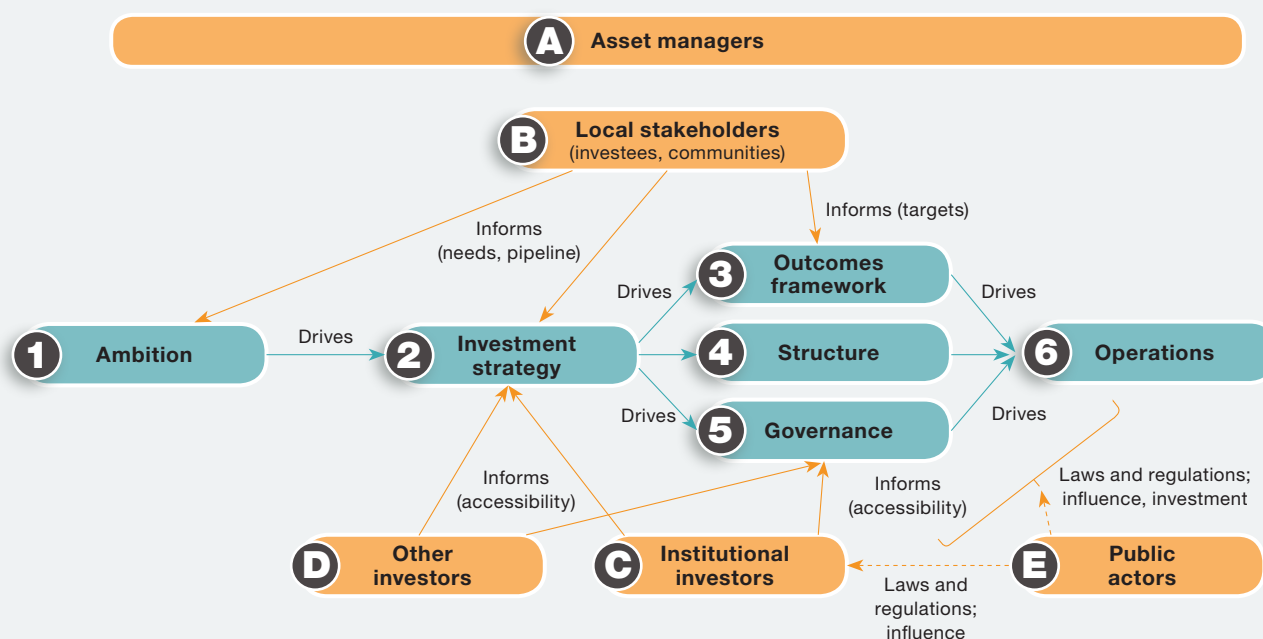
3.2 Using familiar vehicles for more effective alignment with the SDGs and to deliver a Just Transition

When setting up Just Transition vehicles, the proposed Just Transition Elements (see Section 1.3.4) 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.

FIGURE 3.1

Investment vehicle: Key actors and dimensions



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. For existing vehicles, the Just Transition Elements – Climate and Environmental Action; Socio-Economic Distribution and Equity; and Community Voice – can serve as a reference point to assess the degree of alignment with Just Transition objectives. They can also be used to consider ways in which the vehicle could be enhanced to strengthen its integration of environmental, social and community engagement objectives.

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 application relevance across the United Nations (UN)'s Sustainable Development Goals (SDGs). The guidance can be applied across a wide range of investment strategies as highlighted in Section 1.4.2.

3.2.1 The key actors in Just Transition financing vehicles: Roles and value propositions

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. Proactive outreach, and engagement and cooperation across actors, from asset managers and investors to investee enterprises, affected communities and workers, as well as public actors, are needed. The perspective of consumers, enterprises within relevant supply chains and other stakeholders that are affected, marginalised or underserved, should be considered and included in the design and implementation of a vehicle and its strategy to bolster a Just Transition. 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

Engagement on demand and supply side

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 capital 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.

Engagement on the capital supply side should start early in the fund set-up process to ensure that institutional investor barriers are considered and addressed in the design and structure of the vehicle. A tailored co-creation process with an anchor investor or early engagement with a core group of target initial investors are often the best paths to ensure buy-in, viability, relevance and ultimately the scale of a vehicle.

Mainstream credibility and local expertise

Historically, there has been a clear divide between commercially focused mainstream asset managers managing large vehicles for institutional investors and niche impact-focused managers managing small vehicles for impact investors. That divide is narrowing at a reasonable pace, a trend that should be encouraged. As shown in Section 1.4.1.2, mainstream managers are moving into responsible, sustainable and impact investing, and niche impact managers are setting up larger funds, gaining track record and achieving scale. As critical actors in the investment value chain, more managers are needed, including local emerging market managers, to achieve the SDGs in general and a Just Transition in particular. As the community of managers grows, institutional investors should be willing to establish new relationships beyond the limited universe of mainstream managers with whom they have been investing in the past. Given the growing recognition of the need to integrate environmental and social considerations (as outlined in Section 1.3), selection criteria for new managers should explicitly include environmental, social and governance (ESG) and impact parameters, including climate and social investing expertise.

For a 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 is crucial, particularly for vehicles investing in emerging markets.

Value proposition of a Just Transition vehicle for managers

- **Attention and differentiation:** As notions of fairness associated with financing climate solutions continue to gain traction, a Just Transition allows managers to market their vehicles to a recognised theme. Integrating climate parameters with a social and community narrative allows managers to delineate their funds from others. In addition, robust and credible measurement and reporting systems will allow the vehicle to deflect charges of 'green washing' or 'impact washing'
- **Reputation:** A Just Transition approach may improve a manager's reputation in the market, including with investors, but also with public

institutions and the general public. In addition, it may have a beneficial effect on staff attraction and retention

B LOCAL STAKEHOLDERS

Place-based needs driven strategy

A Just Transition strategy needs to be oriented to reflect the local context of the places in which it is investing and aiming to deliver impact, including its Just Transition starting points and transition trajectories (as discussed in Section 1.3.1.3). A strategy's envisaged climate and socio-economic Just Transition pathways should always be expressed taking into account local needs and opportunities.

As a result, engagement with local stakeholders needs to include two main groups:

- **Investees:** 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 as they are critical to delivering long-term growth
- **Communities:** 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. Without necessarily having all answers upfront, the strategy should be framed to ensure that relevant questions are asked along the way

Inclusion, voice and participation

Participation should be as inclusive as possible. Considerations may include:

- **Integration of an equity lens:** A Just Transition strategy, beyond the integration of general green-social outcomes, may expressly consider equity parameters with a view to increasing diversity and social justice, including around gender and race
- **Integration of supply chain considerations:** A Just Transition strategy may go beyond a focus on the direct investee companies and consider effects on supply chains with specific consideration of small and medium enterprises (SMEs) in the chain

A needs and opportunity assessment is required, based on active engagement with local stakeholders, to ensure relevance of the investment proposition (i.e., what is the capital solving for?). This is important not only with a view to the socio-economic imperative of a Just Transition, but also

in order to help de-risk an investment strategy by ensuring local buy-in and community support. When engaging local stakeholders, particular attention should be given to population segments that have been traditionally excluded, marginalised or underserved, for example, women or specific racial groups.

Value proposition of a Just Transition vehicle for local stakeholders:

- **Local investments:** A Just Transition vehicle brings accessible and affordable funding into local communities
- **Visibility:** With a Just Transition underlying goal of leaving no one behind, disadvantaged and marginalised communities are considered as material participants informing investment activity and not as passive beneficiaries
- **Integrated change:** A balanced and inclusive Just Transition vehicle will provide communities with funding and integrated solutions that benefit from a holistic lens integrating the environmental and social impacts of investments and granting a participatory voice
- **Voice:** Universally adopted Just Transition Elements will provide communities with a louder voice and inclusion in decision-making processes. This will help to incorporate relevant local context into vehicles and lead to tailored, place-based interventions

C INSTITUTIONAL INVESTORS

Addressing institutional investors' barriers

When designing a Just Transition vehicle with the objective of attracting institutional investor capital, recognised investment barriers for institutional actors, as discussed in Section 2.4.2, need to be addressed to facilitate and scale institutional investor participation. Barriers differ by investor type, geography and individual institutional investor. Therefore, early in the process, the vehicle's manager should consider the target investor type and, ideally, engage with one or several key potential investors. This enables a process where each party is able to push its boundaries in order to make meaningful movements towards meeting the envisaged outcomes.

To gain traction with institutional investors, the framing of a concise story is important. An evidence-based approach 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 and themes, reflecting all three Just Transition Elements.

Alternative Just Transition investment pathways for institutional investors beyond investment vehicles

While this report focuses on investment vehicles that aggregate capital investments, there are alternative solutions that can be used by institutional investors to invest in Just Transition relevant transactions in emerging markets.

- **Managed accounts:** A managed account can be set up with an asset manager who will invest on the institutional investor's behalf. A managed account can be highly tailored to the investor's needs, in terms of investment strategy, targeted objectives, risk-return targets, and the amount of control needed by the investor. An example is Obviam, a Swiss impact manager that manages accounts for clients including the Swiss government, financial institutions, foundations and individual investors
- **B-loans/ co-financing:** A number of multilateral development banks (MDBs), including the International Finance

Corporation (IFC) and the European Bank for Reconstruction and Development (EBRD), offer so-called 'B-loans' to institutional investors. This involves effectively syndicating their loan portfolio, with the MDB retaining a portion of the loan (the 'A-loan') and remaining the sole lender of record. A/B-loan structures allow institutional investors to benefit from the MDB's preferred creditor status, as well as its market access and expertise, structuring skills and its leadership in ESG and impactful investing practices and reporting (see also Section 2.6.7.1)

- **Co-creation or partnerships:** Other tailored partnerships can be sought between institutional investors and managers, including for the creation of investment vehicles. The partnership approach is increasingly pursued, building relationships of trust and cooperation (see also Section 2.6.7)

Value proposition of a Just Transition vehicle for institutional investors

- **Investment risk mitigation:** Just Transition broadens the understanding of systemic risks from climate change by also factoring in risks stemming from social exclusion and increasing inequality. Examples of relevant environmental risks include the physical impact of global warming and risks associated with transition to a low-carbon economy, such as global policy change, technological advancements and market sentiment; and social risks, including

changes to labour regulations, impacts on health and effects of inequality. Not paying attention to risks, regulatory changes and the shifting market sentiment can lead to devalued or even unsellable 'stranded assets' in an investor's portfolio^{187,188}

- **Investment opportunities:** Increasingly it is acknowledged that factoring climate change into investment decisions is not only beneficial from a risk perspective but also uncovers new opportunities – see panel below. The same risk-plus-opportunity consideration applies to the

Recognising the rewards of moving to Net Zero

The UN Special Envoy on Climate Action and Finance, Mark Carney, has stated:

"The dialogue has shifted from viewing climate change as a risk, to **seeing the opportunity**, and really translating that into a single objective, which is to move our economies to Net Zero as quickly as possible. That's a tremendously exciting development because what we have now in private finance is a focus on a clear goal – Net Zero – and finding the opportunities to advance that and to be rewarded by it. [...] And what we are seeing increasingly [...] is societies putting tremendous value on achieving Net Zero. Companies, and those who invest in them and lend to them, and **who are part of the solution, will be rewarded**. Those who are lagging behind and are still part of the problem will be punished."

Source: UN (2021): "Mark Carney: Investing in net-zero climate solutions creates value and rewards"

¹⁸⁷ E&Y (2016): "Climate change – the investment perspective"; CFA Institute (2020): "Climate change analysis in the investment process"; or Robeco: "Stranded Asset"; <https://www.robeco.com/en/key-strengths/sustainable-investing/glossary/stranded-assets.html>

¹⁸⁸ Sharesight (2021): "Spotlight on the 'S' of ESG: The rise of social factors"; <https://www.sharesight.com/blog/spotlight-on-the-s-of-esg-the-rise-of-social-factors>

social dimension. For example, a consideration of corporate practices, respect for human rights and labour standards should lead to improved staff satisfaction and retention, and result in revenue, productivity and efficiency gains.¹⁸⁹ Interrelated aspects of climate and social dimensions can be material long-term value drivers of economic and business performance, drive innovation, improve resale opportunities and, at times, provide efficiency gains, ultimately generating better financial returns¹⁹⁰

- **Consistency with fiduciary duty:**

An investment approach that considers environmental and social factors as proposed in our Just Transition Elements is consistent with pension funds' fiduciary duty and commitment to responsible investment and the integration of ESG factors.¹⁹¹ Across the world, policy and regulatory frameworks are changing to explicitly require ESG integration as long-term value drivers. In its 2020 report on Fiduciary Duty in the 21st Century, the UN-supported Principles for Responsible Investment (PRI) counts over 730 hard- and soft-law policy revisions globally, "that support, encourage or require investors to consider long-term value drivers, including ESG issues".¹⁹² A holistic application of the Just Transition Elements offers a tangible and relevant application of ESG factors

- **Alignment with objectives:** For investors who have committed to ESG, the SDGs, Net Zero or a Just Transition, such as the 587 signatories to the Global Investor Statement to Governments on the Climate Crisis¹⁹³ or the 450 financial firms that form part of the Glasgow Financial Alliance For Net Zero (GFANZ), that announced their intent to align their own businesses and their lending and investing activities with Net Zero goals at COP26,¹⁹⁴ a Just Transition vehicle aligns with their stated objectives

- **Alignment with financial beneficiaries' preferences (e.g., pension scheme members):** Just Transition responds to growing beneficiary preferences for sustainable investments.¹⁹⁵ The increase in interest in and engagement with sustainability among beneficiaries in recent years has been substantial, and is expected to increase with generational shifts

- **Reputation:** Investors' reputation will benefit from contributing to societal goals and achievement of the SDGs, as many cite an investor's licence to operate as linked to its demonstration of responsiveness to both social and environmental issues; Just Transition investments allow investors to demonstrate an integrated approach to addressing both environmental and socio-economic reputational exposure

D OTHER INVESTORS

Alongside institutional investors, vehicles also 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 2.6. 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 are needed, at times, in order to structure a risk proposition that is accessible for institutional investors.

Value proposition of a Just Transition vehicle for other investors, in particular impact investors

Achievement of integrated impact objectives:

Impact investors intentionally pursue measurable impact objectives alongside financial objectives. A Just Transition vehicle allows them to pursue and achieve integrated climate and social objectives.

Mobilisation: A number of impact investors prioritise capital mobilisation targets, seeking to catalyse institutional investors into impactful

¹⁸⁹ Qtrade: "The S in ESG: Why investors should care about a company's social impact"; <https://www.qtrade.ca/en/investor/education/investing-articles/new-to-investing/esg-portfolios-2.html>; or S&P Global: "What is the 'S' in ESG?"; <https://www.spglobal.com/en/research-insights/articles/what-is-the-s-in-esg>; or Russell Investments (2021): "Spotlight on the 'S' of ESG"; <https://russellinvestments.com/us/blog/esg-spotlight-on-s>

¹⁹⁰ E&Y (2016): "Climate change – the investment perspective"; or "CFA Institute (2020): Climate change analysis in the investment process"

¹⁹¹ Impact Investing Institute (2020): "Impact investing by pension funds: Fiduciary duty – the legal context"; <https://www.impactinvest.org.uk/wp-content/uploads/2020/11/Impact-investing-by-pension-funds-Fiduciary-duty-%E2%80%93-the-legal-context.pdf>

¹⁹² PRI and UNEP Finance Initiative (2020): "Fiduciary Duty in the 21st Century"

¹⁹³ 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>

¹⁹⁴ GFANZ (2021): "The Glasgow Financial Alliance for Net Zero – Our progress and plan towards a net-zero global economy"

¹⁹⁵ PRI (2021): "Understanding and Aligning with Beneficiaries' Sustainability Preferences"; 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

investments. Their participation and catalytic role in certain vehicles may allow these vehicles to mobilise institutional investor capital. Such a catalytic role can be achieved through the provision of risk mitigating instruments or risk-tolerant capital (at market rate or concessional) or also by playing a leading, anchoring role in the capital raising process.

E PUBLIC ACTORS

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

National 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 NDP typically establishes the country's main priorities and areas of government support and resources. 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.¹⁹⁶

- **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 (as they have done with gender-lens investment through the 2X Challenge, see Spotlight panel below). As a consequence, 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 further to seek aggregating opportunities to package and move well-performing assets off their balance sheets, including through portfolio syndication or securitisation structures (see Section 2.6.4). Using the investment track records of these assets to attract private capital into emerging markets

¹⁹⁶ Governments also play an important role in the decommissioning of legacy fossil fuel plants, making their early retirement feasible.

SPOTLIGHT

2X Challenge

The **2X Challenge: Financing for Women** is an ambitious target that calls on DFIs to mobilise their own funds, as well as private capital, to unlock resources that will help advance women as entrepreneurs, as business leaders, as employees and as consumers of products and services that enhance their economic participation.

In 2018, the DFIs from G7 countries – Canada (FinDev), the United Kingdom (CDC), the United States (DFC), Italy (Cassa di Risparmio di Roma – Cdp), France (Proparco) and Japan (JBIC and JICA), with support from Germany (DEG) – committed to use innovative ways, including blended finance, to support investments and initiatives that provide women in emerging markets with access to leadership opportunities, quality employment, finance and enterprise support.

In order to create a shared understanding of what investing in women looks like, DFIs defined the 2X Criteria. Today, the 2X Criteria is a key framework enabling DFIs and other investors to carry out gender-smart investments.

While the 2X Challenge was initially a DFI-oriented initiative, its scope broadened with the **2X Collaborative** which seeks to build on the momentum to involve a larger spectrum of investors in gender-lens investing. Founding members of the 2X Collaborative include the European Bank for Reconstruction and Development (EBRD), the United Nations Capital Development Fund (UNCDF) and Citigroup.

The 2X Collaborative's objective is to serve investors making their first gender-focused investment as well as investors at the frontier of the field. It is a member-driven initiative and includes peer groups made up of DFIs, MDBs, pension funds, asset and fund managers, financial institutions and corporates. The Collaborative provides a platform for training, co-investment, investment tools and peer learning to its members. It also hosts member-driven initiatives, such as the 2X Gender and Climate Finance Taskforce.

Sources: 2X Challenge; 2X Collaborative; CDC

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.

- **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 2.4.2 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 Section 1 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.

Regional and local governments

Regional and local governments can have significant power to act and achieve the SDGs and a Just Transition within their respective regions of influence, depending on their specific powers and mandates. An example is the Ruhr area in North Rhine-Westphalia, Germany, where state-level and local-level debate on coal mines, the last of which was closed in 2018, started in the 1990s and where policy actors across levels worked together and with an array of local constituents.¹⁹⁷

Value proposition of a Just Transition vehicle for public actors

- **Planning:** A good understanding of how investment activity is – or is not – advancing 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.

- **Capital mobilisation:** Engagement around Just Transition vehicles offers opportunities for additional capital mobilisation by unlocking the growing pools of capital seeking to achieve both environmental and social impact. This may be of particular interest to donor countries, as leveraging these pools of capital provides further opportunities for the achievement of global developmental and climate finance commitments, in the context of pressure on public finances and overseas aid budgets.

3.2.2 Vehicle dimensions

This 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**

The six dimensions form the backbone of the Just Transition 'Blueprint' developed in the following Section. This Blueprint is intended to provide guiding principles ('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.

¹⁹⁷ WWF Germany (2019): "Just Transition for Regions and Generations – Experiences from structural change in the Ruhr area"

3.3 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 this 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 set of Principles is as follows:

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

Principle 1.2

The ambition is grounded in local context and needs

2 INVESTMENT STRATEGY

Principle 2.1

The investment strategy is Just Transition relevant

Principle 2.2

The investment strategy is investable by institutional investors

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

Principle 3.2

The outcomes framework fosters transparency and accountability

4 STRUCTURE

Principle 4.1

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

Principle 4.2

The structure and terms allow for institutional investor participation

5 GOVERNANCE

Principle 5.1

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

Principle 5.2

The governance structure enables broad stakeholder voice

6 OPERATIONS

Principle 6.1

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

Principle 6.2

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

Principle 6.3

Just Transition considerations are integrated across policies and procedures

Providing Principles and a set of key questions and guidance notes allows for consistent take-up of the proposed Just Transition Elements across investment vehicles, while also ensuring relevance to local context and different investment strategies. The questions are intended to be straightforward. This approach acknowledges that managers need flexibility to determine precisely how their vehicle reflects the Principles and how they respond to the questions; the intention is to provide guidance without requiring a single approach or structure across investment opportunities. At the same time, the Principles and questions establish a common basis on which all stakeholders may consider investment vehicles and their alignment to the integrated Just Transition Elements in the marketplace. 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 coming to market that reflect each of the three Just Transition Elements.

The Principles, universal questions and guidance notes set forth in the blueprint below are complemented with asset class specificity for

the priority asset classes identified in Section 2, reflecting the asset class's particular features, where relevant. They may be applied both to existing investment vehicles as well as to those still to be designed in the market. **The bottom line is that every investment vehicle which seeks to be a Just Transition vehicle should be able to answer the key questions in a manner that demonstrates alignment with the three integrated Just Transition Elements.**

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 distinct 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 sought.

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.

Example of an ambition statement: responsAbility

The responsAbility **Access to Clean Power Fund (ACPF)** states the following ambition:

The fund targets companies providing solutions to households without access to electricity and businesses looking for cleaner, cheaper and more reliable energy. Beyond financing the off-grid sector, it actively addresses the solar potential for the commercial and industrial (C&I) sector.

Fund ambitions include:

- **Climate and Environmental Action:** Reduce CO₂ emissions by 6m tonnes, 2,800 GWh of clean energy generated, 2,000 MW renewable energy capacity by end of fund life
- **Socio-economic Distribution and Equity:** Access to energy for 170 million people, 5,200 SMEs with improved access to electricity, 5,750 new full-time jobs, 37 million products sold by portfolio companies, all by the end of fund life
- **Community Voice:** Ongoing feedback data sought from initiatives such as GOGLA

Additional asset class specific considerations

Asset class vehicles	Specific considerations
Private equity	Universal; no additional specificity
Private debt	Universal; no additional specificity
Infrastructure	<ul style="list-style-type: none"> • It is particularly important to include a clear articulation on the inclusion of local community aspects into targeted infrastructure projects and, ideally, inclusion of the local supply chain
Real estate	<ul style="list-style-type: none"> • In the case of real estate projects, it is particularly important to include a clear articulation on the inclusion of local community and neighbourhood aspects and, ideally, the local supply chain • It is particularly important to provide clarity on the targeted socio-economic population segment, depending on the real estate type, including, for example, workers, consumers or tenants
Fixed income	Universal; no additional specificity

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, in particular to ensure that marginalised, underserved and affected segments of societies are expressly included and their interests are addressed.

Additional asset class specific considerations

Asset class vehicles	Specific considerations
Private equity	Universal; no additional specificity
Private debt	Universal; no additional specificity
Infrastructure	<ul style="list-style-type: none"> Infrastructure vehicles ensure that a local needs assessment is integrated into each project design, that procurement processes include local community considerations and that operationalisation aspects are informed by community interests
Real estate	<ul style="list-style-type: none"> Real estate vehicles ensure that a local needs assessment is integrated into each project design, that procurement processes include local community considerations and that operationalisation aspects are informed by community interests
Fixed income	Universal; no additional specificity

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.

Examples of possible Just Transition fund investment strategies

Just Transition fund investment strategies span an extensive range of climate-first and social-first initiatives. A few are highlighted below but see also Figure 1.11 in Section 1.

- Renewable energy private equity fund, providing decent jobs for workers and including community support and participation**
 - ~ Clean energy, decent jobs and community support, community engagement
 - ~ Example: Actis' Energy Fund 4 (see Section 3.4.4)
- Access to renewable and affordable energy debt fund, including community engagement**
 - ~ Clean energy, access to affordable energy of underserved communities, gender impact, community engagement
 - ~ Example: responsAbility's Access to Clean Power Fund (see Section 3.4.3)
- Forestry private equity fund, including local community engagement**
 - ~ Emissions sequestration and biodiversity, health/clean air, community engagement
 - ~ Example: New Forests' Tropical Asia Forest Fund (see Section 3.4.2)
- Affordable green housing private equity real estate fund, including neighbourhood support**
 - ~ Emissions mitigation, affordable housing, community engagement
 - ~ Example: IHS' IHS Fund II (see Section 3.4.5)

Examples of Community Voice in action

- Community engagement with local community bodies or stakeholders
- Community or relevant NGO representative on an advisory committee or panel or the board
- Survey instruments, such as 60 Decibels pulse surveys (see Section 3.5) or focus group surveys to gather end customer/ client/ beneficiary feedback
- Renewals data, for example, for insurance contracts
- Leadership with 'lived experience'
- Employee engagement, for example, worker satisfaction surveys/grievance policies
- Community liaison officer or representative, particularly for infrastructure and real estate

For more resources on integrating Community Voice, see Appendix 4

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 needs – 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 chains are also considered
- Consider the inclusion of social activities in the strategy and related costs. For example, 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 (see also Section 1.4.2 for an illustrative list of the breadth of strategies to which the Just Transition can apply).

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, investment decision, portfolio monitoring and potentially divestment decisions (see also Principle 6.2).

Additional asset class specific considerations

Asset class vehicles	Specific considerations
Private equity	<ul style="list-style-type: none"> • A Just Transition vehicle strategy at design stage confirms how equity is the appropriate instrument to address its Just Transition objectives • The strategy ensures accessibility and affordability of equity terms, including fair investment valuations • The vehicle considers, in its investment selection, the opportunity to build in continuity of the Just Transition Elements post investment exit
Private debt	<ul style="list-style-type: none"> • The investment strategy at design stage confirms how debt is the appropriate instrument to address its Just Transition objectives • The strategy ensures that debt service, including interest rate and repayment structure (e.g., bullet, amortising, flexible, seasonal) including maturity, is fair and not overly burdensome, leading to availability, access and affordability of credit • The vehicle looks to ensure that the debt terms offered are appropriate with a view to local market building, aiming to attract other investors, in particular local ones
Infrastructure	<ul style="list-style-type: none"> • The investment strategy is clear on who will be affected by the targeted infrastructure projects, both in the short term (in particular the construction phase) but also in the long term (operational phase); those who benefit from infrastructure can change over the long-time horizons of infrastructure projects • The strategy and project prioritisation consider positive and negative externalities of each investment project across different stakeholders and affected communities and population segments. Both positive and negative externalities are considered and addressed from the outset and tracked over time

Continued on next page

Asset class vehicles	Specific considerations
Infrastructure	<ul style="list-style-type: none"> • The strategy includes a clear positioning on the inclusion of local community aspects, including (short- and long-term) local quality employment opportunities and health and safety aspects • The inclusion of green aspects is specific, including, for example, materials used, water usage, or energy efficiency, including also the supply chain, where possible • The strategy also extends social considerations to the respective supply chains • The strategy ensures that debt service terms, including interest rate, amortisation and maturity, or return expectations, as applicable, are fair and not overly burdensome, leading to availability, access and affordability of funding • The vehicle seeks to ensure, in its investment selection, the opportunity to build in continuity of the Just Transition Elements post investment exit
Real estate	<ul style="list-style-type: none"> • The investment strategy is clear on the local market gaps and needs (for example, housing) and how the targeted real estate investments support the closing of a gap • The investment strategy is particularly clear on who will be affected by the targeted real estate projects, both in the short term (in particular the construction phase) but also in the long term (operational phase). The targeted clientele is specified based on, amongst other considerations, price and affordability, location/catchment area, size and finish • The strategy and project prioritisation considers positive and negative externalities of each investment project across different stakeholders, affected communities and population segments. Both positive and negative externalities are considered and addressed from the outset and tracked over time • The strategy includes a clear positioning on the inclusion of local community aspects, including (short- and long-term) local quality employment opportunities and health and safety aspects • The inclusion of green aspects is specific, including, for example, materials used, water usage or energy efficiency, including also the supply chain, where possible • The strategy extends social considerations to the respective supply chains • The strategy ensures that debt service terms at the investee level, including interest rates, amortisation and maturity, or return expectations, as applicable, are fair and not overly burdensome, leading to availability, access and affordability of funding • The vehicle seeks to ensure in its investment selection the opportunity to build in continuity of the Just Transition Elements post investment exit
Fixed income	<ul style="list-style-type: none"> • The investment strategy is clear in its green and social objectives, providing allocation expectations for both, where possible • Prioritisation is given to those bonds that align to all three Just Transition Elements • The execution of the strategy includes not only a project review but also a social and environmental assessment of the issuer, including the issuer's engagement with local communities, where possible

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?*

In order 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 of

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, for example, layered capital structures, guarantees or grant-funded capacity support – see Section 2.6 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 be smaller in some cases, 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 move outside well-trodden pathways and current comfort zones as they assess new opportunities that integrate environmental and social considerations.

Additional asset class specific considerations

Asset class vehicles	Specific considerations
Private equity	Particular private equity vehicle investor considerations when determining investment strategy include: <ul style="list-style-type: none"> • Type of equity (growth equity or VC) • Profile and type of target investees (including growth/maturity profile) • Sector considerations (sector maturity, risk profile, etc.) • Exit strategy
Private debt	Particular private debt vehicle investor considerations when determining investment strategy include: <ul style="list-style-type: none"> • Type of debt (senior, subordinated, mezzanine, etc.) • Amount, predictability and stability of current income • Security provided • Profile and type of target investees (including cashflow profile) • Sector considerations (sector maturity, risk profile, etc.)
Infrastructure	Particular infrastructure vehicle investor considerations when determining investment strategy include: <ul style="list-style-type: none"> • Type of instrument (equity, debt, mezzanine, etc.) • Type of strategy (based on the risk profile, such as core, core+, etc.) • Profile and type of target projects, including contractor and other counterparties (such as offtakers) • Sub-sector considerations (sector maturity, risk profile, etc.) • Exit strategy in case of equity investment

Continued on next page

Asset class vehicles	Specific considerations
Real estate	Particular real estate vehicle investor considerations when determining investment strategy include: <ul style="list-style-type: none"> • Type of instrument (equity, debt, mezzanine, etc.) and opportunity for predictable and stable income • Profile and type of target projects (risk implications) • Sub-sector considerations (sector maturity, risk profile, tenants and leases, etc.) • Inflation protection • Exit strategy in the case of equity investment
Fixed income	Particular fixed income vehicle investor considerations when determining investment strategy include: <ul style="list-style-type: none"> • Mix of developed and emerging markets bonds, with a view to average portfolio rating • Targeted issuers, with a view to average portfolio rating and reputation • Types of use of proceeds/issuer types; International Capital Market Association (ICMA) inclusion • Sector considerations (issuer, use of proceeds)

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 (IFC) Operating Principles, the Impact Management Project (IMP), IRIS+ or the SDG Impact Standards (see Section 3.5).

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 the adherence to and delivery of Just Transition Elements.

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

Additional asset class specific considerations

Asset class vehicles	Specific considerations
Private equity	Universal; no additional specificity
Private debt	Universal; no additional specificity
Infrastructure	<ul style="list-style-type: none"> • As infrastructure projects are typically grounded in local communities, infrastructure outcomes include an explicit assessment of community engagement with respect to needs assessment, procurement and other important aspects • For infrastructure, a Just Transition aligned outcomes framework extends to include supply-chain considerations
Real estate	<ul style="list-style-type: none"> • In the case of a real estate vehicle, the outcomes include a specific focus on the targeted demographic group (as tenants, workers or consumers), including, where relevant, underserved or marginalised clients or consumers

Continued on next page

Asset class vehicles	Specific considerations
Real estate	<ul style="list-style-type: none"> As real estate projects are typically grounded in local communities, real estate outcomes include an explicit assessment of community engagement with respect to needs assessment, procurement and other important aspects For real estate, a Just Transition aligned outcomes framework extends to include supply chain considerations
Fixed income	<ul style="list-style-type: none"> A Just Transition bond vehicle's outcomes framework includes an assessment of not just the relevant bonds' uses of proceeds but also an assessment of the underlying issuers

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.

Additional asset class specific considerations

Universal; no additional specificity.

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 to investees and local communities

Additional asset class specific considerations

Asset class vehicles	Specific considerations
Private equity	<p>Private equity vehicle Just Transition considerations on structure and terms include:</p> <ul style="list-style-type: none"> Vehicle life, capping equity investment hold periods Management fees appropriate for the delivery of the strategy Target vehicle internal rates of return (IRRs), driving underlying terms to investees, including fair valuation considerations
Private debt	<p>Private debt vehicle Just Transition considerations on structure and terms include:</p> <ul style="list-style-type: none"> Vehicle life, capping underlying loan maturities Vehicle-level investor yields, driving accessible and affordable terms to investees Interest rates linked to outcomes delivery (e.g., possible rate reduction to the underlying investees based on environmental and social outcomes) Local currency loans, de-risking loans for investees

Continued on next page

Asset class vehicles	Specific considerations
Infrastructure	<p>Infrastructure vehicle Just Transition considerations on structure and terms include:</p> <ul style="list-style-type: none"> • Vehicle-level return expectations, driving underlying terms and access and affordability of the project • Vehicle life and related timeframe considerations are particularly important given the long-time horizon (development and operational periods) for most infrastructure investments • The structure considers the inclusion of community support and engagement given the essential services nature of many infrastructure projects and direct impact on local communities
Real estate	<p>Real estate vehicle Just Transition considerations on structure and terms include:</p> <ul style="list-style-type: none"> • Vehicle-level return expectations, driving underlying terms and access and affordability of the project • Vehicle life and related timeframe considerations are particularly important given the long-time horizon (development and operational periods) for most infrastructure investments
Fixed income	<p>Fixed income vehicle Just Transition considerations on structure and terms include:</p> <ul style="list-style-type: none"> • Vehicle duration, depending on the targeted underlying bond maturities • Pricing linked to delivery of environmental and social outcomes

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** (for example, private debt versus 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 for example:
 - ~ 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 2.6 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 partnerships, may be advisable in order to ensure investor appetite for the vehicle.

Additional asset class specific considerations

Asset class vehicles	Specific considerations
Private equity	Private equity vehicle Just Transition considerations on structure and terms include: <ul style="list-style-type: none"> • Appropriateness of typical PE vehicle tenor of 10 years • Appropriateness of typical 2/20 management fee or incentive structure
Private debt	Private debt vehicle Just Transition considerations on structure and terms include: <ul style="list-style-type: none"> • Structural considerations to include investor regulatory requirements, such as Solvency II regulation on capital allocation requirement, and the benefit of ratings • Target cashflow profile
Infrastructure	Infrastructure vehicle investor considerations on structure and terms include: <ul style="list-style-type: none"> • Extended tenor, depending on the phase of the project (development, construction, operation)
Real estate	Real estate vehicle investor considerations on structure and terms include: <ul style="list-style-type: none"> • Extended tenor, depending on the phase of the project (development, construction, operation) • Consider open-end and listed structures for operating assets
Fixed income	Bond vehicle investor considerations on structure and terms include: <ul style="list-style-type: none"> • Structure and legal form that allows for daily liquidity • Target average rating

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.

Additional asset class specific considerations

Asset class vehicles	Specific considerations
Private equity	<ul style="list-style-type: none"> • Often in private equity vehicles, control and decision making are centralised with the manager. In a Just Transition vehicle, the manager is not the single deciding voice in the governance bodies
Private debt	Universal; no additional specificity
Infrastructure	<ul style="list-style-type: none"> • Effective governance structures and policies are particularly important as infrastructure projects are often linked to local government entities • The vehicle ensures that the governance set-up includes active community and stakeholder engagement (which, traditionally, is built into the planning process for infrastructure investments), ensuring community relevance and support as well as feedback and local recommendations
Real estate	<ul style="list-style-type: none"> • The vehicle ensures that the governance set-up includes active community and stakeholder engagement (which, traditionally, is built into the planning process for real estate investments), ensuring community relevance and support as well as feedback and local recommendations
Fixed income	Universal; no additional specificity

Principle 5.2

The governance structure enables broad stakeholder voice

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

The vehicle's governance structure demonstrates how different voices, and particularly the voices of communities, are represented and incorporated throughout the vehicle's 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 NGO, or community expert, able to 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.

Additional asset class specific considerations

Asset class vehicles	Specific considerations
Private equity	Universal; no additional specificity
Private debt	Universal; no additional specificity
Infrastructure	<ul style="list-style-type: none"> Infrastructure projects are typically grounded in local communities. Vehicles therefore put particular emphasis on community engagement and the representation of a community voice within the vehicle's governance bodies
Real estate	<ul style="list-style-type: none"> Real estate projects, in particular residential housing, are typically grounded in local communities. Vehicles therefore put particular emphasis on community engagement and the representation of a community and neighbourhood voice within the vehicle's governance bodies
Fixed income	<ul style="list-style-type: none"> Bond vehicles are mostly global or regional in nature. Therefore, the selection of a representative voice will contribute a relevant perspective but cannot be expected to represent all relevant communities targeted by the vehicle

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 as well as financial targets?*

A vehicle ensures that it provides training for 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.

Additional asset class specific considerations
Universal; no additional specificity.

Principle 6.2

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

Key question: *How does the vehicle integrate a 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

Additional asset class specific considerations

Asset class vehicles	Specific considerations
Private equity	<ul style="list-style-type: none"> • The vehicle pursues active Just Transition investee engagement in its role as shareholder, including the use of shareholder vote, particularly in the case of significant minority or majority holdings • The vehicle considers successive ownership and continuity of Just Transition objectives in the event of its exit
Private debt	<ul style="list-style-type: none"> • The vehicle considers active Just Transition investee engagement, such as through relevant and specific borrower undertakings (e.g., to increase services to underserved communities or decrease emissions footprint)
Infrastructure	<ul style="list-style-type: none"> • The vehicle pursues active Just Transition investee engagement (depending on investment instrument via shareholder vote or undertakings) • In the case of equity investments, the vehicle considers successive ownership and continuity of Just Transition objectives in the event of its exit and/or as a project moves into the next phase
Real estate	<ul style="list-style-type: none"> • The vehicle pursues active Just Transition investee engagement (depending on investment instrument via shareholder vote or undertakings) • In the case of equity investments, the vehicle considers successive ownership and continuity of Just Transition objectives in the event of its exit and/or as a development moves into operations
Fixed income	<ul style="list-style-type: none"> • The vehicle scrutinises use of proceeds in terms of Just Transition objectives not only at the time of disbursement but over the life of the vehicle with a particular focus on the end of the vehicle's life

Principle 6.3

Just Transition considerations are integrated across policies and procedures

Key question: *How are the vehicle's Just Transition ambitions 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

Additional asset class specific considerations

Universal; no additional specificity.

3.4 Just Transition investment vehicles by asset class

3.4.1 Overview

As discussed under Section 2.3.4 above, 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. To show how solutions might be delivered, this Section profiles 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 integrated 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.

A summary of these case studies and further relevant examples are given in the table below.

Summary overview of case studies and examples per asset class

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

Reasons for case study selection: Alongside their close alignment with the Just Transition Elements and Principles, all case studies 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 investment vehicles, this report includes a few questions for each case study, 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 examples: In addition to the detailed case studies, we have highlighted other examples across the priority asset classes to:

- Show the variety, breadth and depth of the market opportunity of investment vehicles for institutional investors
- Highlight a range of managers, from traditional managers to impact managers, and partnerships between them which are bringing more investment propositions to market; and/or
- Present several Just Transition relevant investment strategies in the market across a variety of climate

and social objectives, some of which sit at the core of what the Just Transition approach is trying to achieve (for example the InsuResilience Fund's climate adaptation and community strategy)

- Present further examples that have historically focused singularly on environment or social aspects but where the strategy could be expanded in a future fund to bridge the divide and achieve Just Transition relevance
- These latter examples are cited to provide a tangible starting point for how asset managers and asset owners can expand their current efforts in response to the Just Transition imperative. An example for a possible expansion is the area of microfinance funds, where a distinct integration of climate relevant investment parameters could make many of the microfinance vehicles Just Transition relevant

Similar to the treatment of the case studies, this report sets out questions suggesting areas of potential strengthening of the respective vehicle towards a more robust Just Transition alignment.

All case studies and examples are provided for information and illustrative purposes only and should not be interpreted or construed as solicitation, endorsement or investment recommendation. Further, this report takes no responsibility for the accuracy of any information and figures presented.

It is important to keep an open and creative mind on the application of the Just Transition Elements to a

broad and expansive range of investment strategies. This expansive approach is needed to scale a Just Transition across geographies and ensure that investment opportunities meet local needs. An understanding of the sectoral impact of climate change and social action, and of their place-based relevance, is important. As discussed in Section 1.4.2, there are different ways to achieve climate-relevant investment vehicles, spanning climate mitigation investments, climate sequestration investments and also climate adaptation investments. Similarly, socio-economic impact can be achieved in different ways, for example, by targeting decent jobs or access to and affordability of products and services for underserved population segments or community development, to name just a few. New technologies for climate solutions as well as digitisation to enhance delivery of basic goods and services are also critically important trends to which Just Transition can add meaningful results.

3.4.2 Private equity vehicles

3.4.2.1 PRIVATE EQUITY VEHICLE: APPLICATION OF THE BLUEPRINT TO A CASE STUDY AND SUPPORTING EXAMPLES

There are many private equity funds targeting emerging markets with integrated ESG considerations or impact targets. While there are no private equity funds in emerging markets labelled 'Just Transition' yet, there are many funds whose strategy is grounded in achieving climate and/or social change, and even some that look to incorporate community engagement into their

investment strategy and processes. Shown below are selected funds that are relevant to many aspects of Just Transition and which, with some targeted changes, could meet each of the integrated Just Transition Elements.

A noteworthy example of an institutional-grade impact private equity fund that covers some of the Just Transition Elements across its fund dimensions is **LeapFrog's Emerging Consumer Fund III**. The fund shows how significant social impact, targeting those living on less than \$10 a day with affordable and quality products, can effectively be scaled and combined with substantial institutional investor participation. The \$743-million fund is LeapFrog's third fund and includes over 50 limited partners across institutional investor types, DFIs and MDBs and foundations. LeapFrog has managed to scale from an originally niche impact manager with a 2009 first fund at \$135 million into an institutional-grade manager, setting up a diversified emerging markets fund, delivering strong social impact without the need for blending support. LeapFrog further managed to secure a large commitment from Singapore-based investment company Temasek (see Section 2.4.1.6 for more details), for ongoing support for the manager and future funds.

The fund is evolving an approach that ensures improved financial inclusion facilitates a transition to clean technologies like electric vehicles, smart homes, and improved business processes. This includes enhancing existing ESG reporting with Climate and Environmental Action targets, a significant step as many developing countries fall into the higher climate change risk categories when looking at the vulnerability index (see section 1.3.1.3),¹⁹⁸ while the least developed countries of the world account for less than 1% of worldwide GHG emissions.¹⁹⁹

¹⁹⁸ ND-Gain Matrix Country Index: <https://gain.nd.edu/our-work/country-index/>

¹⁹⁹ UNCTAD (2017): "LDC - The least developed countries report 2017: Facts and Figures"

Private equity: Market and trends

According to Deloitte, **global** private equity assets under management (AUM) have grown by around 3x since 2009, from under \$1.5 trillion to \$4.5 trillion in 2019, driven by increasing demand from institutional investors due to the expectation of high returns and low correlation, leading to better overall portfolio diversification. While fundraising declined in 2020, driven by the Covid-19 pandemic and a certain 'lumpiness' in fundraising due to the closing of large mega-funds, as highlighted by McKinsey, market experts expect private equity to continue to grow strongly: Deloitte expects global AUM to reach \$5.8 trillion by 2025 and Preqin predicts an even steeper boom in the coming years leading to AUM of \$9 trillion by 2025.

Funds of funds (FoFs) are a small sub-segment of the overall private equity market, amounting to just \$80 billion in 2016. They have fallen out of favour given, amongst other reasons, investor concerns about the double fee layers and increased institutional investor sophistication. FoF managers have responded to the challenges by an increase in consolidation activity, a general decrease of fees, or the use of alternative structures (e.g., separate accounts, co-investments or secondaries vehicles) and the exploration of market niches, as noted by Preqin.

Source: Deloitte (2020): "The growing private equity market"; McKinsey (2021): "A year of disruption in the private markets"; Preqin (2021): "Future of Alternatives 2025: Private Equity AUM Will Top \$9tn in 2025"; Preqin (2017): "Preqin special report: private equity funds of funds"; Financier Worldwide (2017): "Emerging market private equity assets surpass \$500bn"; [https://www.financierworldwide.com/emerging-mar-](https://www.financierworldwide.com/emerging-mar)

Emerging markets private equity AUM were estimated to account for about one-fifth of the global private equity market in 2016, according to Financier Worldwide. Asia has controlled the vast majority of private equity fundraising for emerging markets in the last 10 years. Africa only plays a small role, with the total value of private equity deals in Africa totalling \$3.8 billion in 2019, as per the African Private Equity and Venture Capital Association's (AVCA) data tracker.

In **Africa**, DFIs and MDBs are the largest private equity investor group, playing an important role as they provide funding, mobilise private capital, provide capacity support and advocate for regulatory changes. Many international institutional investors have been wary of the continent in recent years. While the continent has not yet recovered from the economic decline beginning in 2015 with the commodity cycle downturn (GPCA), a change in investor sentiment seems to be emerging. A 2020 private equity survey conducted by AVCA found that a broad cross-section of investors across type, size and location are positive on the continent and have shown a growing appetite for private equity in Africa, with 86% of surveyed investors planning to increase their private equity allocation in Africa over the next three years.

ket-private-equity-assets-surpass-500bn#.YRUlhYgzZPY; AVCA (2021): "Annual African Private Equity Data Tracker"; GPCA (2020): "Africa Data Insight (Year-End 2019)"; <https://www.globalprivatecapital.org/research/africa-data-insight-year-end-2019/>; AVCA (2021): "African private equity industry survey"; <https://www.avca-africa.org/research-publications/data-reports/african-private-equity-industry-survey-2021/>

Overview

AMBITION

(including linkage to Just Transition)

Statement: LeapFrog aims to achieve 'Profit with Purpose', combining outstanding financial returns and outsized impact

- **Climate and Environmental Action:** Drive adoption of clean technologies through financial inclusion with enhanced ESG reporting
- **Socio-economic Distribution and Equity:** LeapFrog helps deliver underserved consumers with access to the springboards and safety nets that provide the opportunity and pathway out of poverty, focusing on essential products and services in financial services and healthcare
- **Community Voice:** LeapFrog supports customer-centric businesses that design products/services around the essential needs of emerging consumers

DESCRIPTION OF FUND

The LeapFrog Emerging Consumer Fund III, LP (2017) is a \$743 million fund offering exposure to high quality financial services and healthcare businesses across Asia and Africa.

The fund aims to invest in businesses that provide quality, relevant and affordable products to the two billion (and rising) underserved emerging consumers, living on less than \$10 a day.

By June 2021, the fund had reached 93 million people after four years, surpassing the 70 million target for the full life of the fund.



MANAGER

LeapFrog Investments was founded in 2007 and has raised \$2 billion across its funds.

The manager operates from 8 offices with 70+ professionals. LeapFrog's investee companies now reach 227 million people across 35 countries with healthcare or financial services. They have also grown at 25% annually, on average, from the time of investment.

INVESTORS

Investors

The fund is backed by 50 limited partners (LPs) including insurers (including Prudential Financial and AIG), other institutional investors (including Morgan Stanley and Nuveen), DFI/MDBs (including CDC, IFC and EIB) and many foundations/endowments (including Ford Foundation and Rockefeller Foundation).

Key attraction points for institutional investors

- Market rate returns and track record; combined with
- Strong social impact

Key Terms

FUND LEVEL

- **Vehicle / fund type:** Close-end private equity fund
- **Fund size:** \$743 million (original target of \$600 million)
- **Blending and/or TA:** No blending, some initiatives with portfolio companies are funded by technical assistance grants
- **Sponsor/anchor:** None
- **Term/investment period:** 10 years / 5 years
- **Target return:** Confidential, hurdle rate 8%
- **Management fee/incentive fee:** 2%
- **Vintage (first close):** 2017
- **Co-investment rights:** Yes

INVESTEES LEVEL (investment strategy)

- **Instrument(s):** Equity
- **Target investee type(s):** Growth stage companies in emerging markets
- **Target sector(s):** Financial services and healthcare
- **Target geographies:** Africa and emerging Asia
- **Investment tenor:** 3-7 years
- **Average ticket size:** \$20-75 million
- **Investment currency:** Local currency or USD

Continued on next page

LeapFrog Investments: LEAPFROG EMERGING CONSUMER FUND III, LP

Pipeline and portfolio

MARKET OPPORTUNITY

The Problem

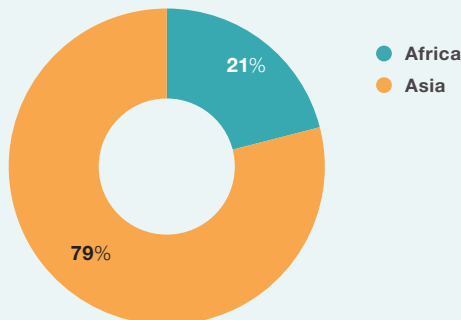
By 2030, there will be 4 billion emerging consumers with small and irregular income flows, making it difficult to save to withstand adverse events. Even families with savings may fall back into poverty after an income-earner dies or a productive asset is lost. At the same time, these consumers are seeking springboards out of poverty through access to financial services like business loans and housing finance.

The Opportunity

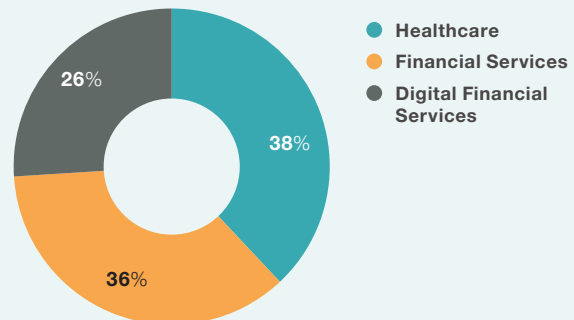
LeapFrog invests in innovative companies that seek to break this cycle by offering affordable, relevant and high-quality products, often through new technology distribution channels. When these purpose-driven businesses are able to attract high quality staff, are customer-centred and have better relationships with key stakeholder networks, they exhibit lower levels of risk and greater growth potential creating both outsized impact and returns. This is the essence of the 'Profit with Purpose' strategy.

ALLOCATION

Allocation - Geography



Allocation - Sector

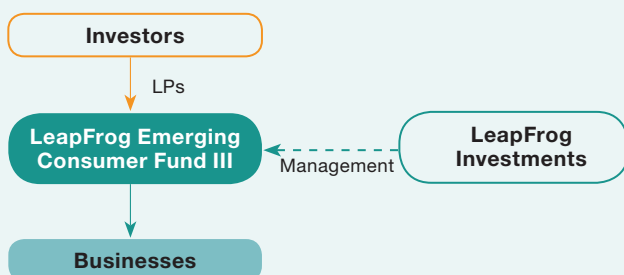


JUST TRANSITION IN THE INVESTMENT PROCESS

- LeapFrog operates solely in emerging markets and only sources investment opportunities that clearly support low-income consumers, resilient communities and strong ESG principles
- ESG and impact due diligence are conducted prior to investment, and are critical to Investment Committee approval. This includes ESG scoring, analysis of emerging consumer reach, articulation of clear theory of change and support for SDG goals

Structure and risks

LEGAL STRUCTURE



Jurisdiction: Mauritius

Legal form: Limited partnership

Capital structure: Partnership interests

KEY RISKS

Key Risks	Mitigant(s)
Geographic	Strong technical depth in healthcare and financial services drives focus on resilient, high-growth businesses
Currency	Portfolio diversified across Africa and emerging Asia
Political	Investments supported by multiple regional offices and in-country experts

Continued on next page

Outcomes framework

CLIMATE AND SOCIAL METRICS

Examples include:

- **Climate and Environmental Action:** Exclusion list applies
- **Socio-economic Distribution and Equity:** People reached (including low-income populations), quality of products, affordability for low-income consumers and relevance to meeting the customer need, job creation and gender equality metrics. In addition, sector-specific metrics (financial services and healthcare)
- **Community Voice:** Customer experience and satisfaction using renewal ratios, repeat clients and direct customer interviews, adapted for each sector

FRAMEWORK AND REPORTING

LeapFrog has a proprietary impact measurement framework: Financial Performance, Impact, Innovation, Risk Management (FIIRM).

- **Reporting standard:** informed by the IMP; aligned to the Operating Principles for Impact Management
- **Transparency:** Details about the FIIRM and impact results are available on the LeapFrog website
- **Third-party verification:** Yes; audit of the impact against the Operating Principles for Impact Management

Select areas of Just Transition enhancement

- **Is there an opportunity to further the current climate and environmental linkage of the fund, from both within the energy investments and across sectors, and build other climate and environmental action aspects into the fund strategy that could be included in the metrics?**
- **Could the fund expand its ambition statement to include targets for all three Elements of the Just Transition?**

Investee in the spotlight

INVESTING IN CARDEKHO

Background

For many millions of emerging consumers, mobility is the key that unlocks opportunity – it dramatically increases school enrolments, improves access to healthcare, broadens employment opportunities, and is a major source of direct employment for many emerging consumers. In a recent study, 50% of women in Chennai, India, reported being sexually harassed whilst travelling on public transport. In Bangladesh the number is as high as 84%.

CarDekho is a leading auto-tech and mobility financing company in India, operating auto sales, classifieds, finance, and insurance businesses. It serves 3.6 million emerging consumers, and ~86% of Indian purchasers will visit the platform before buying a vehicle. These low-income consumers are dramatically underserved. For instance, used car loan penetration is ~17% in India, compared to developed markets where penetration is ~75%. CarDekho not only improves access to vehicle insurance and finance, but also has made a concerted effort to improve the quality of vehicles sold on its platform. It provides documentation on each vehicle that validates ownership and accident history, as well as promotes new and affordable electric vehicles (EVs), like those produced by Mumbai-based startup Strom Motors and existing manufacturers like Tata, some of which retail for as little as \$6,000. CarDekho will be an important platform in enabling India's transition to EVs. In Q1 FY22, there were more than 3m searches for EVs on CarDekho's sites.

Investment

LeapFrog led a \$250 million capital raising round in October 2021.*



Impact

LeapFrog believes that balancing access to mobility with improvements in transport safety and environmental impact is key to delivering an overall improved quality of life to emerging consumers.

Climate and Environmental Action: LeapFrog will work with CarDekho on environmental programmes across its platform, and to track and target key impact data, as well as help catalyse an upgrade of existing vehicle fleets to EVs.

Socio-economic Distribution and Equity: LeapFrog's customer experience (CX) experts plan to support CarDekho to grow across low-income consumers seeking access to their first vehicle or to upgrade their existing vehicle. For instance, CarDekho has the opportunity to expand used vehicle finance products, which offer low-income consumers access to more affordable vehicles, but which banks typically eschew. LeapFrog will support efforts by CarDekho to enhance diversity and inclusion.

Community Voice: Customer experience and satisfaction using renewal ratios, repeat clients and direct customer interviews.

Sources: Thynell, Marie (2017): "Roads to Equal Access: The Role of Transport in Transforming Mobility." *Transport and Communications Bulletin for Asia and the Pacific* No 87; Dipu, Tahmina Akter and Nasratul Ferdous (2019): "A study of Women Harassment in public transports in Bangladesh." *International Journal of Science and Business* Vol 3(6).

*This deal is subject to closing in accordance with the transaction terms.

In addition, to LeapFrog's fund, there are other private equity funds attracting institutional investor interest and meeting at least some of the Just Transition Elements.

One example is the **African Development Partners III Fund (ADP III)**, managed by **Development Partners International (DPI)**, a commercial manager with deep African roots. DPI is a commercially-driven manager targeting market returns, while applying a strong ESG lens to its investments at the same time.

The \$900-million diversified pan-African fund, structured as a typical private equity fund, managed to reach scale and attract significant DFI but also institutional investor participation, including from a wide range of investors including leading pension and sovereign funds, endowments and foundations, insurance providers, asset managers, impact investors and family offices. ADP III was the first African fund signatory to the Operating Principles for Impact Management, an international market standard for impact investing and the first to be granted 2x Flagship Fund status, as part of the 2x Challenge, a gender-lens initiative.

ADP III targets equity investments in growing mid-sized companies that are led by women, have significant female staff or target them as consumers, across a range of high-growth sectors serving the continent's burgeoning middle class. Beyond its gender focus, the fund expects to contribute to the development of the region through job creation and the broad fostering of regional economic integration.

Another example of a relevant private equity fund is **New Forests' Tropical Asia Forest Fund (TAFF)**, managed by New Forests, a sustainable real assets investment manager offering interesting strategies in forestry, land management and conservation.

New Forests has historically focused on developed markets, targeting the US, Australia and New Zealand in particular, with significant institutional investor interest. TAFF was their first venture into emerging markets, building on their experience and expertise built in prior funds. TAFF pursues deeply relevant Climate and Environmental Action objectives investing in forests and advancing climate sequestration in Asia. At the same time,

EXAMPLE

Development Partners International: AFRICAN DEVELOPMENT PARTNERS III FUND

Fund overview

The **African Development Partners III Fund (ADP III)**, advised by **DPI**, is a \$900-million African private equity fund which recently announced its close in October 2021. ADP III will invest in Africa's medium- to large-cap, established, profitable and growth-oriented businesses, operating in industries benefitting from the continent's fast-growing middle class and the increasing digital transformation of the continent. ADP III was the first African fund to be granted 2x Flagship Fund status, as part of the 2X Challenge, a gender-lens initiative.

Structure

Closed-end private equity fund.

Manager

Development Partners International (DPI) is an African investment firm, headquartered in London, and has over 40 members of staff. DPI has over \$2.8 billion of AUM including co-investment. They have invested in 23 portfolio companies operating across 29 countries.

Investors

ADP III has secured commitments from a wide range of investors including leading pension and sovereign funds, endowment and foundations, insurance, asset managers, impact investors, family offices and development institutions.

Outcomes

DPI pursues three main SDGs: Gender (SDG 5), Job Quality (SDG 8) and Climate Change (SDG 13). They leverage their dedicated in-house ESG and impact team to implement

their impact framework, which was informed by the IFC Operating Principles for Impact Management, the UN Guiding Principles on Business and Human Rights, the IFC Performance Standards, the 2X Challenge, the Task Force on Climate-related Disclosures (TCFD), the SMART Principles for Customer Protection and the UN-supported PRI.

From a climate perspective, DPI aims to move towards clean and affordable energy and improve energy, water, waste and wastewater efficiency. From a socio-economic perspective, DPI focuses on improved job quality, including living wages, benefits, wealth building opportunities, and feedback forums for employees to provide input to management. A further focus is gender, aiming to restructure and prioritise female ownership, founders, board members, women in the workforce and products that meet women's needs.

The results gathered through the measurement process are verified and disclosed to key stakeholders, including investors. And, along with the ESG performance, impact is reported annually to investors.

Just Transition enhancement opportunities

- Is there an opportunity to add a clear climate and socio-economic ambition including targets and allocation expectations?
- Could the fund include in their assessment and potentially prioritise investees based on their demonstrated community engagement?

Source: DPI website; manager information

EXAMPLE

New Forests: TROPICAL ASIA FOREST FUND

Fund overview

New Forests' Tropical Asia Forest Fund (TAFF) raised \$170 million of capital commitments for investment into sustainable forestry in Southeast Asia in 2013. TAFF's investment thesis was to invest in certified, sustainable plantation forestry in Southeast Asia, integrating investment in forestry, timber processing and environmental assets. New Forests has also added value to assets through improved forestry management, enhanced systems and processes including governance and risk management, accessing new timber markets, achieving forest certification, and community engagement. The TAFF portfolio includes three investment companies: Mekong Timber Plantations (MTP) in Laos, Acacia Forest Industries (AFI) in Malaysia and Hutan Ketapang Industri (HKI) in Indonesia. MTP and AFI are eucalyptus plantations supporting a variety of timber products and HKI is a rubberwood plantation producing latex.

To build off TAFF's track record, further scale positive environmental and social outcomes, and meet investor demands, New Forests is launching TAFF 2 in the near term. The company's second Southeast Asian fund will have a blended finance structure to attract a range of investors and create a financial structure that will enhance the capacity of the fund to invest in impact activities related to climate change mitigation and biodiversity enhancement, and to support communities and livelihoods. Through responsible active management and innovative investment products, New Forests aims to support the growth of Southeast Asia's sustainable forest sector.

Structure

Standard closed-end 10-year private equity fund with one class of shares.

Manager

New Forests is a global investment manager in sustainable forestry and related sectors, with \$5.7 billion in assets under management across over one million hectares (2.6 million acres) of investments. New Forests is a Certified B Corp and operates in Australia, New Zealand, Southeast Asia and the United States.

Investors

TAFF has a diverse mix of investors including DFIs, pension funds and other private investors. New Forests seeks to engage a range of investor types in emerging markets' sustainable forestry investment to scale the asset class and deliver positive ESG outcomes.

Outcomes

TAFF reports its impacts via New Forests' Sustainable Landscape Investment (SLI) framework, which includes approximately 80 metrics across six material ESG themes. The core SDGs pursued are 8 (Decent Work and Economic Growth), 12 (Responsible Consumption and Production), 13 (Climate Action) and 15 (Life on Land).

Key performance indicators (KPIs) measured include:

- SDG 8: Net hires, female employees (%); lowest wage paid to a direct employee; the number of smallholders as the company works to develop sustainable programmes
- SDG 12: Certifications acquired by the investee companies to encourage responsible business practices; certified timber harvest volume (or in the case of HKI, rubber volume) to support a circular bioeconomy
- SDG 13: Forest carbon – productive area carbon storage (CO₂ equivalent); annual change in forest carbon
- SDG 15: Conservation and protected area; rare, threatened and endangered species; restoration area

Select areas of potential Just Transition enhancement

- Could the fund's ambition set clear targets for all three Just Transition Elements?
- Could the fund be clearer on the involvement of communities in the execution of the strategy and report on community engagement as part of its overall outcomes reporting?

Source: New Forests website; New Forests (2013): New Forests Announces Final Close of the Tropical Asia Forest Fund with \$170 million of Capital Commitments and Completes Fund's First Transaction; manager information

it aims to deliver on Socio-economic Distribution and Equity and Community Voice by creating value for stakeholders, including communities following its "sustainable landscape investment framework". This provides a mechanism for navigating climate change, diversity loss and resource scarcity while promoting social inclusion, equality and sustainable development.

The fund managed to raise \$170 million in commitments from DFIs, pension funds and other private investors. For its follow-on fund, TAFF 2, New Forests is considering the introduction of blending elements into the structure to deepen its impact delivery across environmental and social objectives and to mobilise additional institutional capital.

TPG's Rise Fund II is another interesting example, given its scale and institutional investor participation. At time of closing, it was the largest impact private equity fund in the market, driven by a mainstream manager who had first entered the space with its first Rise Fund. TGP Rise II shows how a structurally straightforward impact fund can attract substantial institutional money if managed by a tenured manager with strong ties to institutional investors. While TPG's team marketed their first Rise fund with a combination of TPG's track record and the individual team members' experience in impact investing, Rise II was able to rely on the success of the first Rise Fund.

EXAMPLE

TPG Rise: THE RISE FUND II**Fund overview**

TPG's The Rise Fund II is a global \$2.2-billion private equity fund offering exposure to high potential, mission driven companies across sectors, including education, financial inclusion, food and agriculture, healthcare, impact services, and climate and conservation. The fund invests in growth-stage companies with strong financial return potential while also driving measurable social and environmental impact. As of 30 September 2021, the fund had made 16 investments.

Structure

Standard closed-end GP/LP structure, 10+2-year private equity fund.

Manager

Headquartered in San Francisco and leveraging a global team, the first Rise Fund was launched in 2016 by TPG in partnership with Bono and Jeff Skoll to invest in businesses whose products and services help achieve the SDGs. As part of TPG, The Rise Funds benefit from investment resources, business-building capabilities and a global network to help their portfolio companies accelerate growth and impact. Since inception, The Rise Funds have funded over 50 companies with a footprint of over 45 countries, and increased AUM to \$12 billion across TPG's impact investing platform, which also includes Evercare and TPG Rise Climate (as of September 2021). There are 500+ investment and business building professionals across TPG, and TPG's Rise platform has a dedicated team of over 35 individuals.

Investors

The fund is backed by multiple investors, 70% of which are institutional in nature, with the other 30% being high-net-worth individuals (HNWIs).

Outcomes

The Rise Funds assess impact in partnership with Y Analytics, using independent research and evidence to quantify the social and environmental value of business output. In partnership with Y Analytics and Bridgespan Social Impact, The Rise Funds created a methodology and resulting metric to assess potential impact before money is committed: the Impact Multiple of Money (IMM). Calculating the IMM allows direct comparisons between investment opportunities to evaluate their potential impact.

On metrics, as a diversified fund, The Rise Fund II measures many sector-based metrics. For example, for climate the core metric is estimated tonnes of CO₂ emissions averted. Social metrics include, depending on the sector, students educated, life-saving healthcare supplies delivered, smallholder farms served or low-income individuals with access to financial services.

Select areas of potential Just Transition enhancement

- Is there an opportunity for the fund to include clear climate and social targets, including prioritisation of deals that integrate both environmental and social objectives?
- Could the fund introduce Community Voice as part of its impact framework?

Source: The Rise Fund website; manager information

3.4.2.2 FUND OF FUNDS

Funds of funds (FoF), where an investment vehicle is created to invest in multiple other vehicles, have fallen out of favour with many investors in recent years primarily due to investor concerns about double layers of fees. It is time for FoF approaches to be revisited for several reasons:

- **Fees resolution:** An increasing number of FoF managers are seeking to address the double fee issue by minimising their fees, aiming to reduce the fee differential with direct private equity funds
- **Fragmentation solution:** As most emerging markets are highly fragmented and direct funds are predominantly of limited size, an efficient aggregation structure provides institutional investors with size and scale of investment opportunity

- **Diversification benefit:** An FoF structure provides broad diversification. Depending on the strategy, diversification can be delivered across regions or jurisdictions, sectors and/or the number of underlying investee companies and company types, thereby addressing some institutional investor risk concerns about investments in developing countries and smaller scale businesses. De-risking through diversification, an FoF can provide investors with an entry point that builds on the track record and capabilities of a range of managers, allowing the investor to gain exposure and build expertise. This is particularly relevant for wealth management clients, including HNWIs and single and multi-family offices, which may not have the institutional scale to develop capabilities in-house

- **Manager access:** An FoF approach allows institutional investors access to more specialised managers and/or local managers and their expertise and networks, which might be out of reach if they were to try to invest in such managers directly. From a local market building perspective, FoFs may, at times, allow earlier-stage local fund managers to access institutional capital. There are some aggregation platforms that have the ability to deploy institutional money into the building of local manager infrastructure, responding to the recognised need to build a healthy and sustainable local market infrastructure across emerging markets

- **Market influence:** A Just Transition-focused FoF approach may significantly influence managers around the world, fostering the implementation of

Just Transition strategies, providing a cascading effect to the overall intermediary market and stimulating greater choice of opportunity for investors

One example of a notable FoF with an African focus is **Allianz Global Investors' AfricaGrow Fund**. The fund has strong social relevance as it intends to invest in diversified funds with the aim of developing the local financial ecosystem, financing SMEs and furthering job creation.

The fund benefits from a 50% subordinated first-loss equity tranche provided by the German Federal Ministry of Economic Cooperation and Development (BMZ), enabling the fund to invest in local emerging fund managers, driving the important domestic finance ecosystem.

²⁰⁰ Agri Investor (2021): "Credit Suisse climate fund surpasses \$250m target to close on \$318m"; <https://www.agriinvestor.com/credit-suisse-climate-fund-surpasses-250m-target-to-close-on-318m>

EXAMPLE

Allianz Global Investors: AFRICAGROW FUND

Fund overview

AllianzGI's AfricaGrow Fund is a €200-million fund offering exposure to venture capital and growth equity funds that are domiciled and active in Africa and have a strong track record. The fund is sector-diversified, including education, healthcare, mobility, e-commerce, finance, clean energy, and technology funds across Africa.

Structure

Closed-end 15-year private equity fund of funds. The fund has a blended structure, offering two classes of securities, including a €100-million junior tranche and a €100-million senior tranche. The subordinated capital layer enables the fund to mobilise institutional investors. It also has a technical assistance facility in place.

Manager

Allianz Global Investors (AllianzGI) has over €630 billion in AUM across asset classes, investor types and markets. It has nearly 3,000 employees, including about 700 investment professionals across 24 offices worldwide.

Investors

The fund is a partnership between public and private entities, with €100 million invested by the German Federal Ministry of Economic Cooperation and Development (BMZ), €30 million by KfW, the German state-owned development bank, and €70 million by Allianz Insurance Companies.

Outcomes

The fund is designed to generate measurable positive impact on the environmental and social conditions required to increase investment flows to Africa. Aiming to finance up to 200 innovative SMEs and start-ups through its investments in

relevant local funds by 2030, the fund promotes sustainable economic and social development across the continent. The fund is aiming to create 25,000 jobs by 2030.

The fund uses a proprietary development assessment tool which rates the contribution of AfricaGrow's portfolio to development along five dimensions: 1. decent jobs; 2. local income; 3. market and sector development; 4. environmental stewardship; and 5. community benefits, producing a cumulative score. This tool is based on a theory of change methodology mapping causal linkages from initial activities of AfricaGrow's clients through their outputs towards one or multiple targeted outcomes and finally impacts.

Select areas of potential Just Transition enhancement

- Is there an opportunity to add a clear climate-relevant ambition, targets and strategy to the fund, including measurement of related KPIs?
- Could the fund include, beyond its general job focus, a prioritisation of funds that have distinct targets for underserved or marginalised communities?
- Could the fund include community engagement as an origination criterium, prioritising local funds that can demonstrate how they engage with their target communities, by including Community Voice, for example, into the fund's design, governance or operations?

Source: AfricaGrow website; manager information

SPOTLIGHT

Emerging Market Climate Action strategy (EMCA)

The European Investment Bank (EIB) and Allianz Global Investors (AllianzGI) launched the **Emerging Market Climate Action strategy (EMCA)** at COP26. EMCA is a public-private partnership, with the Governments of Germany and Luxembourg, the Nordic Development Fund (NDF), AllianzGI, Folksam and EIB being anchor investors. EMCA will invest in climate-focused investment funds and projects active in emerging markets. Its focus will be on climate mitigation, climate adaptation and access to electricity. The fund has a target size of €500 million and is designed with a layered capital structure.

AllianzGI will act as alternative investment fund manager (AIFM) of the fund, while EIB will be the investment advisor, responsible for market analysis and the identification and appraisal of investments. EMCA complies with the EU taxonomy.

Source: Allianz GI (2021): "EIB and AllianzGI support climate action projects in emerging and developing countries"

Credit Suisse's Climate Innovation Fund

is a further example of an FoF, this time with a clear climate strategy across North America, Europe and Asia. The fund invests in climate technology through venture capital funds, driving innovative climate mitigation strategies across its target regions.

The fund structure is straightforward and was designed to cater to Credit Suisse wealth management clients that specifically want to use their capital to address climate change. Launched in mid-2021, the fund was significantly oversubscribed, raising \$318 million versus an original target of \$215 million,²⁰⁰ revealing strong investor demand for climate-relevant products and an FoF approach.

EXAMPLE

Credit Suisse: CLIMATE INNOVATION FUND**Fund overview***

Credit Suisse raised \$318 million for their **Climate Innovation Fund** – a fund of funds (FoF) seeking to invest at the intersection of venture capital and technology with the key objective of enabling positive climate impact.

The fund targets three sectors within its overarching climate theme: Sustainable Food and Agriculture, Sustainable Production and Consumption, plus Sustainable Mobility and Urbanisation. These sectors align closely with the majority of the SDGs. Further, the fund can invest in smaller and emerging managers, recognising the importance of growing the market of investable fund managers in a nascent sector.

Structure

Closed-end 10-year private equity FoF: the fund is structured for simplicity, a fund term close to standard private equity funds and limited fund costs on FoF level, while providing diversification across regions, sectors, fund sizes and manager track records.

Manager

Credit Suisse is a leading global wealth manager with strong investment banking capabilities. Founded in 1856, Credit Suisse has CHF1.5 trillion of AUM and almost 50,000 employees globally.

Investors

The fund raised capital exclusively from Credit Suisse's wealth management clients, including eligible individual investors and institutional family offices. The fund was oversubscribed and completed fundraising in four months. Credit Suisse funded the first few deals using its balance sheet capital to prove the concept before beginning the fundraising process.

Outcomes

The fund offers participants an opportunity to invest in a diversified portfolio of mission-driven seed, early-stage and

growth-stage funds (primaries, secondaries) and follow-on co-investments that are leading and enabling climate change mitigation.

In support of its climate-centric mission, the fund's investment process aims to address 'double delta', reporting both on the positive impact/change a company generates through its products and services and on the positive impact/change an investor generates through financing or active ownership to enhance the quality or quantity of the impact a company is generating. In addition, the fund will report the degree of alignment with the SDGs, providing a strong reference point for its reporting framework. Climate is the key element of the fund and as such CO₂ emissions are the core metric.

On the social side, the Climate Innovation Fund is planning to report on select metrics in alignment with the SDGs, including, for example, gender aspects. The metrics are still under consideration based on implementability and coverage. To be clear, however, social impact is not driving investment decisions.

Select areas of potential Just Transition enhancement

- Could the fund expressly include a Just Transition assessment of its investee funds, going beyond climate and including a socio-economic impact review (in addition to the planned inclusion of social metrics)?
- Could the fund include community engagement as an origination criterion, prioritising funds that can demonstrate how they engage with their target communities, by including Community Voice, for example, into the fund's design, governance or operations?

Source: Credit Suisse (2021): "Credit Suisse Climate Innovation Fund closes at USD 318m"; manager information

*Please note that this is not an offer to sell the product, the fund is closed for subscription, and that the fund cannot be (and was never) offered to investors in the US.

3.4.3 Private debt vehicles

3.4.3.1 PRIVATE DEBT VEHICLE: APPLICATION OF THE BLUEPRINT TO A CASE STUDY AND SUPPORTING EXAMPLES

Private debt is a growing allocation category for institutional investors, as described below. There are numerous noteworthy and sizable private debt funds targeting emerging markets that integrate ESG and/or impact targets. As with private equity vehicles, there are currently no emerging markets private debt funds positioned as Just Transition vehicles although there are several examples of funds satisfying one or more of the Just Transition Elements.

One relevant fund that focuses on Africa and is led by a manager with a proven track record and ESG credentials is **Ninety One's African Credit Opportunities Fund 2**. A noteworthy aspect

of this fund is its fundraising trajectory: the fund started as a DFI-seeded fund and managed, over time, to attract institutional investors alongside, showing how fundraising can develop and gain traction by tapping different investor types at different times. The earlier DFI-led investor group allowed the fund to build track record and scale, developing an investment proposition that was then accessible to global institutional investors.

Ninety One has a strong ESG focus. The African Credit Opportunities Fund 2 focuses on the social impact of market development, particularly around strengthening African capital markets, specifically the African bond market, with the aim to increase access, inclusion and affordability over time. The fund also has a focus on funding essential infrastructure, which further supports its social impact focus.

FIGURE 3.2

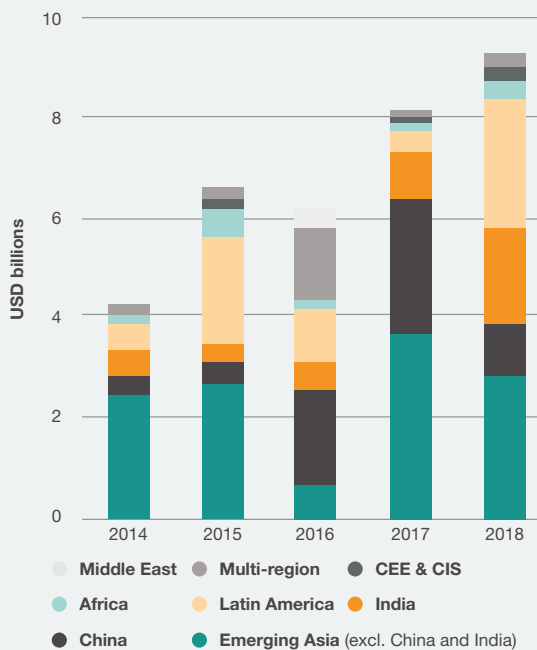
Private debt: Market and trends

The **global** private debt market has grown substantially in the last 20 years, from AUM of \$42 billion in 2000 to \$883 billion in 2020, according to McKinsey. Private debt strategies have found their way into most major institutional investors' asset allocations due to the low-yield environment in public markets, low default rates and the increasing disintermediation of banking as the financial crisis provided an opening for private debt strategies by asset managers with the introduction of stricter regulatory obligations for financial institutions. As a consequence, asset managers increased their volume of private debt assets under management by about 2.5x between 2008 and 2017, as per IFC. Preqin predicts private debt will continue to rise and expects the market to grow to close to \$1.5 trillion of AUM by 2025.

Emerging market private debt also grew strongly, with fundraising growing by a factor of 6.5x between 2008 and 2018. But it still only accounts for a fraction of the global market, with emerging markets private credit funds raising \$9.4 billion in 2018, according to the Emerging Markets Private Equity Association (EMPEA). However, it is receiving increasing attention from global capital allocators. The share of global institutional investors surveyed by the EMPEA that plan to begin investing, or expand their investments, in private credit in emerging markets increased from 24% in 2014 to 47% in 2018. Within emerging markets, the predominant growth region is Asia, which is seeing increased demand from investors as banks in its largest economies, China and India, are constrained in meeting additional credit growth, spurred by the Covid-19 pandemic.

The **African** private debt market is still nascent, especially in comparison to private equity. Private debt accounts for only 7% of the private funds raised for Africa in the last 10 years.

Emerging markets private credit fundraising



Source: McKinsey (2021): "McKinsey Global Private Markets Review 2021"; IFC (2021): "EM Compass – Private Credit in Emerging Markets"; Preqin (2020): "Future of Alternatives: Private Debt's Spectacular Rise Will Continue"; <https://www.preqin.com/insights/research/blogs/future-of-alternatives-2025-private-debts-spectacular-rise-will-continue>; EMPEA (2019): "Private Credit Report 2019"

Figure source: EMPEA (2019): Private Credit Report 2019

Ninety One: AFRICA CREDIT OPPORTUNITIES FUND 2

Overview

AMBITION

(including linkage to Just Transition)

Statement: “Seeks to generate real USD returns with low volatility; develop African debt capital markets; invest in sustainable businesses with strong ESG focus; create an alternative asset class for African and international pension funds; support African infrastructure development; support financial inclusion and deepening of the financial markets”

- **Climate and Environmental Action:** Not core focus area of the fund; coal on exclusion list, removing upstream oil from the investment universe
- **Socio-economic Distribution and Equity:** Focus on social impact via financial inclusion, infrastructure and telecoms
- **Community Voice:** N/A

DESCRIPTION OF FUND

Ninety One Africa Credit Opportunities Fund 2 (ACO 2) is a senior private credit fund investing in market dominant companies in African financial inclusion, infrastructure and telecoms sectors.

Targeting development of the African Debt Capital Markets (DCM) by creating an alternative asset class, crowding in African pension funds.

Sound ESG management system, supporting companies contributing to the SDGs.



MANAGER

Founded in 1991 as Investec AM, Ninety One is based in London and Cape Town and dual-listed on the London Stock Exchange and the Johannesburg Stock Exchange, with \$180.6 billion global AUM.

Ninety One is a leading investor in African private credit since 2008, with 18 previous African private credit funds.

21 offices across 14 countries (including emerging markets), with over 1,150 employees.

INVESTORS

Investors

Allianz, South African pension funds, US endowment.

Key attraction points for institutional investors

- Scale
- Low correlation strategy (against US/Europe) and attractive returns versus other credit strategies
- Experienced team with deep track record
- Sound ESG management system

Key challenges for institutional investors

African focused strategy; return expectations for Africa; capacity to do due diligence in Covid-19 period.

Key Terms

FUND LEVEL

- **Vehicle/fund type:** Closed-end debt fund
- **Fund size:** Actual \$165 million, target \$300 million. Final close December 2021
- **Blending and/or TA:** No
- **Sponsor/anchor:** Allianz, Towers Watson SA, Riscura
- **Term/investment period:** 6.5 years / 4.5 years
- **Target return:** Target gross returns at 3 month USD Libor + 6%
- **Management fee:** 1.35% (discounts for size of ticket)
- **Vintage (first close):** 2019
- **Co-investment rights:** Case-by-case basis

INVESTEES LEVEL (investment strategy)

- **Instrument(s):** Private credit and public credit, including loans, bonds, convertibles and asset finance
- **Target investee type(s) and client segment:** Market dominant African companies and other well-structured transactions
- **Target sector(s):** Consumer, financials, industrials, infrastructure, real estate, services, telecoms
- **Target geography(ies):** Africa with 15 core geographies
- **Investment tenor:** 3-6 years
- **Average ticket size:** \$10-25 million
- **Investment currency:** USD

Pipeline and portfolio

MARKET OPPORTUNITY

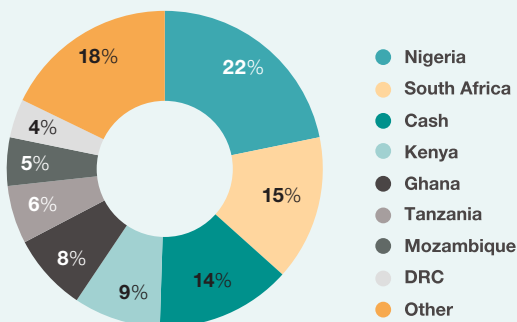
The Problem: African private credit is still nascent; demand for Africa private credit exceeds supply.

The Opportunity: Private credit as an asset class has grown materially since 2003 with a compound annual growth rate (CAGR) of 15%, approaching \$1 trillion, yet

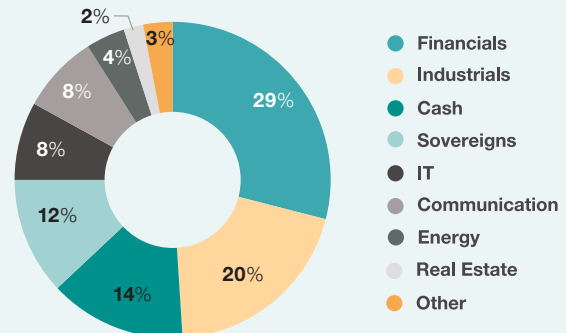
Africa has not attracted major capital flows, leading to favourable supply/demand fundamentals; opportunity to develop African debt capital markets.

Pipeline: The African credit markets have grown and diversified; \$650–\$750 million credit investments per annum made across the various strategies.

Allocation - Geography



Allocation - Sector

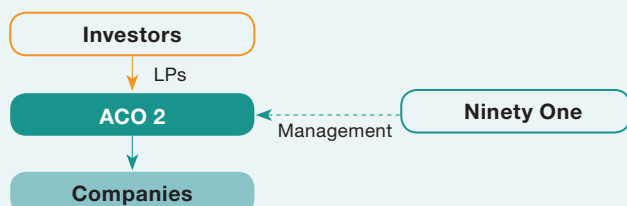


JUST TRANSITION IN THE INVESTMENT PROCESS

- The fund proactively sources with an ESG lens as well as the traditional investment sourcing and vetting/strategy using their large credit team
- Strong partnership and relationship model: minimum size, rating, sector/geographic priority, market dominance and track record

Structure and risks

LEGAL STRUCTURE



Jurisdiction: Luxembourg

Legal form: Special limited partnership (SCSp)

Capital structure: All LP commitment with limited working capital facility

KEY RISKS

Key Risks	Mitigant(s)
Geographic	20% country limit
Currency	Currency and duration hedged
Execution	Established process using internal and external legal counsel – over 200 investee companies over last 12 years
Concentration	Diversification requirements: Sector limit 20%, counterparty limit 5%, country limit 20%

Outcomes framework

CLIMATE AND SOCIAL METRICS

- Climate and Environmental Action:** CO₂ emissions for certain investee companies
- Socio-economic Distribution and Equity:** Total employment, female employees, taxes paid
- Community Voice:** N/A

FRAMEWORK AND REPORTING

- Underlying reporting standards:** ESG per IFC performance standards; UN SDGs for investee companies and IMP classifications of investee companies and portfolio

level

- Transparency:** Quarterly investor reporting and annual ESG report
- Third-party verification:** N/A

Four main focus areas covering 75% of the portfolio:



Continued on next page



Ninety One: AFRICA CREDIT OPPORTUNITIES FUND 2

Select areas of Just Transition enhancement

- Is there an opportunity to further the current climate and environmental linkage of the fund, from both within the energy investments and across sectors, and build other climate and environmental action aspects into the fund strategy that could be included in the metrics?
- Is there an opportunity to enhance the socio-economic measurement to include quality jobs (e.g., benefits, health and safety) as well as delineating who is covered by these products, beyond gender (underserved, rural, etc.) and could this lead to a future target?
- Could the fund enhance its Community Voice commitment, including engagement into its selection process?

Investee in the spotlight

INVESTING IN GHANA COCOA BOARD TERM LOAN



Background

Ghana Cocoa Board (GCB) is the government owned entity responsible for marketing and export of cocoa beans from Ghana. The crop generates about \$2 billion in foreign exchange annually and employs circa 800,000 farming families. The underlying trade facility has an excellent 23-year track record.

Ghana is the second largest producer of cocoa in the world with 22% market share.

Investment

African Development Bank (AfDB) African Development Bank (AfDB) is acting for an up to \$600 million multi-tranche term loan facility to GCB, which ACO2 invested into. The facility is a self-liquidating 3 year tenor structure, secured by proceeds from OECD countries' cocoa sales contract receivables.

Impact

The investment covers various climate and socio-economic aspects. The use of proceeds helps improve the lives of the 800,000 farming families. The aim is to build efficiency, sustainability and improve yield, leading to higher subsequent income levels and thus resilience, alongside job creation. Proceeds are used as follows:

- \$40m – Farm irrigation (improving yield, resource efficiency and reliance leading to furthering the sustainable farming)
- \$68m – Hand pollination (creating employment opportunities and increasing farmer yields)
- \$200m – Environmental rehabilitation (leading to better resilience and sustainability of the land)
- \$50m – Warehouse capacity (Agri infrastructure)
- \$10m – Farmer database (for building efficiency and management for micro farmers)
- \$200m – Promotion of domestic processing (for greater value chain integration)

INVESTING IN GLOBELEC ENERGY PROJECT FINANCE



Background

Globelec is powering Africa's growth through the development and operation of utility scale power plants across the continent.

Founded in 2002, Globelec has become a power industry leader by operating or acquiring interest in multiple power facilities across the world with its focus on the African continent. In 2014 and 2015, Globelec started changing strategy to focus more on Africa and formed Globelec Africa.

Under the ownership of shareholders CDC (70%) and Norfund (30%), the cornerstone of their strategy is to be the trusted, reliable and committed partner of choice within the African IPP industry.

With a portfolio of 13 power plants located in Tanzania, South Africa, Côte d'Ivoire, Cameroon and Kenya, Globelec currently generates more than 1,400 MW, with another 2,000 MW in development.

Investment

To increase the scale in Africa, ACO 1 provided project finance for their expansion into Cameroon by purchasing two grid stability plants.

Impact

Globelec is a leading green African infrastructure sponsor, aiming to build a Just Transition in the African power sector.

By providing clean power, Globelec helps facilitate the growth and social development of African countries in a climate-aligned way.

Globelec's power capacity:

- 866MW gas
- 219MW solar
- 165MW wind
- 88MW heavy fuel oil

Another significant example that is well aligned with the Just Transition Elements and underlying Principles is **responsAbility's Access to Clean Power Fund (ACPF)**. This fund pursues an off-grid clean energy strategy, providing debt financing to enterprises that give access to renewable energy, in particular in rural areas that are currently underserved across emerging markets. The strategy is highly aligned with the proposed Just Transition Elements, combining a strong Climate and Environmental Action and Socio-economic Distribution and Equity lens. Community Voice is considered indirectly through interaction with market intermediaries, in particular the global association of the off-grid solar energy industry (GOGLA).

As the fund's strategy is investing in challenging jurisdictions and into SMEs, which are often still relatively earlier stage, the fund benefits from a blended structure including four layers of capital – a senior tranche and three subordinated capital tranches. The fund is further supported

by a technical assistance facility, allowing for the provision of capacity support to investee SMEs. The layered capital structure has enabled responsAbility to attract an array of investor types, catering for different risk appetites. Investors include public investors and MDBs/DFIs, such as the European Investment Bank (EIB); the Dutch development bank, FMO; the government of Luxembourg; the World Bank Group's IFC; the Norwegian Investment Fund, Norfund; the development bank of Austria, OeEB; SECO in Switzerland, and the UK government's Foreign, Commonwealth and Development Office (FCDO). Investors also include foundations, including the Shell Foundation, Good Energies Foundation, and institutional investors such as AHL Venture Partners, Ashden Trust, Bank of America, Calvert Impact Capital, Clean Technology Fund, Facebook and Snowball. The most junior tranche was subscribed by the EIB on behalf of the Luxembourg Government, Shell Foundation, EDFI, responsAbility and the Ashden Trust.

CASE STUDY

responsAbility: ACCESS TO CLEAN POWER FUND

Overview

AMBITION

(including linkage to Just Transition)

Statement: The fund targets companies providing solutions to households without access to electricity and businesses looking for cleaner, cheaper and more reliable energy. Beyond financing the off-grid sector, it actively addresses the solar potential for the commercial and industrial (C&I) sector.

- **Climate and Environmental Action:** Reduce CO₂ emissions by 6m tonnes, 2,800 GWh of clean energy generated, 2,000 MW renewable energy capacity*
- **Socio-economic Distribution and Equity:** Access to energy for 170 million people, 5,200 SMEs with improved access to electricity, 5,750 new full-time jobs, 37 million products sold by portfolio companies, all by the end of fund life
- **Community Voice:** Data from initiatives such as GOGLA, of which responsAbility is an active member, contributes to understanding and monitoring the impact of the fund in the local communities across the full range of positive social benefits of improved energy access and reliable electricity supply

DESCRIPTION OF FUND

responsAbility's Access to Clean Power Fund provides senior and mezzanine debt to companies that provide access to energy solutions to households and SMEs, including C&I.

Strong focus on Sub-Saharan Africa and South and Southeast Asia.



MANAGER

Founded in 2003, responsAbility has \$3.5 billion in AUM across 90 emerging economies, with over \$11 billion invested since inception; 85% of AUM in debt financing.

Headquartered in Zurich, the manager has seven further offices and 148 investment professionals.

Dedicated impact manager, investing for a sustainable world, with a focus on climate finance, financial inclusion and sustainable food.

INVESTORS

Investors

DFIs: EIB, FMO, the government of Luxembourg, IFC, Norfund, OeEB, SECO, USAID.

Foundations: Shell Foundation, Swift Foundation, Lundin Foundation.

Institutionals: AHL Venture Partners, Ashden Trust, Bank of America, Calvert Impact Capital, Clean Technology Fund, Snowball.

Key attraction points for institutional investors

Attractive investment topic with large unmet demand and continuous high growth; de-risking mechanism through blended structure.

Key challenges for institutional investors

Long-term closed-ended fund (10 years).

* By end of fund life.

responsAbility: ACCESS TO CLEAN POWER FUND

Key Terms

FUND LEVEL

- **Vehicle/fund type:** Closed-end private debt fund
- **Fund size:** Actual \$158 million (final closing December 2020)
- **Blending and/or TA:** Yes; four layers of capital plus TA facility
- **Sponsor/anchor:** IFC, FMO, Lundin Foundation, Shell Foundation, responsAbility
- **Term/investment period:** 10 years / 3 years
- **Target return:** Confidential
- **Management fee/incentive fee:** Confidential
- **Vintage (first close):** 2019
- **Co-investment rights:** Yes

INVESTEES LEVEL (investment strategy)

- **Instrument(s):** Senior and mezzanine debt
- **Target investee type(s):** Growth/mature off-grid enterprises (SHS, C&I)
- **Target sector(s):** Energy access companies (SHS), C&I, and opportunistically energy value chain enterprises
- **Target geography(ies):** Focus on SSA, SA and SEA
- **Investment tenor:** 2-3 years for inventory/receivables backed loans, 5-10 years for Independent Power Producers (IPPs), maximum 10 years
- **Average ticket size:** \$3-10 million
- **Investment currency:** Primarily USD; local currencies selectively

Pipeline and portfolio

MARKET OPPORTUNITY

The Problem: Access to energy is a key driver of economic growth, yet many emerging market countries still face significant challenges in power generation and distribution, resulting in over one billion people without access to electricity. Sub-Saharan Africa lags the most, accounting for three-quarters (570 million) of people globally without electricity access. Although access in urban areas of Sub-Saharan Africa reached 78% by 2019, access in rural areas was only 25%.

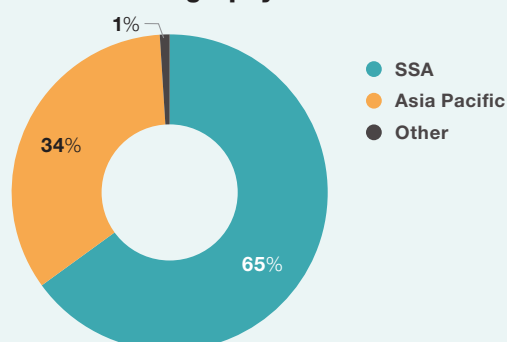
The Opportunity: According to the International Energy Agency (IEA), providing electricity for all by 2030 would

require an annual investment of \$52 billion per year, more than double the current level being mobilised. The fund leverages on responsAbility's capabilities and track record in energy debt where it has a portfolio of over \$800 million since 2014. Specifically, aiming to focus on the Energy Access and Distributed Generation space, where it has disbursed over \$150 million in the past five years with more than 10 investees in Africa and Asia.

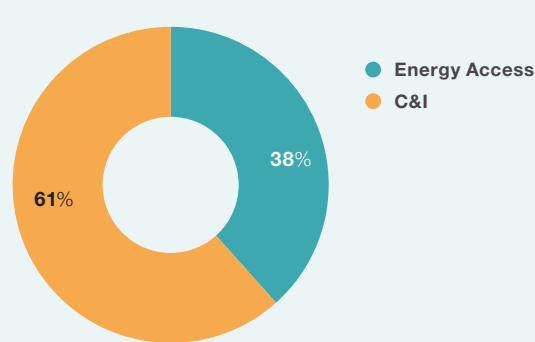
Pipeline: C&I in Nigeria, Maldives, India, South Africa and Vietnam; energy access in Kenya, Rwanda, DRC and Togo.

ALLOCATION

Allocation - Geography



Allocation - Sector

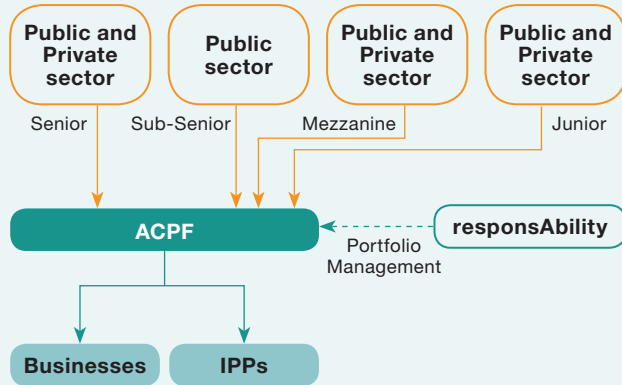


JUST TRANSITION IN THE INVESTMENT PROCESS

- Due to local market presence, the fund has an up-to-date view on needs and opportunities, using on-site due diligence visits and interviews, engaging internal and external experts thus allowing the team to identify needs
- The fund screens for a commitment to environmentally and socially sound business practices; owner and management integrity; contribution to the SDGs; fair client treatment and expected climate outcomes

Structure and risks

LEGAL STRUCTURE



Jurisdiction: Luxembourg

Legal form: SICAV-SIF

Capital structure: four layers

KEY RISKS

Key Risks	Mitigant(s)
Geographic	Highly diversified portfolio; geographical allocation limits: Africa: <70%, Asia: <70%, Latin America: <20%; single country: <20% (<30% for India and Kenya)
Currency	100% of principal of loans is hedged; current allocation: 68% USD, 31% INR hedged, 1% EUR hedged
Concentration	Sectors limits (direct): Energy access: <60%, C&I: <70%, value chain players: <25%, financial intermediaries: 0% (excluding existing EAF investments) Product limits: Senior secured debt: >70%, senior unsecured debt: <30%, mezzanine debt: <20%, equity: 0% (excluding investments into hedging counterparties)

Outcomes framework

CLIMATE AND SOCIAL METRICS

Examples:

- **Climate and Environmental Action:** CO₂ lifetime savings, capacity of renewable energy installed, black carbon avoided
- **Socio-economic Distribution and Equity:** Number of people with access to clean energy, number of products sold, number of jobs created by gender, number of management jobs and board seats by gender, increased

economic activity, cost reduction for small businesses, increased opportunities for women

- **Community Voice:** GOGLA feedback reports

FRAMEWORK AND REPORTING

- **Underlying reporting standards:** IRIS+, GOGLA, 2X
- **Transparency:** Annual E&S and Impact report for investors, quarterly report for investors
- **Third-party verification:** No

Select areas of Just Transition enhancement

- Could investees be vetted on their community engagement, and could investments that show strong engagement be prioritised?
- Could the fund encourage investees to integrate customer feedback loops to ensure a community-centric approach?

Investee in the spotlight

INVESTING IN d.light

Background

Established in 2007, d.light is a global leader and pioneer in delivering affordable solar-powered solutions designed for the two billion people in the developing world without access to reliable energy. d.light provides distributed solar energy solutions for households and small businesses that are transforming the way people live all over the world. It sells its products on credit using a Pay As You Go (PAYGo) business model.

Through four hubs in Africa, China, South Asia and the United States, the company has sold over 20 million solar light and power products in 70 countries, improving the lives of over 100 million people. d.light is dedicated to providing the most reliable, affordable and accessible solar lighting and power systems for the developing world.

Geographical area: With a focus on East Africa and India, d.light covers Kenya, Uganda, Tanzania, Nigeria, Zambia, DRC and India.



Investment

\$8.5 million senior secured loan.

Impact

Climate and Environmental Action: 2.2t CO₂ lifetime savings.*

Socio-economic Distribution and Equity: 23 million additional people with access to clean power, 850 quality jobs created in 2019, 30% of which are held by women.

Community Voice: d.light uses sales data, customer feedback and ongoing product evaluation in the field. This provides a comprehensive picture of how access to energy transforms customers' lives.**

*Excluding black carbon emissions.

**d.light website: "Our Impact"; <https://www.dlight.com/social-impact>

In addition, there are other interesting examples of private debt funds that pursue relevant credit strategies in emerging markets. Some further examples are showcased below, each selected for a particular reason.

FMO and FMO Investment Management (FMO IM) and NN Investment Partners (NNIP)'s Emerging Markets Loan Fund (EMLF) is noteworthy for many reasons. Foremost is its management partnership between FMO Investment Management and NN IP, leveraging a DFI's investment sourcing and market network and an institutional fund manager's distribution capabilities and professional fund management skills.

The \$750-million fund, structured as a 15-year

closed-end vehicle with one class of notes, is also interesting as it effectively manages a syndication strategy whereby the fund sub-participates in a diversified portfolio of FMO-sourced and -managed loans that meet the fund's pre-agreed investment criteria and restrictions.

On the outcomes side, the fund benefits from FMO's stringent impact credentials and impact management framework, building climate and social targets into its investment process and reporting. The fund focuses on job creation as well as climate mitigation through its renewable energy investments. A further noteworthy aspect of the fund is the agreement announced in August 2021 by Goldman Sachs with NN Group to acquire NN IP.

EXAMPLE

FMO IM/NN IP: EMERGING MARKETS LOAN FUND

Fund overview

FMO IM and NN IP's Emerging Markets Loan Fund (EMLF) combines FMO's in-depth emerging markets investment and deal sourcing experience, local networks and impact expertise with NN IP's institutional knowledge and fund management capabilities. Launched in 2017, EMLF is an emerging markets private debt fund targeting \$750 million. The fund seeks to address the shortage of emerging markets-focused patient debt funding for renewable energy, financial institutions and agriculture businesses (including food and water) to support the SDGs.

EMLF deploys senior hard currency loans across emerging markets, effectively taking *pari passu* sub-participations in loans sourced by FMO, benefitting from FMO's asset selection and risk management capabilities, from historically stable returns with lower volatility than bonds, from diversification and from the 'de facto preferred creditor status' of FMO. At the same time, the *pari passu* co-participation creates alignment between the fund and FMO.

Structure

Closed-end 15-year private fund with one class of notes.

Manager

The fund is managed as a partnership with FMO Investment Management (FMO IM) leading on investment sourcing and portfolio management, and NN Investment Partners (NN IP) leading on distribution, risk and liquidity management, reporting and administration. FMO IM is a 100% subsidiary of FMO, the Dutch Development Bank, which has AUM of €12 billion. NN IP is a Dutch asset manager with approximately \$355 billion of assets under supervision and an additional \$70 billion of assets under advice, with about 75% of assets being ESG integrated.

Investors

The fund has \$550 million in investor commitments, anchored by Alecta and NN Life and, additionally, an array of family offices, pension funds and sovereign wealth funds.

Outcomes

FMO has a strong ESG and impact record, integrated into the institution's credit underwriting. Their framework is built to align to the UN SDGs and the Partnership for Carbon Accounting Financials (PCAF).

The fund aims to make socially and environmentally responsible investments in emerging markets. Importantly it invests not only in more advanced developing countries but also more difficult frontier markets. Climate mitigation is one of the two main impact goals and renewable energy is one of the target sectors of EMLF (as of end of 2018, 38% of the portfolio had a climate link). With respect to Socio-economic Distribution and Equity, job creation is the other main impact goal. The fund further seeks to support SMEs, generating growth in the investment countries by investments in local financial institutions.

In terms of key performance indicators, the fund tracks a number of impact metrics, including CO₂ emissions avoided and number of jobs supported (both full-time equivalent and indirect jobs). Impact performance is measured and audited and regular detailed public reporting offers transparency.

Select areas of potential Just Transition enhancement

- Is there an opportunity to strengthen the current climate linkage, from both within the energy investments and across further sectors, and build other climate action aspects within the fund strategy that could be included in the metrics?
- Could the fund enhance the socio-economic measurement to include quality jobs (e.g., benefits, health and safety) as well as delineating who is covered by these products (underserved, gender, rural, etc.), including relevant targets?
- Could the fund deepen its Community Voice commitment, including engagement criteria in its selection process?

Source: NN IP (2021): "NN FMO Emerging Markets Loans Strategy Brief Quarter ending 30 June 2021"; manager information

An interesting and relevant Just Transition strategy has been adopted by **BlueOrchard's InsuResilience Fund**, which pursues a unique climate strategy, investing in financial institutions to further climate adaptation insurance products. This climate focus is combined with important social objectives through its focus on micro, small and

medium enterprises (MSMEs), ultimately targeting low-income households in emerging markets.

The fund is managed by an experienced impact manager and the debt sub-fund has successfully attracted institutional investors through the use of a blended structure, with a 23% first loss capital layer providing important risk mitigation to senior investors.

EXAMPLE

BlueOrchard: INSURESILIENCE INVESTMENT FUND

Fund overview

BlueOrchard's InsuResilience Investment Fund's private debt sub-fund (IIF Debt), the debt sub-fund of its InsuResilience umbrella vehicle, is a blended fund focused on climate adaptation through loans to financial institutions that provide or intend to provide climate adaptation relevant insurance products, targeting MSMEs and the lowest-earning households. The fund seeks to extend its reach to rural communities by working with microfinance institutions and cooperatives.

Structure

The IIF debt sub-fund is a closed-end 12-year fund with \$150 million of total commitments, of which \$32 million is from public funds, and provides 23% first-loss protection to senior ranking noteholders.

Manager

BlueOrchard was founded in 2001, and to date has invested over \$8 billion across over 90 countries. Headquartered in Zurich with six further offices, BlueOrchard has more than 120 staff members. BlueOrchard is a dedicated impact investment manager with the largest microfinance fund worldwide. The manager was acquired by Schroders in 2019.

Investors

The fund benefits from a first-loss investment from the German Federal Ministry of Economic Cooperation and Development (BMZ) via KfW, the German state-owned development bank. Noteholders include two DFIs plus an array of institutional investor types, including an insurance company, three pension funds, a bank and a family office.

Outcomes

The fund pursues a unique climate adaptation strategy targeting the poor and vulnerable in emerging markets, thereby pursuing strong combined climate and social outcomes. The objective of the fund is to reduce the vulnerability of MSMEs and low-income households to extreme weather events by providing affordable products. Where needed, products are structured with a 'premium support facility', which provides temporary subsidies to reduce insurance premiums.

The fund also has a Technical Assistance Facility and a Premium Support Facility, both funded by BMZ. Respectively, these provide, when needed: capacity building to investees to support them in creating or improving the insurance offering linked to their debt products, and support to lower the premium price of insurances in certain markets.

The IIF seeks to amplify its impact by working with a range of partners. For example, the fund has an educational partnership with the International Labour Organisation (ILO), whose Impact Insurance Academy offers insurance best practice workshops to the IIF Debt investees. It has business partnerships with reinsurers (Swiss Re, Munich Re, Hannover Re) to help to increase investee's reinsurance underwriting capacity, improve its technical assistance to scale up insurance products, and to increase the network of industry contacts, thus further building the local insurance markets.

Through its activities, IIF expects to reach between 67 and 145 million beneficiaries by 2025 (at the umbrella fund level), and to contribute to eight SDGs (1,13,17 being core and 2,5,8,10,11 indirectly). The fund outcomes measures include the number of beneficiaries by geographic breakdown (rural versus urban), by gender, and by group versus individual lending. The fund also measures the types of loans provided and loan volume to intermediaries.

In 2020, the fund produced an interim "Outreach" impact report available on its website.

Select areas of potential Just Transition enhancement

- Could the inclusion of access and affordability of the insurance products be expressly added to the fund's investee assessment and reporting, potentially leading to pipeline prioritisation?
- Could the fund include in their assessment and potentially prioritise investees based on their community engagement, for example, the verification of the relevance of products based on community need and feedback mechanisms?

Source: InsuResilience website; manager information

A further example from the important microfinance market²⁰¹ is **Triodos Investment Management's Microfinance Fund**. The fund's aim is to enhance financial inclusion across emerging markets, allocating more than 10% to Africa.

While not pursuing explicit climate targets, the fund is showcased because microfinance is a key component of the impact investment ecosystem, given its history and scale, and one that is familiar to many institutional investors. With the inclusion of specific climate targets, for example, supporting climate relevant products and services, such as water, sanitation and hygiene (WASH) loan products, agricultural loans with climate resilience

elements, products financing off-grid energy solutions or products targeting climate-positive housing solutions, a microfinance fund can readily align with the Just Transition Elements and deliver integrated social and climate solutions to local communities in emerging markets.

²⁰¹ There are a number of other microfinance managers in the market that operate at scale. Related case studies, including by ACTIAM, Developing World Markets and Trilinc, can be found in Impact Investing Institute (2021): "Impact investing in emerging markets: Opportunities for institutional investors"; <https://www.impactinvest.org.uk/our-case-studies/emerging-markets>

EXAMPLE

Triodos Investment Management: MICROFINANCE FUND

Fund overview

Triodos IM's Microfinance Fund, which currently has a net asset value of over €440 million, provides finance to over 90 finance institutions in 42 developing countries in Asia, Africa, Eastern Europe and Latin America. The fund provides predominantly debt (53% senior and 11% subordinated debt) but also equity (28%) to financial institutions that demonstrate a sustainable approach towards the provision of financial services to the unbanked, including SMEs, supporting local economies by stimulating entrepreneurship and job creation. Almost 60% of the total portfolio comprises local currency loans. The fund currently reaches 18.2 million underlying borrowers, of whom 77% are women. The investee finance institutions have also provided 243 thousand students with student loans.

Structure

Semi open-end sub-fund of Triodos' Triodos SICAV II umbrella fund, offering one class of equity participation.

Manager

Triodos Investment Management (Triodos IM) was founded over 25 years ago and has AUM of over \$6.1 billion, all invested in impact strategies. It has made over 750 direct investments across the world. The fund benefits from a team of over 40 dedicated emerging markets investment professionals across 17 different nationalities.

Investors

The fund's investors include a Dutch fund of funds, Luxembourg private bank, a Danish and a Dutch retail bank

as well as a Swiss bank/insurance company as its largest investors.

Outcomes

The fund pursues a financial inclusion mandate to deliver strong social outcomes. Through the provision of funding to financial institutions, the fund aims to promote access to basic needs, such as affordable housing, quality education and clean energy. The coverage of rural and gender aspects further aligns with the social aspects of a Just Transition.

The fund also considers certain environmental aspects within the provision of green loans, which have been provided to 847 thousand people.

Select areas of potential Just Transition enhancement

- Is there an opportunity to add a clear climate ambition and related targets and KPIs, including an allocation expectation to institutions that offer climate-relevant products?
- Could investees be vetted and investments prioritised on the strength of their community engagement?

Source: Triodos Microfinance Fund website; manager information

3.4.4 Infrastructure vehicles

3.4.4.1 INFRASTRUCTURE VEHICLE: APPLICATION OF THE BLUEPRINT TO A CASE STUDY AND SUPPORTING EXAMPLE

Infrastructure: Market and trends

The **global infrastructure market** currently has a \$3.6 trillion annual funding need, according to Forbes. The private infrastructure market is significantly smaller. But capital raising is estimated to have exceeded \$100 billion in 2020, marking a record year – the majority earmarked for North America and Europe.

KPMG expects the core trends in infrastructure in the coming decade to be “growth, sustainability and resilience”. Within that, the consultancy sees 10 specific trends, some particularly relevant for a Just Transition. One is the sector’s move towards “a greener, fairer rebuild”, as the Covid-19 pandemic has made existing inequalities more obvious and brought the importance of cleaner air and less congestion to people’s attention. Net Zero has also dominated infrastructure discussions in the last year and investors are looking for sustainable assets. On the social side, an increasing number of businesses are focusing on employment conditions, including along the supply chain. Another relevant trend anticipated by KPMG is the increase of new financing in infrastructure, partly driven by the rise of green financing.

In **emerging markets**, McKinsey estimates the total annual infrastructure investment needed over the next 15 years just to keep up with GDP growth to amount to more than \$2 trillion.

KPMG expects the trend for increased funding flows towards infrastructure to include not just developed but also emerging markets. KPMG also highlights the role of MDBs in emerging markets as a driver for change and transformation of the sector.

A UN PRI article stresses the importance of ESG considerations in infrastructure investments

in developing countries in order to ensure the resilience of projects and community buy-in.

Africa’s infrastructure investment needs have increased over time. In 2018 the AfDB estimated the funding needs to amount to \$130–\$170 billion annually, with a financing gap of \$68–\$108 billion. Chinese enterprises have historically dominated the financing and development of infrastructure projects on the continent. For example, in 2018, China funded around 25% of all capital commitments. A McKinsey report discusses the African “infrastructure paradox”: while infrastructure funding has been increasing and international investors are willing to fund projects, projects struggle to move to financial closing. According to the report 80% of infrastructure projects on the continent fail at feasibility and planning stages, an additional 10% prior to financial close. McKinsey does, however, believe that the region has momentum, based on the increase in value and number of deals. The consultancy’s analysis indicates that the continent’s pipeline includes \$2.5 trillion worth of projects estimated to be completed by 2025. However, they also point out that there is a lack of clarity on how much of this pipeline will eventually succeed, with more than half the projects included still at a feasibility stage.

Source: Forbes (2020): “The Mighty Effort To Save The \$3.6 Trillion Global Infrastructure Market”; McKinsey (2019): “Unlocking private-sector financing in emerging-markets infrastructure”; KPMG (2021): “Emerging trends in infrastructure”; UN PRI (2020): “Driving emerging markets growth through infrastructure investment”; AfDB (2018): “Africa’s infrastructure great potential but little impact on economic growth”; McKinsey (2020): “Solving Africa’s infrastructure paradox”; <https://www.mckinsey.com/business-functions/operations/our-insights/solving-africas-infrastructure-paradox>

Infrastructure is often a key asset class for institutional investors, usually sitting within real assets.

Infrastructure investments can differ significantly depending on the stage of the project. Within infrastructure financing, distinctions are made between (i). the financing of greenfield projects,

which represent new projects and, as such, carry development risk; (ii). the financing of brownfield projects, which are already built and operating, generating revenues and requiring further development or expansion; and (iii). secondary financing, where existing financing is refinanced.²⁰²

²⁰² Preqin: “Preqin Academy – Infrastructure”

FIGURE 3.3

Pathways to accelerate coal transition transactions

Using well-designed mechanisms, such as the one discussed above in Section 1.3.1.4 and below, can ensure that decommissioning is achieved in an affordable way, balancing the interests of all core constituents. That said, every phasing out is complex and for a decommissioning

plan to be successful, local context, realities and disparities need to be carefully considered and all relevant stakeholders need to be engaged and included in the solution.

Ratepayer-backed bond securitization

Refinancing regulated utility coal-fired assets using bonds backed by surcharges on ratepayers' energy bills.

Location: U.S.



Reverse Auction

Multiple rounds of public-dollar funded reverse auctions with a price ceiling and an overall budget allocation to take advantage of the country's competitive hard coal energy market to facilitate energy transition.

Location: Germany



Blended Finance Buy and Close

Seeking to leverage a blended fund facility purchase and operate coal assets until an accelerated decommission date while also funding investment in renewable technologies.

Location: Southeast Asia



Carbon Finance

The concessionary loan package conditioned on the closure of coal power assets to support the investment in clean technologies that factors pricing of carbon emissions reduction to support the investment in clean technologies.

Location: Chile



Climate-Linked Loans or Bonds

Pooling concessionary and private capital from multiple donors and financiers to provide countries with a just transition package. There are a couple of proposals, one of which would allow disbursements of funds at the entity-level while the other would grant milestone-linked debt forgiveness on the country-level.

Location: Undisclosed



Private Finance Buy and Close

Institutional investor-backed equity fund to acquire coal mines and retire them by 2040, with a portion of resources left in the ground, and some returns earmarked to support the just transition of workers.

Location: TBD, likely Australia, U.S. and Indonesia



Activities included (directly supported by the package)



Coal power asset closure and repurposing



Support of communities



Renewable energy replacement



Coal mine closure and repurposing

Blended Finance Spectrum

Public Capital Driven

Private Capital Driven

There is a growing number of infrastructure funds in the market targeting emerging markets with ESG and/or impact targets attached.

A Just Transition aligned example that integrates many of the Just Transition Principles across the fund's dimensions is **Actis' Energy Fund 4**. This fund offers a robust climate focus, targeting renewable energy electricity generation, electricity distribution and gas power generation businesses. While the investment strategy is focused on

climate-relevant businesses, the fund also intentionally targets social outcomes, including the support of SMEs, job creation, training and health and safety, and further includes local communities within its investment process.

Actis has a proven track record, enabling it to attract a broad institutional investor base into its \$2.75 billion fund. The fund is structured as a mainstream closed-end 10-year limited partnership.



Actis: ENERGY 4

Overview

AMBITION

(including linkage to Just Transition)

Statement: The fund aims to increase access to energy through investments in electricity generation in emerging markets

- **Climate and Environmental Action:** Climate mitigation is one of the main impact goals; renewable energy is the primary target sector
- **Socio-economic Distribution and Equity:** Access to energy and job creation are some other main impact goals; further, the fund seeks to support the growth of SMEs and tracks further impact KPIs
- **Community Voice:** Community liaison officers are appointed at every project; they play a key role in ensuring a regular two-way exchange of information between the local community and the project

DESCRIPTION OF FUND

Energy 4 is Actis' fourth energy-focused private equity fund investing in electricity generation (buy and build) and distribution businesses (buy and improve) in select countries across Latin America, Africa and Asia.

The fund invests across renewables (wind, solar and hydro) and gas technologies.



MANAGER

Actis was founded in 2004 (spun-out of CDC) and has \$10 billion AUM.

The manager has raised \$19 billion since inception, executing over 200 transaction across over 40 countries, including transactions worth \$2 billion in the energy sector through four energy-focused funds.

Actis has 90 investment professionals across 12 offices.

INVESTORS

Investors

Leading US state and local pension funds, sovereign wealth funds, insurance companies and endowments.

Key attraction points for institutional investors

- Proven strategy with attractive returns, backed by a large market opportunity
- Actis' investment track record and local offices and network
- Strong on ESG, providing measurable and reportable impact
 - ~ Sizeable re-ups from previous investors into Energy 4

Key Terms

FUND LEVEL

- **Vehicle/fund type:** Closed-end private equity fund
- **Fund size:** Actual \$2.75 billion (versus initial target of \$2 billion)
- **Blending and/or TA:** N/A
- **Sponsor/anchor:** Actis GP LLP
- **Term/investment period:** 10 years / 5 years
- **Target return:** Confidential
- **Management fee:** Confidential
- **Vintage (first close):** 2016
- **Co-investment rights:** Yes
- **Other:** N/A

INVESTEES LEVEL (investment strategy)

- **Instrument(s):** Equity
- **Target investee type(s):** Private infrastructure development projects
- **Target sector(s):** Renewable electricity generation businesses (wind, solar, hydro); electricity distribution businesses; gas power generation
- **Target geography(ies):** Latin America, Africa and Asia
- **Investment tenor:** 5-year holding
- **Investment currency:** Hard currency (USD)

Continued on next page

Pipeline and portfolio

MARKET OPPORTUNITY

The Problem: 1.3 billion people in emerging countries lack access to electricity.

The Opportunity: Demand for electricity and quality infrastructure is high and rising with energy being crucial to a country's development. At time of launch, Actis estimated

the investment opportunity in non-OECD markets to amount to \$10 trillion up to 2035 with electricity demand to grow 3x faster than in OECD countries.

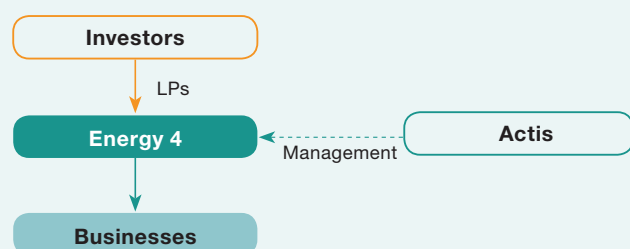
Pipeline: Energy 4's capital has been deployed and the focus is now on value creation and exits.

JUST TRANSITION IN THE INVESTMENT PROCESS

- Due diligence includes assessment of ESG information, examination of impact of ESG issues on business and how ESG risks will be addressed or how opportunities for value creation will be seized
- Community development plans developed and implemented at every project in order to maximise local benefits and employment opportunities.

Structure and risks

LEGAL STRUCTURE



Jurisdiction: UK

Legal form: Limited partnership

Capital structure: Limited partnership interests

KEY RISKS

Key Risks	Mitigant(s)
Geographic	Political risk insurance where possible; local presence
Currency	USD denominated contracts, where possible; focus on capital gains
Execution	On-the-ground research and local presence; local networks

Outcomes framework

CLIMATE AND SOCIAL METRICS

Examples include:

- **Climate and Environmental Action:** Including CO₂ emissions avoided (tCO₂e), water usage (l) (environment); clean electricity generation (GW – infrastructure)
- **Socio-economic Distribution and Equity:** Examples of indicators include employment (jobs created), training, health and safety (people reached), taxes (\$ – finance), access to energy (people connected – infrastructure)
- **Community Voice:** CSR with local communities (\$ spent and people reached – social and community)

FRAMEWORK AND REPORTING

Actis has developed a proprietary impact measurement framework: Actis Impact Score (AIS). The AIS, launched in 2019, allows for impact target setting and measurement across all investments.

- **Reporting standard:** AIS is based on the IMP's five dimensions of impact
- **Transparency:** Details about the AIS are available via the Actis website
- **Third-party verification:** Yes. Actis is a signatory to the IFC's Operating Principles for Impact Management and Actis' disclosure statement was independently verified by PwC

Select areas of Just Transition enhancement

- Could the fund expand its ambition statement to include targets for all three Elements of the Just Transition?
- Could the climate and environmental strategy include

a clear assessment of the sustainability of projects (such as climate smart approaches like efficient building materials, waste and water efficiency), including also an assessment of the supply chain?

Investee in the spotlight

INVESTING IN TAIBA PROJECT, PART OF LEKELA – WIND FARM IN SENEGAL (FUND: ACTIS ENERGY 3)

Background

Parc Eolien Taiba N'Diaye (PETN) is the first utility scale wind power project in Senegal. At 159 MW installed capacity, it is the largest wind farm in the West Africa region. The project has been developed since 2016 by Actis' majority-owned renewable power platform, Lekela Power.

At the commencement of the project, only 65% of the population of Senegal had access to electricity, 88% of the country's generation capacity was provided by burning oil and diesel, and Senegal had one of the highest generation costs in the world due to its reliance on imported fuel.

Once fully constructed, the project will provide clean, reliable power to Senegal's electricity grid, increasing the electricity generation capacity for the country by 15%.

Actis has won the climate change impact project/investment of the year at the inaugural 2020 Environmental Finance IMPACT Awards.

Investment

PETN required a total investment of approximately \$330 million, which was achieved through equity investment by Lekela Power – a joint venture between Actis (60%) and Mainstream Renewable Power (40%) – and debt.

Impact

Climate and Environmental Action: The aim is to offset ~6 million tonnes of carbon emissions over the project life. In 2020, the level stood at 1,511,619 tonnes of CO₂ avoided.

Socio-economic Distribution and Equity: The investment aims to provide clean power for over two million people for at least 20 years and create 830 employment opportunities for local people during the peak of its construction phase. The 2020 performance stood at over 1,067 workers employed at the peak of construction, of which over 95% workers were project country nationals and over 33% from local communities.

The project aims to reduce (by ~65%) the cost of electricity in a country that experiences some of the world's highest prices. The project has also funded technical traineeships for 12 young engineers. As part of the objective to generate significant positive shared benefits for the local communities, a programme of socio-economic investments was also started, this includes investing in education, enterprise and the environment. By 2020, 127 community investment initiatives across six communities had occurred. This will continue throughout the lifetime of the wind farm and up to \$20 million will be invested by Lekela in the Taiba N'Diaye region. The project opened a new marketplace in Taiba N'Diaye with over 60 covered stalls that allowed women to relocate from the makeshift roadside shelters to sell their agricultural products.

Community Voice: Lekela's engagement with stakeholders extends beyond validating the ESG issues that matter to them. They recognise the operations impact local communities and that local active stakeholder engagement, in a participatory manner, is necessary. They have strong community engagement and consultation, community investment to support jobs and develop skills and ensure responsible land use and development.

Another example of a relevant private infrastructure fund is **Ninety One's Emerging Africa Infrastructure Fund (EAIF)**, a \$1-billion fund investing across infrastructure sub-sectors.

The fund structure is blended, benefiting from close to \$400 million of first-loss capital provided by DFIs and governments. This allowed the fund to attract

an additional \$500 million of institutional money into the fund to be deployed across the African continent. The fund's core focus is on essential infrastructure necessary for regional development, including renewable energy as a core sub-sector. With respect to social outcomes, the fund targets job creation.

EXAMPLE

Ninety One: EMERGING AFRICA INFRASTRUCTURE FUND (EAIF)

Fund overview

The **Emerging Africa Infrastructure Fund (EAIF)**, managed by **Ninety One**, was established in 2002 and provides a variety of commercial debt products to infrastructure projects promoted mainly by private sector businesses in Africa and parts of the Levant in the eastern Mediterranean region of western Asia. The fund helps create the infrastructure framework that is essential to sustained economic stability, business confidence, job creation and poverty reduction. EAIF is part of the Private Infrastructure Development Group (PIDG).

Currently, EAIF has an active loan portfolio of \$1.1 billion, which is invested in private companies and public-private partnerships, setting up infrastructure projects across Africa. By strengthening the foundation of local economies, EAIF seeks to contribute to the conditions enabling more sustainable economic development.

EAIF provides debt for infrastructure development across power/energy production and transportation; infrastructure in agribusiness and mining; digital communications infrastructure; water, sanitation and hygiene; gas storage, transportation and distribution; manufacturing of infrastructure components and equipment; affordable housing; and bulk storage and logistics facilities. The fund has, to date, supported over 80 completed infrastructure projects across nine sectors in over 20 African countries and has committed loans to projects representing over 850MW of renewable energy power generation capacity. It is committed to displacing carbon intensive power generation methods and stimulating the roll-out of renewable energy technologies. Currently 63% of its power generation loan portfolio is in renewables such as solar PV, hydro power, and biomass.

Structure

Open-end blended vehicle, including a single tranche of equity provided by DFIs and governments, and a single tranche of senior notes.

Manager

Ninety One was founded in 1991 and has total AUM of £130 billion. Ninety One has a 15-year track record financing over 70 African infrastructure projects and is recognised as

a specialist in emerging markets. The company currently manages nine emerging markets debt funds and four emerging markets equity funds.

Investors

EAIF was established by the governments of the United Kingdom, the Netherlands, Switzerland and Sweden, providing anchor capital of \$394 million. In addition, the fund raised debt capital from DFIs and commercial financiers, including Allianz, Standard Chartered Bank, the African Development Bank, the German development finance institution KfW, and the Dutch development bank FMO.

Outcomes

The overall objective of the fund is to extend/upgrade essential infrastructure supporting economic growth and reducing poverty. The fund aims to create jobs in infrastructure construction and permanent jobs in infrastructure operations. The fund seeks to ensure high standards of corporate governance, financial management, employment and equality practices, health and safety policies and environmental management in all investees. A climate focus is also a core aspect of the fund's mandate, especially evident in its renewable energy investments.

The fund tracks metrics such as private sector mobilisation, carbon emissions, gender aspects, job creation numbers, fiscal benefits for the host country and number of people with new or improved infrastructure access.

Select areas of potential Just Transition enhancement

- Is there an opportunity to include a clear climate target to the fund, including the addition of a clear assessment of the sustainability of projects (such as climate smart approaches, including efficient building materials and waste and water efficiency)?
- Is there an opportunity to include an express socio-economic ambition statement and related targets, such as quality job creation (at construction and long-term)?

Source: EAIF website; manager information

Another example is **AFC's Infrastructure Climate Resilient Fund (ICRF)**, launched in 2021. The fund seeks to invest in infrastructure projects in Africa that support climate adaptation or reduce GHG emissions, aiming to "build the continent

back better" in a post-Covid 19 environment and enhance the continent's infrastructure resilience.

The fund targeted a capital raise of \$500 million using a blended structure to ensure institutional investor participation in a high-impact strategy.

EXAMPLE

AFC Capital Partners: INFRASTRUCTURE CLIMATE RESILIENT FUND**Fund overview**

The **Infrastructure Climate Resilient Fund (ICRF)** managed by AFC Capital Partners is an African infrastructure fund launched in 2021, targeting a \$500 million capital raise. ICRF looks to support climate adaptation as well as projects that reduce carbon emissions and enable the continent to build back better with more climate-resilient and sustainable infrastructure. The fund focuses on AFC's traditional infrastructure core sectors, making investments that enhance the quality and longevity of infrastructure across sub-sectors, including roads, ports, bridges, rail, telecommunications, clean energy and logistics projects in Africa. The fund's proposition integrates climate change as its core investment thesis, seeking to ensure the resilience of infrastructure in Africa.

Structure

Blended closed-end private equity fund, providing subordination to mobilise senior equity.

Manager

AFC Capital Partners is a fully owned subsidiary of Africa Finance Corporation (AFC), a multilateral financial institution focusing on African infrastructure and headquartered in Lagos, Nigeria. AFC has a balance sheet size of \$7.4 billion as of December 2020, having invested \$9.5 billion across 35 African countries as of September 2021. The corporation was responsible for the creation of 10 thousand direct and 241 thousand indirect jobs across Africa in 2019.

Investors

The fund is currently raising capital from multiple investor types for their targeted blended structure, including quasi-government entities such as DFIs and MDBs, as well as institutional investors.

Outcomes

The fund seeks to contribute to climate adaptation by increasing the resilience of infrastructure assets, in particular for the most vulnerable people and communities. The key SDG targeted is SDG 9 (Industry, Innovation and Infrastructure).

The centrality of investing in resilient infrastructure and innovation as crucial drivers for economic growth and development means that implementation of this fund should have extensive economic, social and environmental benefits. ICRF seeks to play a key role in strengthening social sustainability by helping to generate jobs and contributing to the development of local economies, while aiming to avoid negative impacts around health, safety or the livelihoods of workers. ICRF further intends to protect the interests of displaced individuals and communities as well as vulnerable and underprivileged groups and seeks to be inclusive and accessible to women and children, the elderly, people with disabilities and indigenous peoples. Metrics are currently under consideration.

Select areas of potential Just Transition enhancement

- Could the fund set clear socio-economic targets with respect to its social inclusion and equity ambition?
- Is there an opportunity for the fund to explicitly include Community Voice in its ambition and targets, and potentially prioritise projects that demonstrate community engagement?

Source: AFC website; manager information; <https://www.africafc.org>

SPOTLIGHT

Climate, Energy Access and Resilience (CLEAR)

Coming out of COP26, InfraCo Africa, a part of the Private Infrastructure Development Group (PIDG), and Helios Investment Partners announced they would establish a new pan-African investment vehicle: **Climate, Energy Access and Resilience (CLEAR)**. CLEAR will fund climate-aligned infrastructure and growth businesses as well as the achievement of the SDGs.

The fund aims to meet the growing demand from domestic and international investors for sustainable investment opportunities that can help to close the infrastructure and productivity gap in Africa, which would support communities that are susceptible to the impacts of climate change. It aims to leverage both parties' pipelines across three main themes: 1. clean energy and energy transition; 2. green transportation and mobility; and 3. sustainable growth and consumption. CLEAR further aims to provide project developers with an exit opportunity.

The fund aims to raise \$350 million and make investments that will provide at least 100 thousand new jobs, connect more than one million people to power for the first time and avoid 100 million tonnes of carbon emissions.

The fund intends to be initially established as a private vehicle but designed and capitalised to be listed within three years of final closing. CLEAR has been selected as one of five finalists by the **UK's Mobilising Institutional Capital Through Listed Product Structures (MOBILIST)**, a competition designed to mobilise large-scale investment flows through listed markets.

Source: Private Equity Wire (2021): "InfraCo Africa and Helios establish new climate-focused investment vehicle for Africa"

3.4.5 Real estate vehicles

3.4.5.1 REAL ESTATE VEHICLE: APPLICATION OF THE BLUEPRINT TO A CASE STUDY AND SUPPORTING EXAMPLES

Real estate is one of the largest contributors to GHG emissions (see Section 1.3.1.4) and, at least

in developed markets, it plays a significant role in institutional investors' allocations. Therefore, combining these two aspects makes real estate a critical asset class for delivering a Just Transition. The Just Transition Elements can be applied across a broad range of investment strategies,

Real estate: Market and trends

The professionally managed **global** real estate investment market amounted to \$9.6 trillion in 2019, according to MSCI. The US was the largest market, followed by Japan and the UK. Private real estate sectors' AUM have grown from \$64 billion to over \$1 trillion in the last 20 years, as per Preqin.

Capital consolidation is increasing within the private real estate investment market. According to Preqin, 44% of the total capital raised in 2019 was raised by the 10 largest funds, and two funds raised over \$35 billion. Preqin also reported that there were increasing concerns around high valuations in the market, pushing fund managers to adopt higher-risk strategies and to identify new niches. Fundraising also suffered during the Covid-19 pandemic, with a market correction widely predicted. However, **ESG** is a growing trend in real estate, becoming a key consideration in investment decisions, given the role of real estate in global carbon emissions and the opportunities to generate greater returns through better operational efficiency in areas like energy, waste and water.

Emerging markets account for only a small portion of the global real estate market, except for Asia and particularly China. In the residential sector, the emergence and growth of a middle class in emerging markets creates an urgent need for more urban real estate, as highlighted by PwC.

Africa has only a nascent real estate market. South Africa was the only market on the continent that was included in the top 30 countries of the MSCI index of the professionally managed global real estate investment market. African real

estate investments are considered risky due to, among other reasons, often limited enforceable property rights, lack of professional service providers and relatively low returns. Despite these challenges, there is some activity, with investment opportunities coming to market and attracting institutional capital. For instance, real estate investment trusts (REITs) in South Africa are gaining traction, with a market value of \$16 billion, prompting other countries across the continent, including Kenya, Morocco and Rwanda, to introduce REIT legislation also, as noted by IPE.

FIGURE 3.5

Closed-end private real estate fundraising in Q1 2021 by primary geographic focus

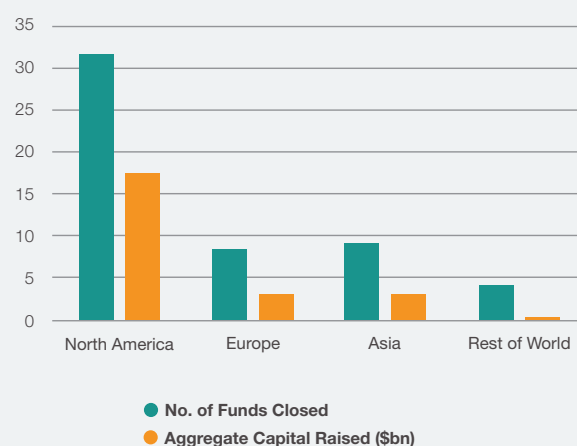
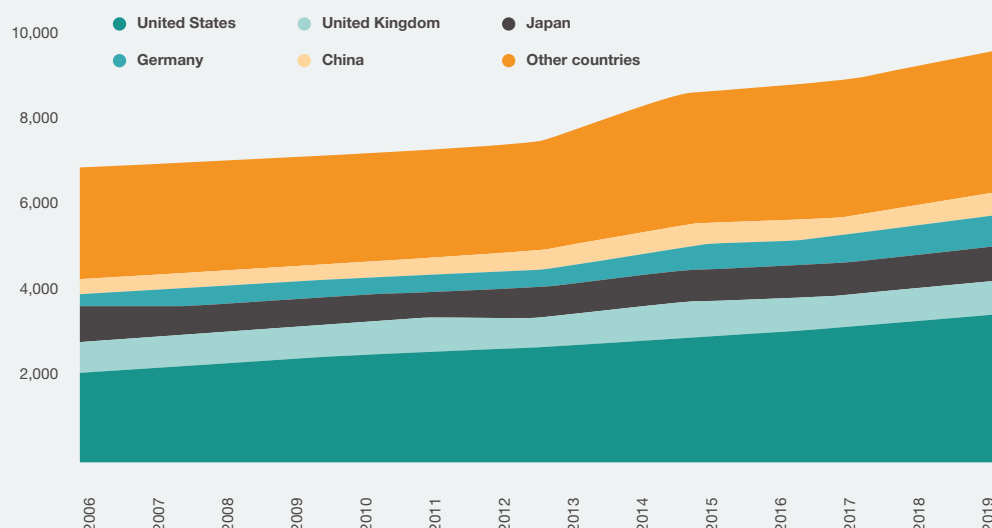


FIGURE 3.4

Change in global real estate market size 2006-2019



Source: MSCI (2020): "Real Estate Market Size Report 2019/20"; Preqin: "Preqin Academy: Real estate"; <https://www.preqin.com/academy/lesson-4-asset-class-101s/real-estate>; Preqin (2020): "2020 Preqin Global Real Estate Report"; Preqin (2021): "Preqin Quarterly Update: Real Estate, Q1 2021 Tearsheet"

PwC (2020): "Real Estate 2020 – Building the future"; MSCI (2021): "Real Estate Market Size Report 2020/21"; IPE (2018): "African real estate funds: An overlooked sector"

including commercial and residential real estate. An obvious segment is green affordable housing, but alignment is not limited to that subset of real estate investments. Real estate has Just Transition potential especially when considering the location (catchment area), the direct participants (particularly in residential real estate), the participants in the economic contributions (jobs directly and in the value chain) and, finally, the materials used and resource efficiency. When incorporating the Just Transition Elements, it is necessary to ensure that social outcomes are positive and benefit local community, addressing their needs.

Within real estate, **International Housing Solutions' IHS Fund II SA** pursues a relevant Just Transition strategy: the fund invests in affordable housing in South Africa, and includes green building technologies across the majority of its developments. The fund uses IFC's 'Edge' tool to certify buildings to be green and achieved certification for around 60% of residential units built. The fund targets peri-urban communities and seeks to support local neighbourhoods and hire locally for its projects, creating jobs in the communities it targets.

The \$177 million fund combines equity and debt layers to attract public investors and also pension funds and other institutional investors.



International Housing Solutions: IHS FUND II SOUTH AFRICA

Overview

AMBITION

(including linkage to Just Transition)

Statement: Invest in the acquisition and delivery of affordable and green affordable housing in South Africa for rental and sale.

- **Climate and Environmental Action:** Deliver a minimum of 5,760 green units
- **Socio-economic Distribution and Equity:** Through delivery of the housing, create employment opportunities as well as deliver housing to the affordable market where there is a significant under-supply
- **Community Voice:** As part of the delivery of social housing units (where the government provides a subsidy), develop social integration platforms for the lower end of the housing market

DESCRIPTION OF FUND

IHS Fund II SA (FII) invests in the acquisition and development of affordable residential real estate in South Africa targeted primarily at lower- and middle-income households with an average market value per unit of less than ZAR650,000 (adjusted by consumer price index from January 15)

Over 5,700 units are IFC EDGE certified, ensuring green housing.



MANAGER

Founded in 2005, based in Johannesburg, South Africa, the manager has over 40 employees.

Total capital raised is currently at \$665 million, across six funds.

INVESTORS

Investors

Combination of 10 LPs including DFIs, development banks, impact investors, pension funds and other Institutional Investors – both local and international.

Key attraction points for institutional investors

- Combined social and environmental impact investment
- Affordable housing investment in an under-supplied market

Key challenges for institutional investors

- Introduction to African market and associated risks
- Forex implications for foreign investors since fund is local currency denominated.

Key Terms

FUND LEVEL

- **Vehicle/fund type:** Closed-end private real estate fund
- **Fund size:** Actual \$176.5 million
- **Blending and/or TA:** N/A
- **Sponsor/anchor:** N/A
- **Term/investment period:** 10 years / 4 years
- **Target return:** Target 20-22% gross IRR
- **Management fee/incentive fee:** 2% / carried interest
- **Vintage (first close):** 2014
- **Co-investment rights:** Not applicable

INVESTEES LEVEL (investment strategy)

- **Instrument(s):** Debt (max 75%) and equity
- **Target investee type(s):** Real estate development held in special purpose vehicles (SPVs)
- **Target sector(s):** Affordable housing real estate
- **Target geography(ies):** South Africa
- **Investment tenor:** Exit all investments before mid-2024
- **Average ticket size:** ZAR60 million
- **Investment currency:** ZAR

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International Housing Solutions: IHS FUND II SOUTH AFRICA

Pipeline and portfolio

MARKET OPPORTUNITY

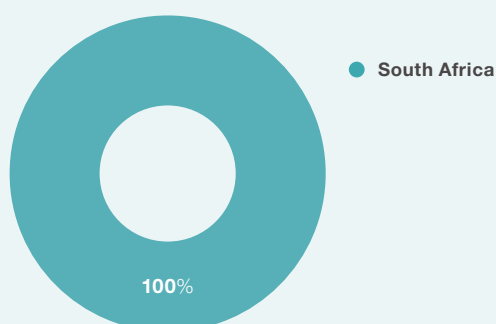
The Problem: Shortage of housing affordable to the lower- and middle-income households in South Africa ("missing middle"); approximately 2.1 million houses needed to be built to clear the backlog exacerbated by rapid urbanisation according to statistics reported by the government in 2016.

The Opportunity: Supply of affordable housing.

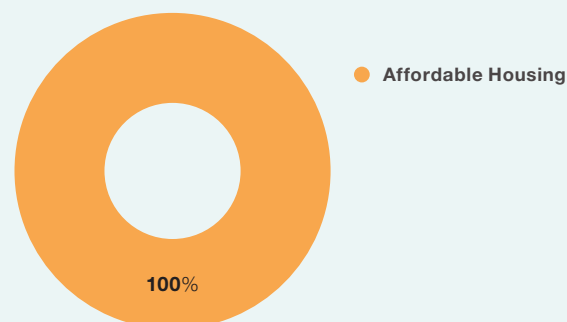
Pipeline: Not applicable, as the fund is fully committed, 31 investments.

ALLOCATION

Allocation - Geography



Allocation - Sector

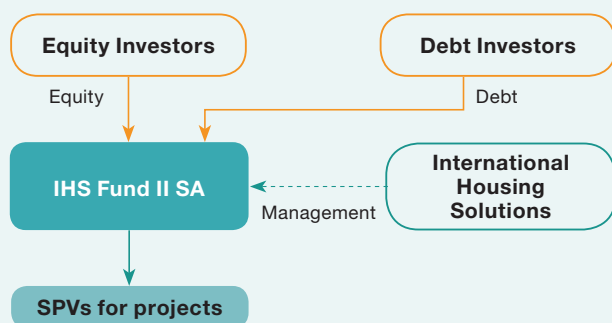


JUST TRANSITION IN THE INVESTMENT PROCESS

- Sourcing affordable housing opportunity located in infill sites close to amenities, transport and job opportunities where there is a shortage of housing
- Quarterly reporting of employment figures at investee and manager level as well as monitoring performance of green units in terms of water and electricity consumption

Structure and risks

LEGAL STRUCTURE



Jurisdiction: South Africa

Legal form: En commandite limited partnership

Capital structure: Single capital layer (equity) and debt

KEY RISKS

Key Risks	Mitigant(s)
Geographic	All South Africa
Currency	Denominated and operated in ZAR
Counterparty	Strong in-house legal team overseeing the rollout of legal agreements and contracts. Deep experience, average of over 25 years of experience within the team
Concentration	While all in South Africa, investments are spread throughout the country with a focus in primary nodes with employment opportunities. Market studies form part of deal approval process
Credit	Max LTV of 75% at investee-level and 70% at fund-level

Outcomes framework

CLIMATE AND SOCIAL METRICS

Examples:

- **Climate and Environmental Action:** Portfolio: green units delivered. Investee/Asset: performance of green units savings in terms of water and electricity consumption
- **Socio-economic Distribution and Equity:** Employment figures at both portfolio and investee level, including within IHS, the developer for the construction period and throughout operations for property management
- **Community Voice:** In certain housing investments, community meetings for social integration. However, not reported nor required to be reported on as a metric

FRAMEWORK AND REPORTING

- **Underlying reporting standards:** IFC EDGE Certification tool for greening of units at the Investee (project) level
- **Reporting:** In line with requirements of both the IFC Annual Data Collection for Development Outcomes and EIB Annual KPI Data Collection
- **Transparency:** Annual and quarterly investors reporting including questionnaires and surveys
- **Third-party verification:** Green Building Council of SA for verification of EDGE certified units

Select areas of Just Transition enhancement

- Could the fund expand its ambition statement to include targets for all three Just Transition Elements?
- Could the fund include explicit prioritisation and reporting on community engagement and neighbourhood voice to ensure units are built and

run to the satisfaction of the targeted population and build learnings (potentially from renewals data as well as through formalised mechanisms for consultation and feedback)?

Investee in the spotlight

INVESTING IN TIRONG DEVELOPMENT

Background

IHS identified an affordable housing gap within the node in which Tirong is being developed. While there was existing housing supply in the node, there was a shortage of affordable housing which prompted IHS Fund II SA to invest in the delivery of units that were between 3% to 9% cheaper than the closest comparable housing.

The project is located in Tirong (formerly known as Houtkoppen), located within close proximity to the Northgate Dome and Cosmo City, which was one of the largest government housing projects in Johannesburg.

The deal was closed into the fund in October 2016 and is structured as a 'For Sale' development deal where 638 units will be sold to the open bonded market and delivered over six phases.

Investment

Investment of ZAR33.8 million in equity into the development of 638 green affordable housing units (free-standing homes).

Impact

Climate and Environmental Action: Green EDGE Certified Units verified by GBCSA using the IFC Tool.

Socio-economic Distribution and Equity: Provided 638 families with affordable housing while creating employment for over 220 people in construction over the development life.

Community Voice: Not applicable, only market research to meet the statutory requirements.

Another example of a real estate fund is **Diversity's Urban Property Fund**. Similar to the IHS fund, this fund also provides green and affordable housing in South Africa. However, it focuses on the country's inner cities, aiming to improve housing for lower-income population

segments in urban communities. Like the IHS fund, the Urban Property Fund integrates a strong social mandate with sustainability and green building practices. Diversity is also interesting for its structure as an evergreen investment company.

EXAMPLE

Diversity: URBAN PROPERTY FUND**Fund overview**

Diversity's Urban Property Fund is an affordable housing platform focused on the regeneration of South African cities. Diversity expects to fund the development of about 2,500 new residential units over its investment period. The fund intends to provide quality, affordable and environmentally sustainable housing for low- and middle-income households in central, yet underinvested areas in major South African cities with a focus on Johannesburg.

The fund invests in high density urban precincts, selected to be well located, rich in amenities, and weighted towards affordable rental housing. The fund aims to offer low- and middle-income households the opportunity to live in sustainable urban environments, close to where they work and with access to the essential amenities required to get ahead in life.

Structure

Open-end investment company.

Manager

Diversity is a fully integrated property fund manager, including fund management, asset management and development management under one roof. Its existing portfolio of ZAR3 billion comprises 6,500 residential units and 90,000 m² commercial and retail gross leasable area. In 2021 Diversity acquired residential property and asset manager Ithemba Property, which has a 20-year track record in managing affordable rental housing.

Investors

Investors in the Urban Property Fund include CDC Group (\$36 million), South African impact investor Futuregrowth, and existing Diversity shareholders, including Atterbury, Ithemba Property, Nedbank Properties and RMH Group.

Outcomes

The fund focuses on environmentally sustainable affordable housing, effectively combining the socio-economic and environmental targets. It further integrates the Community Voice Element through its neighbourhood focus, seeking to create liveable urban environments in cooperation with local communities.

On the social side, the fund aims to address the growing housing shortage in South African cities, which particularly affects low-income populations. As a majority of low-cost housing is on the outskirts of major cities, most of the lower-income population resides in informal, congested and poor-quality housing.

On the climate side, the fund targets environmentally sustainable housing.

Select areas of potential Just Transition enhancement

- Is there an opportunity to include a clear climate target to the fund, including the addition of a clear assessment of the sustainability of projects (such as climate smart approaches, including efficient building materials and waste and water efficiency)?
- Could the fund explicitly include prioritisation and reporting on community engagement and neighbourhood voice to ensure units are built and managed to the satisfaction of the targeted population and to build learnings (potentially from renewals data as well as through formalised mechanisms for consultation and feedback)?

Source: Diversity website: <https://www.divercity.co.za/>

Another example of a real estate fund is **Schroders' Schroder Capital UK Real Estate Impact Fund (SCREIF)**. This UK fund is broader in its investment strategy than the prior two funds, covering not only residential housing but

also commercial real estate focused on SMEs. SCREIF integrates a strong social mandate with sustainability and green building practices. It is also interesting for its structure as an open-end fund.

EXAMPLE

Schroders: SCHRODER CAPITAL UK REAL ESTATE IMPACT FUND

Fund overview

The **Schroder Capital Real Estate Impact Fund (SCREIF)** aims to tackle social inequality and climate change through place-based impact investing. Real estate offers a tangible route to participate in solutions and SCREIF seeks to provide positive social and environmental outcomes alongside a long-term 7-8% net return per annum through investment in areas of the UK defined as 'deprived' by the UK government's Index of Multiple Deprivation. Through a scalable, diversified approach, the fund will focus on regeneration of town centres where mixed-use schemes combine retail, housing, social infrastructure and improved public spaces; affordable office space for SMEs and entrepreneurs; and affordable and social housing.

The Impact Scorecard is a proprietary geospatial and impact screening tool, built in collaboration with BlueOrchard, based on five dimensions: People, Planet, Prosperity, Risk and Additionality, and aligns with the IMP framework. For each investment, the Impact Scorecard evaluates the impact intention, the beneficiaries of the asset's impact, potential impact risks and the deliverable additionality in the asset's location. Critically, the outcomes of the Impact Scorecard ascertain whether, through asset management initiatives, sufficient positive impact will be generated by each asset. The Impact Committee, an independent group of impact specialists including Schroders Group's sustainability team, Schroders Capital and BlueOrchard, provides an additional layer of governance to assess each asset's impact intent to ensure alignment with the fund's impact objectives.

Structure

SCREIF is an open-end real estate vehicle domiciled in the UK with a Luxembourg feeder and a target AUM of £750 million.

Manager

Schroders has 50 years' experience of investing in real estate. As of June 2021, Schroders Capital Real Estate managed £16.5 billion on behalf of a range of UK and international institutions. Sustainability and impact are integrated into all of their strategies to deliver sustainable

long-term financial outcomes. Schroders is a founding signatory of several industry programmes including the Net Zero Asset Managers' Initiative.

Investors

The fund is suitable for institutional investors.

Outcomes

SCREIF's strategic outcome objectives are the improvement and revitalisation of town centres and communities; supporting regional economic development through provision of affordable workspaces and training opportunities; and addressing the UK's housing crisis through high-quality yet affordable housing for a range of demographics and needs. Through investment in non-traditional locations, SCREIF will support the UK government's levelling up agenda. Stakeholder engagement is central to successful positive outcomes. Therefore SCREIF teams collaborate closely with all parties throughout the investment lifecycle.

Each asset has defined impact and sustainability targets and progress is measured and published annually by an external impact consultant using metrics such as affordability benchmarking, annual social return on investment and embodied carbon assessments.

Select areas of potential Just Transition enhancement

- Is there an opportunity to have a clear ambition statement across Climate and Environmental Action; Socio-Economic Distribution and Equity; and Community Voice?

Source: Manager information, provided for information purposes only. The material is not intended as an offer or solicitation for the purchase or sale of any financial instrument or security or to adopt any investment strategy. The information provided is not intended to constitute investment advice, an investment recommendation or investment research and does not take into account specific circumstances of any recipient. The material is not intended to provide and should not be relied on for accountant, legal or tax advice. Information herein is believed to be reliable but Schroders does not represent or warrant its completeness or accuracy. This relates to a potential investment fund which has not yet been launched. Aspects may be subject to alteration and change.

3.4.6 Bond vehicles

3.4.6.1 BOND VEHICLE: APPLICATION OF THE BLUEPRINT TO A CASE STUDY AND SUPPORTING EXAMPLES

As discussed in Section 1.4.1, ESG thematic bonds are booming, in particular green bonds, providing significant potential for Just Transition financing.

The green bond market momentum has also spawned innovation in social bonds, with gender themes, in particular, gaining traction. Such bonds, and vehicles which pool them, are part of the significant fixed income asset class.

FIGURE 3.6

Bonds: Market and ESG trends

The bond market is, by far, the largest securities market in the world, having evolved into a \$128 trillion **global** marketplace as per ICMA estimates. It comprises \$88 trillion sovereign bonds (including issuers such as governments, quasi-governments or municipals) and \$41 trillion corporate bonds. The market is dominated by the US with \$22 trillion and China with \$20 trillion, followed by Japan with \$12 trillion. The corporate bond market is also dominated by the US with \$11 trillion and China with \$7 trillion. From a sector perspective, 53% (or \$22 trillion) of outstanding corporate bonds are issued by financial institutions.

Global ESG thematic bond issuance has risen sharply in the last eight years, reaching close to \$450 billion in 2020, according to Amundi and IFC. In particular, green bonds have boomed, with total global issuance amounting to over \$280 billion in 2020. The UK government recently issued four green gilts (including social co-benefits reporting) that were

significantly oversubscribed (see Section 2.3.4.4).

Looking at **emerging markets**, the market is dominated by Chinese green bonds, accounting for over \$115 billion of the close to \$200 billion market.

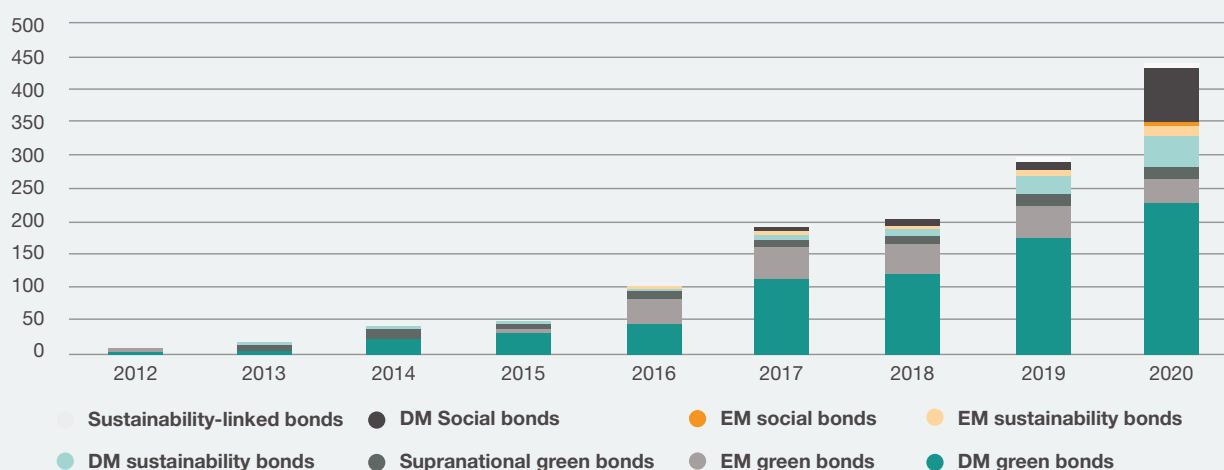
Emerging markets green bonds outperformed their conventional counterparts in 2020 and demonstrated lower volatility. Amundi and the IFC expect emerging markets green bonds to exceed \$100 billion in annual issuance by 2023.

In **Africa**, only South Africa (issue volume of \$200 million by Standard Bank) and Egypt (\$750 million) saw any green bond issuances in 2020; in Sub-Saharan Africa, cumulatively over time, financial institutions account for 60% of issuances.

Sources: ICMA (2020): "Bond market size"; <https://www.icmagroup.org/Regulatory-Policy-and-Market-Practice/Secondary-Markets/bond-market-size/>; Amundi and IFC (2021): "Emerging Market Green Bonds Report 2020"

Global ESG thematic bond issuance

(\$ billion)



Sources: IFC, Bloomberg, Environmental Finance Climate Bonds Initiative

²⁰³ Impact Investing Institute (2020): "The Green+ Gilt: How the UK could issue sovereign bonds that deliver climate action and social renewal"; <https://www.impactinvest.org.uk/publications/the-green-gilt-how-the-uk-could-issue-sovereign-bonds-that-deliver-climate-action-and-social-renewal>

From autumn 2021, the UK Government has committed to reporting on social co-benefits generated from the use of proceeds from its new green sovereign bond (gilt) issuance (see also Section 2.3.4.4).²⁰³ There is a significant near-term opportunity to steer the size, standards and momentum of the green bond market towards a Just Transition.

As they are listed and issued by corporate or sovereign issuers, bonds' specific requirements are quite different from private instruments,

including the need to satisfy listing obligations. Managers and investors of listed funds typically have limited ability to influence vehicle dimensions, although they could assess and prioritise them in accordance with the proposed integrated Just Transition Elements and underlying Principles. For example, an investor could prioritise bonds where the issuer is performing surveys on the effectiveness of use of proceeds throughout the life of the bond, not just at issuance.

ESG thematic bond labels

- **Green bonds:** Earmarked to finance new or existing projects with environmental benefits
- **Social bonds:** Finance projects that achieve positive social outcomes, especially for a target population
- **Sustainability bonds:** Finance both green and social projects
- **Sustainability-linked bonds:** Performance-based non-earmarked bonds whose financial or structural characteristics are adjusted depending on the achievement of predefined sustainability objectives. Consequently, the investor typically assesses the issuer, not specific projects
- **Climate transition bonds:** Finance the transition to a low-carbon economy

The social impact of bonds remains crucial to a sustainable post-Covid 19 transformation and recovery, even though social bonds have often been seen as differentiated and siloed offerings. Some innovative bond developments include:

- **Local currency bond** issuances are still at an early stage but are slowly coming to market
- The **gender bond** market is also still very young, but provides an opportunity to further gender equality
- **Transition bonds** have the potential to become their own asset class, incorporating further ESG implications, and could align very closely to Just Transition principles

Source: Amundi and IFC (2021): "Emerging Market Green Bonds Report 2020; Environmental finance (2021); <https://www.environmental-finance.com/content/the-green-bond-hub/the-sustainable-bond-market-beyond-2020-green-bonds-strike-back.html>

It is also important to understand the other stakeholders in listed vehicles and the roles they perform, as these are often different from those in the private market. For instance, on the outcomes side, sustainability rating agencies (e.g., Sustainalytics and MSCI) cover metrics for sustainability performance and reporting. To date, sustainability outcomes have lacked standardisation in the market, leading to highly bespoke transactions that make them more time- and cost-intensive.

BlueOrchard's Schroder International Selection Fund BlueOrchard Emerging

Markets Climate Bond Fund (CBF) is a noteworthy example of a Just Transition aligned bond vehicle, focusing predominantly on green and sustainability bonds while also assessing and tracking social outcomes, both at issuer and target investee levels.

As noted earlier, BlueOrchard is an experienced impact investment manager and was acquired in 2019 by Schroders – an example of the increasing integration of mainstream and impact managers. The fund attracted over \$100 million of institutional capital using an open-end fund structure, offering investors daily liquidity.



SPOTLIGHT

Enel SpA green bonds

Since 2017, Enel has issued three green bonds for a total amount of €3.5 billion. The green bonds target institutional investors and were guaranteed by Enel SpA. The net issuance proceeds were used to finance eligible projects according to the "Green Bond Principles" categories, published by the International Capital Market Association (ICMA). In particular, the proceeds were used to finance:

- New projects for the development, construction and repowering of generation plants from renewable sources
- New projects for the development, construction, repowering and refinancing of generation plants from renewable sources as well as projects for transmission, distribution and smart grids

Source: Enel (2019): "Green Bond Report 2019"

BlueOrchard: SCHRODER INTERNATIONAL SELECTION FUND BLUEORCHARD EMERGING MARKETS CLIMATE BOND FUND

Overview

AMBITION

(including linkage to Just Transition)

Statement: "Invest for a sustainable, low carbon future in a growing, primarily emerging markets issued climate bond universe"

- **Climate and Environmental Action:** Focus on green bonds, but also includes sustainability-linked bonds with climate objectives and general bonds of climate action issuers with a targeted business model tackling environmental change; stringent impact scoring
- **Socio-economic Distribution and Equity:** Inclusion of sustainability bonds and sustainability-linked bonds with social angle next to environment; all issuers are assessed on social characteristics and each issuance is linked to the SDGs; focus on emerging markets (target 67%)
- **Community Voice:** Issuer might be challenged on their ESG and impact characteristics or transparency; ESG assessment includes responsible treatment of clients as well as analysis on ESG issues related to community relations

DESCRIPTION OF FUND

BlueOrchard's Schroder International Selection Fund Emerging Markets Climate Bond Fund (CBF) launched in Q2 2021 with seed capital of \$75 million.

The UCITS fund purchases mainly green bonds, as well as sustainability bonds, sustainability-linked bonds and general bonds aligned to climate action.

The investment process includes a stringent and independent ESG and further impact analysis; positions are only included in the portfolio upon passing both these as well as the financial assessments.



MANAGER

Founded in 2001, BlueOrchard has \$4 billion of AUM and has invested over \$8 billion over 20 years across over 90 countries.

Headquartered in Zurich with six further offices and over 120 staff globally.

Dedicated impact investment manager with largest microfinance fund worldwide and an over \$550 million impact bond portfolio.

INVESTORS

Investors

Private and institutional investors.

Key attraction points for institutional investors

- Climate bond strategy based on actively managed investment process and including a stringent proprietary impact framework
- Scalable, undertakings for collective investment in transferable securities (UCITS) compliant structure offering daily liquidity
- Proprietary impact framework applied throughout

Key Terms

FUND LEVEL

- **Vehicle/fund type:** Open-end bond fund
- **Fund size:** Actual size over \$100 million
- **Target return:** Target of ICE BofA 3 month US Treasury Bill Index + 2.5% gross of fees over a 3- to 5-year period
- **Management fee:** 0.6% (class C) / 1.45% (class A+B)

INVESTEE LEVEL (investment strategy)

- **Instrument(s):** Bonds
- **Target investee type(s):** Green, sustainability and sustainability-linked listed bonds and selectively general bonds of issuers with a business model and/or product or

service offering aligned to environmental change; majority EM but also including DM; have to pass stringent internal ESG and impact selection process; current weighted BBB rating

- **Target sector(s):** FIs, sovereigns, utilities, real estate, materials, renewable energy, mass transit
- **Target geography(ies):** Initially at least 50% emerging markets; exposure to increase to at least 67% after three years of fund launch
- **Duration:** 2-7 years, average 5.4 years
- **Investment currency:** Any currency, yet needs to be hedged back to USD

Pipeline and portfolio

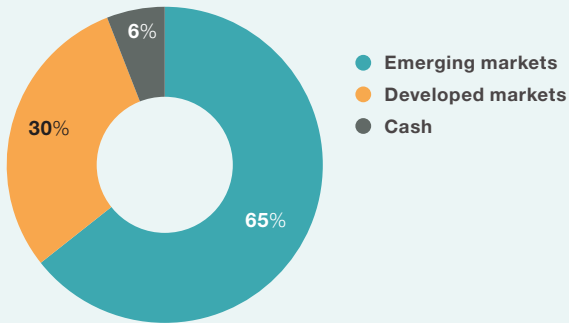
MARKET OPPORTUNITY

The Problem: Climate change is one of the key global threats; \$16.8 trillion estimated investments are required for global climate finance until 2030, both in climate adaptation and climate change mitigation.

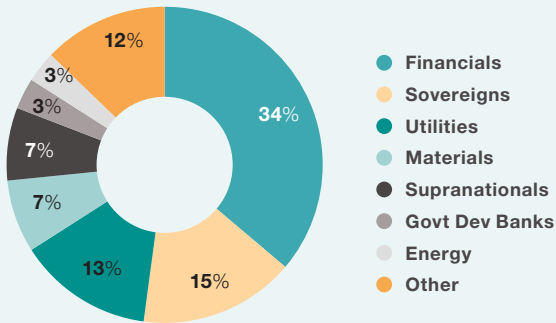
The Opportunity: \$1 trillion cumulative green bond issuance since 2010 (57% CAGR); expected to increase to \$2 trillion in 2023.

ALLOCATION

Allocation - Geography



Allocation - Sector

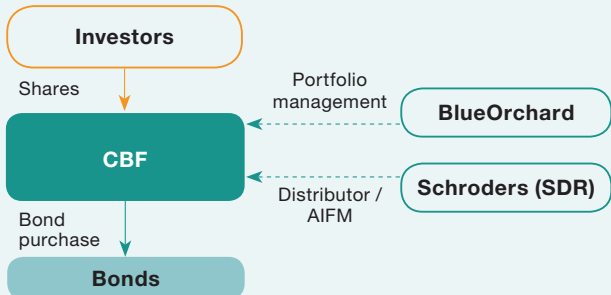


JUST TRANSITION IN THE INVESTMENT PROCESS

- Due diligence includes a three-step approach which includes an ESG scoring, an impact scoring and an SDG mapping (active mapping based on identified KPIs, beyond issuer claims). Prior to investment, each position requires approval from both the Portfolio Management and the Impact Management teams (independent from the Portfolio Management team)
- Monitoring includes regular review of ESG and impact assessment (at the latest within 18 months) of each position in the portfolio; ongoing monitoring on exposure to ESG issues through a respective RepRisk alert and internal analysis of cases

Structure and risks

LEGAL STRUCTURE



Jurisdiction: Luxembourg

Legal form: UCITS fund with daily liquidity

Capital structure: Open-end mutual fund, all share classes rank pari-passu

KEY RISKS

Key Risks	Mitigant(s)
Geographic	Diversified: target at least 67% EM
Currency	Hedged
Interest rate	Duration management
Credit	Issuer ratings, current weighted rating BBB

Continued on next page



BlueOrchard: SCHRODER INTERNATIONAL SELECTION FUND BLUEORCHARD EMERGING MARKETS CLIMATE BOND FUND

Outcomes framework

CLIMATE AND SOCIAL METRICS

Examples:

(Note: Exact metrics are currently under discussion due to rather low data availability in emerging markets.)

- **Overall:** Average ESG and impact scores of portfolio
- **Climate and Environmental Action:** Number of green/sustainability-linked bonds in portfolio
- **Socio-economic Distribution and Equity:** Percentage of investments in EM
- **Community Voice:** N/A
- **Portfolio example:** Detailed insights into one position in the portfolio from an ESG and impact perspective; KPIs depending on investment intent

FRAMEWORK AND REPORTING

- **Underlying reporting standards:** BlueOrchard has its proprietary B.Impact framework which consists of an ESG assessment at issuer level as well as an impact assessment on issuance level. The framework is aligned with the Operating Principles of Impact Management and the IMP and classifies as an Article 9 fund according to the Sustainable Finance Disclosure Regulation (SFDR)
- **Transparency:** The fund reports, on a quarterly basis, its average ESG and impact scores, alignment to the SDGs as well as a concrete portfolio position; in addition, a yearly impact report will be produced (still under development)
- **Third-party verification:** BlueOrchard is currently in the process of getting the whole investment process externally verified as aligned with the Operating Principles for Impact Management

Select areas of Just Transition enhancement

- Could the fund expand its ambition statement to include targets for all three Elements of the Just Transition?
- Could the fund include in its assessment and potentially prioritise bonds based on the issuer's community engagement (e.g., the verification of the relevance of products based on community need and feedback mechanisms)?

Investee in the spotlight

INVESTING IN GREENKO GROUP PLC

Background

Greenko is a leading renewable energy company in India. The company develops, owns and operates energy projects with a focus on solar, wind and hydro. Net installed renewable energy capacity as of end of 2020 reached 6.2 GW across 15 states in India.

The company's business model is focused on decarbonisation of the Indian energy sector through digitalisation and decentralisation. As shown by the International Energy Agency, in 2020 nearly 70% of the energy demand in India still related to coal (44%) and oil (25%). Overall, the country is the third-largest global emitter of CO₂ – with the power sector showing a carbon-intensity well above the global average. Given the growing energy use in the country, companies like Greenko play an important role in improving India's environmental footprint.

Investment

The fund invested in a March 2021 primary issuance of a Green Bond of Greenko. Use of proceeds will be allocated to expenditures related to the development and acquisition of wind and solar projects.

Impact

Based on the proprietary Impact Assessment process, BlueOrchard will track specific metrics for their impact reporting (expected after one year of issuance). KPIs related to renewable energy capacity installed as well as CO₂ emissions reduced. Following the categories of the IMP, BlueOrchard sees this investment as a contribution to finance (climate) solutions and to support a company whose activity

is performed in a way that contributes substantially and directly to an environmental objective.

Climate and Environmental Action: The proceeds of the Green Bond are targeted at wind and solar projects, therefore supporting building-up of such capacities in the Indian energy sector.

Socio-economic Distribution and Equity: Assessing Greenko from an ESG perspective shows high awareness of the company for social topics, and high disclosure on several aspects. For instance, they pay attention to train employees on a regular basis, not only on health and safety but also on social performance topics. Or, they maintain a customer satisfaction index for their utility customers (2019–2020 result: 100%) and report on how many contractors/suppliers have been retained beyond three years (2019–2020: 80%) as well as how many are local (2019–2020: 45.1%).

Community Voice: Greenko is setting itself concrete community development targets and goals in the area of education (interventions in government-run schools, among children and community around its operational presence), healthcare (provide quality healthcare to people living in communities around operational presence), rural development (improve living standard of people, mainly by improving basic amenities and rural infrastructure), livelihoods (providing skill training), environment (plant trees in and around group's operational presence), impact assessment (third-party assessment of CSR interventions). For the reporting cycle 2019–2020, the company had 486 ongoing community development programmes.



²⁰⁴ Environmental Finance (2019): "Winners of Environmental Finance Bond Awards 2019 honoured by market"; <https://www.environmental-finance.com/content/analysis/winners-of-environmental-finance-bond-awards-2019-honoured-by-market.html>

Amundi and the IFC's Amundi Planet

Emerging Green One (EGO) Fund is another example of a bond fund providing capital for green bond purchases to further environmental projects and actions in emerging markets. It was named both Initiative of the Year and Green Bond Fund of the Year by Environmental Finance in 2019.²⁰⁴ The fund aims to buy green bonds issued by emerging market banks to increase the banks' capacity to provide loans locally, funding climate-

friendly investments. Launched by Amundi and the IFC in 2018, the fund has raised \$1.4 billion using a blended structure, where public investors provide subordinated capital, allowing a number of institutional investors to participate.

The fund provides another example of the collaboration of a public MDB with a private sector manager, seeking to use the best capabilities of both worlds.

EXAMPLE

Amundi/IFC: EMERGING GREEN ONE FUND

Fund overview

Amundi and the IFC's Amundi Planet Emerging Green One (EGO) Fund, launched in 2018, is the world's largest targeted green bond fund focused on emerging markets. The fund combines Amundi's asset management experience with the IFC's expertise in private sector development in emerging markets. The fund, which closed at \$1.42 billion, is expected to deploy \$2 billion into emerging markets green bonds over its lifetime, as proceeds are reinvested during the fund's seven-year term. The fund aims to increase the capacity of emerging market banks to fund climate-smart investments. It is expected to increase the scale and pace of climate finance in emerging markets by attracting large-scale capital from investors and creating new markets.

Structure

The fund structure includes a junior tranche, mezzanine and senior tranches.

Manager

The EGO fund is managed by Amundi with IFC seeding the fund and providing technical assistance on key aspects such as ESG and impact reporting. The IFC is the private-sector arm of the World Bank Group, working to advance economic development through for-profit and commercial projects. As of December 2020, IFC had issued 178 green bonds for over \$10.6 billion. Amundi is Europe's largest asset manager with €1.43 trillion in AUM. Amundi also has other green bond funds under management, such as the Amundi Impact Green Bond fund and the Amundi Responsible Investing – Impact Green Bonds.

Investors

IFC was the cornerstone investor providing \$256 million, and also provided technical assistance grant funding for the underlying issuers. The IFC and other development banks, including Proparco, the EIB and the EBRD, invested in mezzanine and junior tranches of the fund. More than 60% of the final \$1.4-billion capital raise came from institutional investors. These included several European pension funds and insurance companies, such as the Swedish pension funds Alecta, AP3 and AP4, the French public additional pension scheme ERAFP, and Crédit Agricole Assurances.

Outcomes

Using Amundi's own unique ESG framework (which is aligned with IFC's), Emerging Green One aims to invest into green bonds where measurable green impacts can be reported. The fund has a blended structure, including a junior and a mezzanine tranche. This aims to offset some of the perceived risk inherent to investing in emerging markets debt and thereby attract more private investment.

The fund invests in green bonds, yet applies an integrated ESG lens to investments. The underlying green bond use of proceeds cover renewable energy, green transport, energy efficiency, green building, water management and waste management. The fund's core metric is tonnes of GHG emissions avoided.

The fund has a technical assistance programme, which provides training to emerging market banks in green, sustainability and social bond issuance, including improving quality of reporting and knowledge sharing.

Select areas of potential Just Transition enhancement

- Is there an opportunity for the fund to include express climate targets?
- Could there be socio-economic parameters beyond climate that lead to prioritisation of certain bonds based on their planned and stated use of proceeds, and could sustainability bonds and sustainability-linked bonds be included in the focus?
- Could the fund include a more stringent issuer assessment (beyond project) with respect to climate and social aspects? And prioritise bonds where the issuers conduct community surveys on the effectiveness of the use of proceeds?

Sources: Amundi (2021): "Amundi Planet Emerging Green One"; Environmental Finance (2020): "Green bond fund of the year – Amundi"; Amundi (2021): "Amundi Planet Emerging Green One Factsheet"

While not an investment vehicle, **IFC's Masala bond programme**²⁰⁵ is interesting given its unique and effective structure, where the IFC issues AAA-rated local currency bonds. The programme has effectively tackled an important market challenge, namely, local currency financing, allowing institutional investors to invest in Indian rupee-denominated bonds, creating an efficient market that provides investors with the necessary credit

ratings and liquidity. An additional consideration for potential replication, the IFC issued the first green Masala bond under its programme on the London Stock Exchange in 2015, backing a green bond issuance by YES Bank. The IFC Masala bond programme demonstrates the power of using asset class instruments to catalyse a domestic market, thereby creating significant opportunity for more capital to flow.

EXAMPLE

IFC: MASALA BOND PROGRAMME

Fund overview

IFC's Masala bond programme is a \$3 billion programme, where the IFC issues rupee-denominated bonds on international stock exchanges, benefiting from the IFC's AAA issuer rating. The proceeds are invested in local bond issuances by select issuers to advance private sector development in India and provide issuers with local currency access.

Within its programme, the IFC issued its first green Masala bond in 2015, using proceeds to finance YES Bank's local green bond, proceeds of which, in turn, were earmarked for renewable energy projects in India.

Over the past few years, IFC's Masala bond programme has played an important role in deepening India's capital markets, prompting the Reserve Bank of India to authorise Indian companies and banks to issue similar bonds in offshore markets, demonstrating the catalytic effect of the programme on broadening local currency issuance. The programme is also supporting Indian companies seeking to issue Masala bonds by providing advice and sharing experience as a pioneer issuer in this market. Over the years many Indian issuers, public and private sector, corporates and financial institutions as well as a state government (i.e., sub-national) have issued Masala bonds for their own financing needs.

With the latest Masala bond issuance, IFC has created an offshore rupee-market yield curve that stretches from three to 15 years, deepening the market and making it more resilient. This sends a clear signal that investor demand for high-quality assets in India remains strong, despite global financial uncertainties.

Structure

IFC issues rupee-denominated bonds on international stock exchanges and invests the proceeds in local bond issuances by select issuers.

Issuer

The IFC is the private-sector arm of the World Bank Group, working to advance economic development through for-profit and commercial projects. The Masala Bond market, catalysed by IFC's pioneering issuances, is now cumulatively estimated to have been tapped by over 15 issuers across 50 or more issuances, raising close to \$10 billion (rupee-equivalent) of financing from a wide range of international investors.

Investors

A wide range of international institutional investors.

Outcomes

The programme targets an important market gap in terms of broadening access to local currency financing. The green bonds issuances under the programme align well with the Just Transition Elements, combining a climate focus for use of proceeds with the furtherance of local capital markets and the tackling of local currency funding gaps.

Select areas of potential Just Transition enhancement

- Could the programme include an explicit ambition statement addressing its relevance to each of the three Just Transition Elements, including related targets?
- Could the programme track and report outcomes on Climate and Environmental Action; Socio-economic Distribution and Equity; and Community Voice as a way to further inform and shape the market?

Source: IFC (2016): "IFC Issues Historic 15-year Masala Bond in London"; manager information

The opportunity set for ESG thematic bonds is deep and wide for institutional investors – and may provide an on-ramp for those who do not yet have the mandate to invest in emerging markets. For example, there are developed markets issuers who use the proceeds of their issuances to advance their emerging markets activities. Many of these activities are aligned with the Just

Transition Elements. For example, **Enel's** recent issuance is a good example of achieving a lower interest rate through explicit climate objectives (see Spotlight panel above). **Schneider Electric** has also issued an array of sustainability bonds, some for specific uses (such as R&D) and others for more general purposes (see Spotlight panel below).

²⁰⁵ Masala bonds are bonds issued outside India but denominated in Indian rupees.

SPOTLIGHT

Schneider Electric

In November 2020, Schneider Electric announced its first sustainability-linked bond for a nominal amount of approximately €650 million. The bond was a sustainability-linked senior unsecured bond, convertible into new shares and/or exchangeable for existing shares of the company. At launch, the bonds were expected to be rated A-

by Standard and Poor's. The net proceeds of the offering will be used by the company for general corporate purposes.

Schneider Electric selected three indicators, shown below, and committed to achieve a minimum average score of 9/10 on its three KPIs by 31 December 2025.

Schneider Electric's Strategic Pillars	#	Schneider Electric's 2025 objectives for each KPI (corresponding to a score of 10/10)
CLIMATE	1	Deliver 800 megatons of saved and avoided CO ₂ emissions to our customers
EQUAL	2	Increase gender diversity, from hiring to front-line managers and leadership teams (50/40/30)
GENERATIONS	3	Train one million underprivileged people in energy management

Source: Schneider Electric: "Schneider Electric launches its first sustainability-linked bonds convertible into new shares and/or exchangeable for existing shares (OCEANEs) due 2026 for a nominal amount of €650 million"; <https://www.se.com/ww/en/assets/564/document/174193/release-sustainability-linked-bonds.pdf>

3.5 Just Transition outcomes

The purpose of this Section is not to introduce a new outcomes framework²⁰⁶ 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, in line with the recommendations of the

Impact Taskforce's Workstream A report. 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's design and operations

3.5.1 Just Transition outcomes: 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

2 WHO

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

²⁰⁶ An example for a framework template often used is the Impact Management Project (IMP)

SPOTLIGHT

Outcomes-focused technology – Proof of Impact

Proof of Impact is a data intelligence platform that transforms data into impact and financial outcomes. Powered by the proprietary Impact Catalyst, Proof of Impact takes a bottom-up, data-driven approach to extract raw data from their clients and the world, and translates it into meaningful impact, ESG and financial insights.

By focusing on data about what outcomes are being achieved in the real world, its Digital ESG and Digital Impact platforms aim to accelerate the transition for investments and capital markets to help organisations minimise risk, maximise returns and maximise impact.

Source: Proof of Impact website

AfDB ambition – Bond portfolios (Sustainability and Green)

Shown below are AfDB's high-level targets that underpin their ambition across the bank's bond portfolios.

The bank's targets are presented for illustrative purposes and not meant to cover the Just Transition Elements comprehensively. They are also specific to the objectives and sector strategy of the bank.

Green Bonds

43 MtCO₂e
GHG emissions
reduced or avoided
annually



462 MW
Renewable energy
capacity constructed
or rehabilitated



1,394,682 MWh
Energy produced
annually



795,182 MWh
Energy savings
annually



515 million m³
Water saved/treated



106 million m³
Water savings annually



90 million m³
Wastewater treated,
reused or avoided
annually



70,621 hectares
Irrigated land



46,662 hectares
Degraded forest
rehabilitated



12,972
Trees planted



11.5 million
Beneficiaries*



2.6 million
Jobs created

Sustainability Bonds

69.1 million
Beneficiaries*



9%
Decrease in poverty



578,100
Jobs created



5% Decrease in
unemployment rate



290,100
People trained



3.7 million
People with better
access to water and
sanitation



18% Increase in
access to water supply



25% Increase in
access to sanitation
services



17% Decrease
in waterborne diseases



16/1,000
Decrease in infant
mortality rate



17/1,000
Decrease in maternal
mortality rate



32,600 hectares
Arable land irrigated or
developed for farming



2.1 million tons
Increase in annual crop
production



\$3.2 billion
Increase in agricultural
and/or commodity
exports



1.1 million People
with better access to
electricity



7%
Increase in access to
electricity



26,300 MSMEs
supported with access
to financing



\$1,400 Increase in
annual income per
beneficiary**



6.1%
Increase in food
security



16% Increase in
internet service
penetration

* Based on the UN Statistics Division and the AfDB Statistics Department, the average African household size was 4.69 in 2019.

** Only in specific social projects that have income generation as an impact metric.

Source: AfDB (2021): "Green and Social Bond Newsletter September 2021"; <https://www.afdb.org/en/documents/green-and-social-bond-newsletter-issue-ndeg7-september-2021>

- 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

3.5.2 Just Transition outcomes: 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 the minimum threshold at least:

~ 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**



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

Source: IMP website



Outcomes-focused technology – 60 Decibels

60 Decibels provides mobile, voice-based customer data collection to understand social impact from the ground up. Over 960 researchers conduct local-language voice surveys in across 74 countries. Tested social impact survey tools, aligned to industry standards, are provided through an integrated technology platform linked to its impact database.

60 Decibels services can be used to help tweak or build an impact framework, using the most relevant metrics, build the capabilities within an organisation and build and provide initial and continual data collection methods.

Source: 60 Decibels website; <https://60decibels.com/>

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 to and demonstrate **how Community Voice is reflected**

- 2 **The application of the Just Transition Elements spans the entire vehicle lifecycle and is 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.



Rockefeller Foundation's Global Energy Alliance for People and Planet metrics – renewable energy

The Global Energy Alliance for People and Planet (GEAPP) intends to track the metrics shown below. These metrics are shown for illustrative purposes and are not necessarily

comprehensively covering the Just Transition Elements. What metrics are relevant to an investment vehicle will depend on the vehicle's objectives and strategy.

Goal		Metric
PEOPLE	ACCESS	<ul style="list-style-type: none"> • # people reached with new electricity connections • # with increased reliability of energy supply (households and businesses) • Increases in clean energy consumption per capita (kwh)
	JOB AND LIVELIHOODS	<ul style="list-style-type: none"> • # green jobs created/enabled • % change in real household incomes in supported areas • Changes in multi-dimensional poverty in supported areas
	HEALTH AND HUMAN DEVELOPMENT	<ul style="list-style-type: none"> • # reduced deaths and illnesses due to air pollution related respiratory ailments • # coal pollution-related premature deaths avoided • % women productive use customers • % women owners, leaders and employees in companies • Impacts of increased energy access on education outcomes (metric TBD)
PLANET		<ul style="list-style-type: none"> • Millions of tons of CO₂e reduced or abated from energy projects • MW of decommissioned fossil-fuel generation • MW of avoided coal capacity • MW of new renewable energy generation installed

Source: Manager information

4

RECOMMENDATIONS

The priority objectives guiding the recommendations below are to:

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

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 1.3.1)

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 1.3.4)

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 1.3.4)

- 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 an 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 3.2.1)

- 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, 2.6)

- 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 2.6.2)

- 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 1.2.2, 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 2.6 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 2.6 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 1.3.4)

- 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

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

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 2.4)

- 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 2.4.2 and 3.2.1)

- 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

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

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 2.4.2 and 2.6.6)

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

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

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

MEDIUM-TERM
1–2 years

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 2.4.2)

MEDIUM-TERM
1–2 years

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 2.4.1.8)

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

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. (See Section 2.4.1.8)
- 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 (See Sections 1.3.4 and 2.4.2.3)

MEDIUM-TERM	LONG-TERM
1-2 years	3-5 years

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 (See Spotlight box in section 2.4.2.1)
- Stimulate, through credit ratings, positive incentives for issuers that demonstrate use of proceeds that deliver explicit environmental and social objectives (See Spotlight box in section 2.4.2.1)

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

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 (See Sections 1.3.4 and 3.3)

- 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

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

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

Geographic considerations for emerging markets investment approaches – the examples of South Africa and India

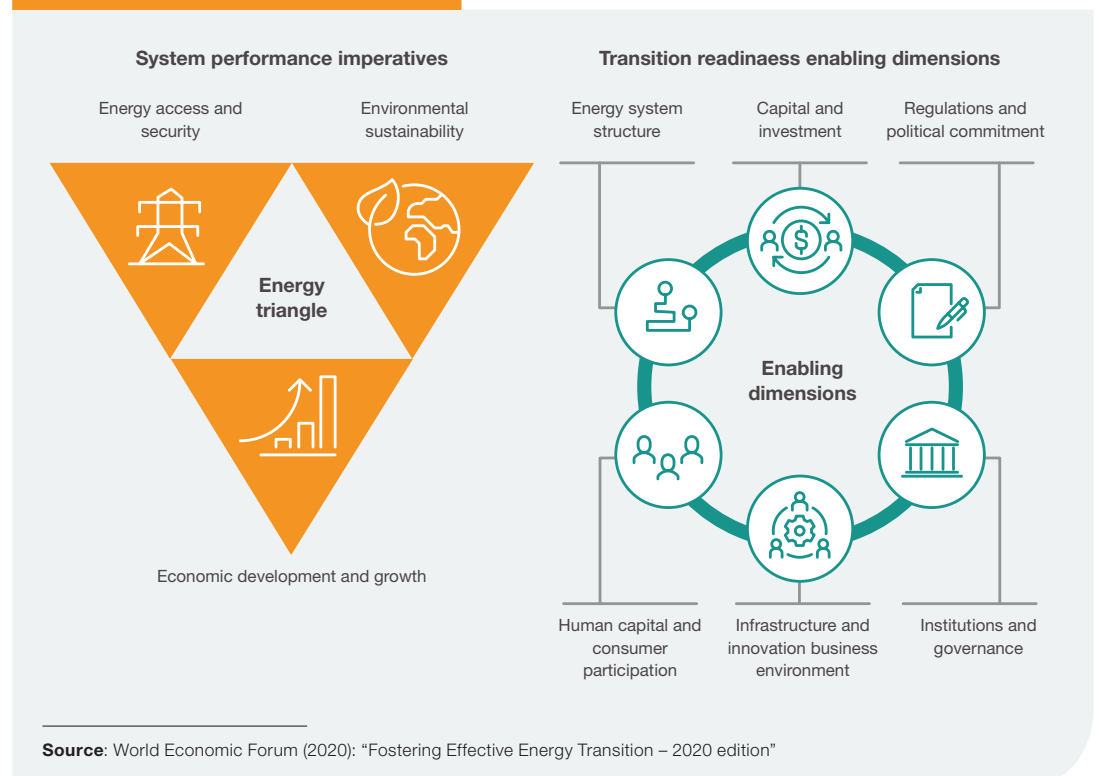
6.1.1 Starting point and transition trajectories

As outlined in Section 1.3.1.3, starting points and trajectories for Just Transition differ widely across countries. In addition, countries have different priorities, reflecting their specific circumstances. To satisfy the three Just Transition Elements – Climate and Environmental Action; Socio-economic Distribution and Equity; and Community Voice – the underlying country context needs to be analysed. Examples of summary analyses of the contexts of South Africa and India are provided for illustrative purposes.

6.1.2 Country-specific energy transition frameworks

The Fostering Effective Energy Transition initiative, facilitated by the World Economic Forum, introduced a country-specific framework on energy transition. The initiative's Energy Transition Index (ETI) provides a snapshot of the current energy situation of a country. Based on a composite score of over forty indicators, the fact-based framework quantifies countries' 1. energy system performance (capturing the current state of the energy system relating to the ability to support economic development and growth, universal access to a secure and reliable energy supply, and environmental sustainability across the energy value chain); and 2. transition readiness (capturing

Energy Transition Index



Energy Transition Index

“Given the systemic and interdisciplinary nature of the energy transition challenge, country scores on different ETI indicators depend on factors such as natural resource endowments, geography and climate, population, the level of socio economic development and path dependencies of legacy energy systems. Moreover, country scores on some ETI indicators are determined by factors beyond the scope of national decision making, such as energy market volatilities, the emerging regulatory landscape in trading partners, global financial market sentiments and international climate change frameworks.”

Source: World Economic Forum (2020): “Fostering Effective Energy Transition – 2020 edition”

the local enabling environment that will lead to the speed at which it moves; including factors such as strong political commitment, a flexible regulatory structure, a stable business environment, incentives for investments and innovation, consumer awareness and the adoption of new technologies).²⁰⁷

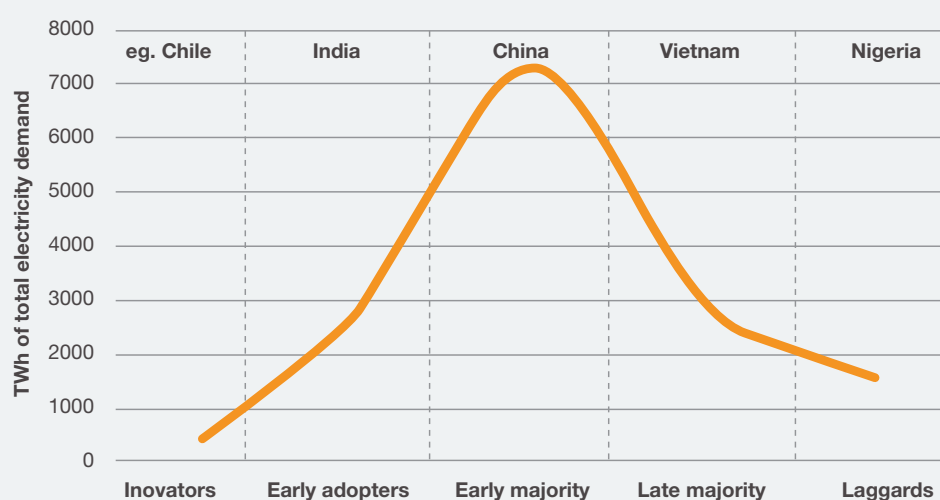
Another framing of the national starting points and trajectories has been developed by the Carbon Tracker Initiative with their use of the ‘Rogers’

framing of the diffusion of innovations into the categories of innovators (such as Chile), early adopters (such as India), early majority (such as China), late majority (fossil fuel importers, such as Vietnam and Morocco, and oil exporters with visible movement in the energy system, such as Saudi Arabia) and laggards (coal and gas exporters resistant to change and fragile states without international support, such as Nigeria).²⁰⁸

6.1.3 Country-specific social transition

To satisfy the three Just Transition Elements, the underlying country context should also include social aspects when seeking to apprehend the starting point and trajectory of a particular country. Social indicators are also important when understanding national development priorities and focus areas. A country's progress on the various SDGs can be considered. Further, there are many social indicators that may be relevant, including among others, Gross National Income (GNI) per capita, the Gini coefficient, the percentage of people living below the international poverty line of \$1.90 per day as measured by the World Bank,²⁰⁹ unemployment or the countries' scores per the human development index (HDI) developed by the UNDP, which integrates indicators across three dimensions: health, education and standard of living.²¹⁰

Carbon Tracker Initiative



Source: Carbon Tracker Initiative (2021): “Reach for the sun – The emerging market electricity leapfrog”

²⁰⁷ WEF (2020): “Fostering Effective Energy Transition 2020 edition”; http://www3.weforum.org/docs/WEF_Fostering_Effective_Energy_Transition_2020_Edition.pdf

²⁰⁸ Carbon Tracker Initiative (2021): “Reach for the sun – The emerging market electricity leapfrog”; <https://carbontracker.org/reports/reach-for-the-sun>

²⁰⁹ As per World Bank Indicators

²¹⁰ UNDP: “Human Development Index”; <http://hdr.undp.org/en/content/human-development-index-hdi>

6.1.3.1 SUMMARY EXAMPLE: SOUTH AFRICA

Starting point

The need for a Just Transition is especially relevant to South Africa, the second largest economy on the African continent and one of the highest emitters of CO₂ with a significant reliance on coal. It is also the country with the highest Gini coefficient in the world, signalling a pronounced inequality of income.

Coal accounts for approximately 90% of South Africa's electricity generation and 74% of its total primary energy supply. Moreover, South Africa provides around 40% of the electricity for the entire continent through its coal-based generation.²¹¹

Coal has been a critical driver of the local economy for many years, and an exit from coal is complex given the country's economic reliance on the industry. It is one of the country's largest exports by value, with approximately 30% of its output being exported. Also, coal is a major job provider, including through its value and supply chains. With the current unemployment rate at 32.6%,²¹² any further shocks to the employment situation could cause widespread responses and protests.

Beyond high unemployment, South Africa faces wider socio-economic challenges. South Africa's GNI per capita in 2020 amounted to \$5,410.²¹³ In 2014 (the latest year for which data is available), 55.5% of the population was defined as poor.²¹⁴ Using the international poverty line as defined by the World Bank, an estimated 19% of the population was considered poor as of 2014–2015.²¹⁵ In the UNDP's HDI, South Africa ranks 114th in the world with a score of 0.71.²¹⁶

South Africa has a history of racial exclusion and is one of the most unequal countries in the world by both income and wealth. South Africa suffers from the highest persistent income inequality rates in the world, with a Gini coefficient of 0.63 in 2015 (compared to a global average of 0.38 and the UK at 0.35).²¹⁷ High income inequality has been perpetuated in the past by a legacy of exclusion and the nature of the country's economic growth, benefiting only a few and not generating sufficient jobs. Inequality in wealth is similarly pronounced in the country, whereby intergenerational mobility is low, meaning that inequalities are passed down from generation to generation with little change over time.

Covid-19 has had a significant impact on South Africa's economy. The World Bank estimates that the economy contracted by 7% in 2020, as the pandemic weighed heavily on both external demand and domestic activity. This severe contraction is estimated to have increased poverty (measured on the international poverty line for upper-middle-income countries) by two million people.²¹⁸

Transition trajectory

South Africa faces the dual challenge of strong reliance on coal as an important source of energy,

jobs and income on the one hand, and high unemployment and inequality on the other. Transition pathways in South Africa must acknowledge and address not only a transition out of the dominant coal sector, but importantly the employment situation and the marginalisation of the black population – or they will further aggravate inequality and vulnerability and lead to more internal resistance.

South Africa has shown active engagement with respect to climate action and Just Transition. It is considered an early Just Transition adopter with the development of relevant labour policies by the labour movement in 2011 and the prominent inclusion of Just Transition aspects in the National Development Plan (NDP) in 2012, which was revised in 2019. Nearly a decade ago, in 2013, the National Business Initiative (NBI), a voluntary coalition of South African and multinational companies that is “working towards sustainable growth and development in South Africa”,²¹⁹ published a report identifying the key barriers to climate finance in the country. They identified four categories of barriers that business and government should jointly address: 1. policy-related barriers; 2. structural barriers; 3. skills and capacity barriers; and 4. fund design barriers.

More recently, in 2019, the Department of Mineral Resources and Energy issued an Integrated Resource Plan (IRP) that supports a diverse energy mix and sets out key policy interventions to ensure the security of South Africa's electricity supply, taking into account security of supply and the environment through the minimisation of negative emissions and water usage.²²⁰ Further, in 2020, the country's presidency formed a ‘Presidential Climate Change Coordination Commission’. And finally, in May 2021, the government launched the country's new draft Nationally Determined Contribution (NDC) for public consultation, emphasising the commitment to addressing climate challenges and setting targets for greenhouse gas (GHG) reduction.

According to the Climate Investment Funds, several studies even suggest that the country's energy transition will occur more rapidly than the government's 2019 IRP suggests, due to a number of factors, including, amongst others:²²¹

- Increased cost of coal, as well as declines in access to capital
- Availability of cheap alternatives
- Supply challenges of coal stations
- Environmental concerns around air quality and clean water

One prominent and recent example of transition acceleration in the country was the July 2021 announcement by Eskom, the state utility, that it was putting forward a \$10-billion plan to multilateral development banks (MDBs) and global lenders that would enable it to close most of its coal-fired power plants by 2050 and transition towards renewable energy generation.²²²

²¹¹ Climate Investment Funds (2020): “Supporting just transitions in South Africa”; https://www.climateinvestmentfunds.org/sites/cif_enc/files/knowledge-documents/supporting_just_transitions_in_south_africa.pdf

²¹² Stats SA (2021): “Unemployment rate”

²¹³ Based on the World Bank Atlas method of FX conversion, smoothing fluctuations in prices and exchange rates.

²¹⁴ Percentage of people living below the national poverty line.

²¹⁵ World Bank: “South Africa Overview”; <https://www.worldbank.org/en/country/southafrica/overview>

²¹⁶ UNDP: “Human Development Reports – South Africa”; <http://hdr.undp.org/en/countries/profiles/ZAF>

²¹⁷ World Population Review (2021): “GINI Coefficient by Country 2021”; <https://worldpopulationreview.com/country-rankings/gini-coefficient-by-country>

²¹⁸ World Bank: “South Africa Overview”; <https://www.worldbank.org/en/country/southafrica/overview>; measuring people living below the poverty line for upper-middle-income countries of \$5.5 per day in 2011 purchasing power parity (PPP) exchange rates

²¹⁹ National Business Institute: “About Us”; <https://www.nbi.org.za/about-us>

²²⁰ Mining Review Africa (2019): “What you need to know: South Africa's Integrated Resource Plan 2019”; <https://www.miningreview.com/energy/what-you-need-to-know-south-africas-integrated-resource-plan-2019>

²²¹ Climate Investment Funds (2020): “Supporting Just Transitions in South Africa”; https://www.climateinvestmentfunds.org/sites/cif_enc/files/knowledge-documents/supporting_just_transitions_in_south_africa.pdf

²²² Reuters (2021): “Africa's top emitter seeks \$10 bln for shift from coal”; <https://www.reuters.com/business/environment/africas-top-emitter-seeks-10-bln-shift-coal-2021-06-30/>

Climate Investment Funds: Key areas of country support in South Africa

- **National planning:** Socio-economic and climate modelling, together with transition planning, can inform and support long-term, organised Just Transitions
- **Social inclusion:** Initial social dialogues on Just Transitions, convened by the National Planning Commission (NPC), need to be taken forward and supported
- **Financing:** Concessional finance is critical for de-risking innovative investments and accelerating a just energy transition
- **Recovery programmes:** Ensuring that post Covid-19 recovery programmes and stimulus packages are sustainable and inclusive can be supported by incorporating emerging Just Transition frameworks and tools
- **Skills development:** Re-skilling existing workers and proactively developing new skills required to implement new technologies/processes are both necessary to facilitate Just Transitions
- **Geographical focus:** Research and planning that better articulate and distribute developmental benefits and losses across local, national and international geographic scales need to be supported

Source: Climate Investment Funds (2020): "Supporting Just Transitions in South Africa"

However, the Climate Action Tracker (CAT) rates South Africa's NDC towards the Paris Agreement as "highly insufficient". While the CAT observed a decline in emissions in 2020 due to the Covid-19 pandemic, it is concerned about a draft Mining and Energy Recovery Plan, which centres around direct investments in high-carbon sectors. Such high-carbon recovery measures are considered in stark contrast to the IRP that marked a shift in energy policy towards renewables.²²³

Transition opportunity

Given South Africa's reliance on coal and its continent-spanning electricity generation role, there is increased scrutiny by, but also opportunity for, investors. Climate Change News estimates that South Africa needs \$8 billion per year from the international community by 2030 to finance its decarbonisation and adaptation efforts to meet

²²³ Climate Action Tracker: "South Africa"; <https://climateaction-tracker.org/countries/south-africa>

²²⁴ Climate Change News (2021): "South Africa sets out to tighten 2030 emissions target"; <https://www.climatechangenews.com/2021/04/06/south-africa-sets-tighten-2030-emissions-target>

SYSTEMIQ: Using blended finance to accelerate South Africa's energy transition

South Africa is a coal-dependent middle-income country, yet it is working to take its first steps on the transition to a new economy. It is estimated to cost upwards of ZAR300 billion in public, private and concessional finance to fully decarbonise South Africa's energy system while ensuring social justice for workers and communities whose livelihoods and quality of life are impacted in the process.

The majority of the cost of approximately ZAR200 billion will be for renewables and new economy industry build-out, expected to come from private capital sources through direct project financing or investments into independent power producers.

The remaining approximately ZAR100 billion are expected to come from concessional and grant funding sources to help accelerate the decommissioning of existing coal power stations, to invest into low carbon infrastructure (transmission lines and storage) and to address further Just Transition aspects, including worker retraining, compensation for social losses, community support and rehabilitation, and policy support. Crucially, it will also be needed to help address the state-owned energy utility's debt burden.

Concessional capital has the ability to unlock the key shifts required to strengthen the investor environment. With a sizeable upfront concessional deal, the right kinds of policy shifts can occur (often a condition of donor money), enabling a stronger investment environment for the private sector and further donor finance. In June 2021, the cap on embedded generation was lifted from 1MW to 100MW, sending a strong signal to the market that the renewables sector is ready for scale. Since then, various commitments have been made from public and private financiers to kick-start the renewables build-out. This could lead to a major opportunity for economic recovery, job creation and avoiding stranded assets.

But concessional capital alone won't deliver all of South Africa's financing requirements; blending with other forms of capital is required to mobilise additional finance for a system-level transition. There is a growing pool of climate finance from G7 countries and climate-aligned corporates that South Africa could leverage. Concessional capital can mobilise this finance by blending with private and philanthropic wealth to play a more catalytic role, de-risking investments and crowding in additional finance for more impactful outcomes.

Philanthropies are key to accelerating the transition in South Africa and other coal-dependent middle-income countries. Supporting the social components of South African transition is where philanthropic capital can have a huge effect. Philanthropies with climate allocations have the ability to make high-impact, low-cost transactions in areas that private or donor capital might otherwise not go.

Major sources of private capital can be unlocked to finance the scale of renewables roll out to meet energy demands. A stronger investor environment, enabled by concessional and philanthropic money, gives private sector more certainty that crowding into the South African energy sector is not only profitable, but is secure.

To fully harness the opportunity, blended finance instruments from public and private sources are needed both at the South African utility and sovereign level. There are several creative, blended financial mechanisms that can achieve this, such as carbon bonds or coal retirement mechanisms. The key is to secure sufficient scale of finance needed to accelerate decommissioning, increasing the range of finance actors willing to participate, and ensure the sovereign anchors the transaction – sending the right signal to international stakeholders and ensuring that the burden of the transition is not borne at the utility level.

Source: SYSTEMIQ

its new targets, more than three times what it received in recent years.²²⁴ Absa Bank identified, in particular, green investments around renewable energy, sustainable transport solutions and nature-based rehabilitation as value drivers and estimated that they could deliver 250% more jobs and 420% more value added in the economy compared to traditional fossil fuel investments.²²⁵

The Climate Policy Initiative, GreenCape and the Bertha Institute published a landscape study that showed that only around 10% of the required climate finance flows necessary to meet the country's NDC are being currently invested, suggesting that both quantity and quality of investment need to change.²²⁶

The recent COP26 announcement by France, Germany, the UK, the US and the EU to provide \$8.5 billion to South Africa to support the coal transition raised the prospects of demonstrating a successful transition in practice.²²⁷ South Africa's transition has global significance. The pace and success of South Africa's transition will inform efforts and commitments focused on other emerging markets, particularly those with heavy coal dependence.

6.1.3.2 SUMMARY EXAMPLE: INDIA

Starting point

India accounts for about 18% of the world's population and is the third-largest energy-consuming country in the world. Energy use has doubled since 2000, with 80% of demand still being met by coal, oil and solid biomass,²²⁸ despite efforts to increase renewable energy production in recent years.

India is the third-largest emitter of CO₂ globally. Coal is currently responsible for about 45% of

India's total primary energy demand, although India's per capita CO₂ emissions are well below global averages. India is also the world's third-largest consumer and fourth-largest refiner of oil, and a net exporter of oil products.²²⁹

India has made impressive headway in the last decade with respect to electrification. According to the World Bank, almost 98% of India was estimated to be electrified by 2019.²³⁰ However, in reality, in many rural villages electricity is supplied at the village level, not to individual households. The World Bank estimates that 250 million Indians still have no direct access to electricity and many more face only unreliable access.²³¹

India is one of the fastest-growing economies in the world, with an average GDP growth rate of around 6% since 1990.²³² However, there is still widespread poverty. The World Bank estimated that more than 100 million Indians lived below the international poverty line in 2017.²³³ The country's GNI per capita in 2020 amounted to only \$1,900 (compared to \$42,130 in the UK).²³⁴ While India has seen some remarkable progress in recent years (between 2011 and 2015, more than 90 million people were lifted out of extreme poverty), the Covid-19 crisis has led to economic slowdown and has reversed such trends for now. Real GDP is estimated to contract by 8.5% in 2021.²³⁵ With respect to its HDI, India ranks 131st in the world with a score of 0.65.²³⁶ Indian unemployment rate has been around 5–6% for a long time but rose to 7% in 2020,²³⁷ with a pronounced spike during the Covid-19 lockdown in the first half of 2020. Also, youth unemployment has increased to over 15% in the last decade, making it a major issue in the country.²³⁸

Further, India is a highly unequal country with a Gini coefficient of 0.49 in 2016, which has risen sharply over the last three decades. The

²²⁵ ABSA Bank (2021): "The Road to COP26: Opportunities, Challenges and the African Transition to Net-Zero"; <https://www.absa.africa/absafrica/our-stories/our-voices/2021/the-road-to-cop-26>

²²⁶ Climate Policy Initiatives (2020): "South African Climate Finance Landscape 2020"; <https://www.climatepolicyinitiative.org/wp-content/uploads/2021/01/South-African-Climate-Finance-Landscape-January-2021.pdf>

²²⁷ 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

²²⁸ IEA (2021): "India Energy Outlook 2021"

²²⁹ IEA (2021): "India 2020 Energy Policy Review"; <https://www.iea.org/reports/india-2020>

²³⁰ World Bank: "Access to electricity (% of population) – India"; <https://data.worldbank.org/indicator/EG.ELC.ACCS.ZS?locations=IN>

²³¹ Rockefeller Foundation (2018): "24x7 Power is About 'Access', Not 'Electrification'"; <https://www.rockefellerfoundation.org/blog/24x7-power-access-not-electrification/>; World Bank (2021): "India's Solar Learning Curve Inspires Action

Across the World"; <https://www.worldbank.org/en/news/feature/2021/07/09/india-s-solar-learning-curve-inspires-action-across-the-world>

²³² Climate Investment Funds (2021): "Supporting Just Transitions in India"; https://www.climateinvestmentfunds.org/sites/cif_enc/files/knowledge-documents/supporting_just_transitions_india_summary.pdf

²³³ World Bank (2021): "Poverty and Equity Brief South Asia – India"

²³⁴ World Bank: "GNI per capita, Atlas method (current US\$) – South Africa, India"; <https://data.worldbank.org/indicator/NY.GNP.PCAP.CD?locations=ZA-IN&view=chart>

²³⁵ Ibid.

²³⁶ UNDP: "Human Development Reports – India"; <http://hdr.undp.org/en/countries/profiles/IND>

²³⁷ World Bank: "Unemployment, total (% of total labor force) (modelled by ILO estimate) – India"; <https://data.worldbank.org/indicator/SL.UEM.TOTL.ZS?locations=IN>

²³⁸ World Bank: "Unemployment, youth total (% of total labor force ages 15–24) (modeled ILO estimate)"; <https://data.worldbank.org/indicator/SL.UEM.1524.ZS>

²³⁹ Oxfam: "India: extreme inequality in numbers"; <https://www.oxfam.org/en/india-extreme-inequality-numbers>

²⁴⁰ CDC Group (2021): "Towards a Just Transition Finance Roadmap for India: Laying the foundations for practical action"

²⁴¹ Hindustan Times (2020): "Extreme weather events in India on the rise"

²⁴² World Bank: "Employment in agriculture (% of total employment) (modelled ILO estimate) – India (2021)"

²⁴³ Climate Investment Funds (2021): "Supporting Just Transitions in India"; https://www.climateinvestmentfunds.org/sites/cif_enc/files/knowledge-documents/supporting_just_transitions_india_summary.pdf

²⁴⁴ World Bank (2021): "India's Solar Learning Curve Inspires Action Across the World"; <https://www.worldbank.org/en/news/feature/2021/07/09/india-s-solar-learning-curve-inspires-action-across-the-world>

²⁴⁵ CDC Group (2021): "Towards a Just Transition Finance Roadmap for India: Laying the foundations for practical action"

²⁴⁶ NRDC (2020) "Climate Action: All Eyes on India"; <https://www.nrdc.org/experts/anjali-jaiswal/climate-action-all-eyes-india>

richest segment of the population accounts for a significant part of the wealth created, with the richest tenth of the Indian population holding 77% of total national wealth.²³⁹

Local context is particularly important given the country's size and the diversity of its regions. This diversity applies to regional differences with respect to energy generation and reliance, and also with respect to the particular vulnerability of certain regions vis-à-vis climate change. The Indian states with high solar power generation capacity are generally in the west of the country, while the coal-rich states are predominantly in the centre and east, where social risks from transition activity are most pronounced. Also, a large proportion of the Indian population resides in states with low per capita incomes, where particular focus is needed on training and re-skilling of workers.²⁴⁰

At the same time, a sizable segment of the population is highly vulnerable to climate change and changing weather patterns, as seen with the pronounced rise in extreme weather events in recent years, such as floods, cyclones and heatwaves,²⁴¹ having particularly harsh implications for rural areas and the agricultural sector, which supports 42.6% of the Indian workforce.²⁴² There is a need to invest in climate adaptation and resilience to counter surges in displacement of populations and related increased poverty.²⁴³

The country's regional divides lead to resistance to energy transition, emphasising the critical importance of a Just Transition process, carefully managed across local, state and national levels. When considering transition action, local employment and related household incomes and security need to be carefully considered to avoid increasing poverty and inequality. Specific barriers

constraining the country's transition include, amongst others:

- Limitation of India's grid infrastructure which constrains the penetration and distribution of renewable energy
- The young age of India's coal power infrastructure with only a few power plants approaching 'retirement'
- The threat of job losses in the coal sector, including the value chain, both in formal and informal sectors
- India's railway's dependence on high coal transport payments to cross-subsidise passenger fares

Trajectory

India has led a massive expansion of renewable energy, in particular of solar power, in the last decade and continues to pursue an ambitious solar expansion plan.²⁴⁴

While Net Zero targets have not been legislated yet, the Indian government has developed an 'intended' Nationally Determined Contribution (NDC) plan. The country's plan is currently under discussion by policy makers, experts and the international community. Given that India is among the ten largest economies in the world, the country's contribution to Net Zero by 2050 is essential to meet the global ambition.²⁴⁵ India created an Apex Committee for Implementation of Paris Agreement (AIPA), aiming to increase coordination between key ministries and to engage business and the United Nations on the country's delivery on the Paris Agreement.²⁴⁶

India faces a number of significant challenges on its road to a Just Transition, including rising energy

Climate Investment Funds: Key areas of country support in India

- **Modelling:** Support complex system modelling on the barriers and drivers to the energy transition to better understand and predict distributional impacts
- **Social inclusion:** Recognise and empower marginalised stakeholders by establishing local-level platforms that formally engage and build their capacity to influence transition outcomes
- **Partnerships:** Establish working relations and capacity-building processes within and across national and state government departments for Just Transitions
- **Regional planning:** Priority geographical areas need to be identified and plans developed based on the relative impact of barriers and drivers related to coal transitions
- **Economic diversification:** Develop detailed economic transition plans, including priority activities, timelines and budgets, through collaborative, informed and empowered stakeholder engagement
- **Finance:** Develop budgets for the transition including funding requirements
- **Safeguards:** Establish the institutional frameworks, along with the environmental and social safeguards, required to support the implementation, monitoring and learning related to Just Transitions
- **Scale:** Identify and mobilise state, national and international institutions to support and scale Just Transitions and broader transformational change

Source: Climate Investment Funds (2021): "Supporting Just Transitions in India"

demand, deep regional divides and a high reliance on coal and oil. A transition will impact workers due to changing employment profiles and skills requirements, with significant job losses expected within the coal and thermal power sectors. Having said that, the International Energy Agency (IEA) estimates that jobs will increase rapidly with a shift to clean energy, particularly in sectors like electric mobility and energy efficiency, as well as power generation.²⁴⁷

The CAT rates India's intended NDC targets as "2°C compatible". While the CAT observed a sharp decline in emissions in 2020 due to the Covid-19 pandemic, it worries that the government is encouraging more coal mining and increased coal production, inconsistent with a green recovery post Covid-19.²⁴⁸

Transition opportunity

Given India's size, the investment opportunity to support the country on its road to reaching a Just Transition to Net Zero is immense. The IEA estimates the annual requirement to amount to around \$200 billion across sectors for climate

action alone. Similarly, the Climate Investment Funds estimates the total cost of enabling India to meet the Paris Agreement targets of 2030 to amount to \$2.5 trillion.²⁴⁹

There has been substantial investor interest in India's energy transition. However, ensuring that these large amounts are actually mobilised will require coordination between stakeholders, including policy makers, regulators, companies, the financial sector, communities and end users. In doing so, it is critical that investments are just, achieving a fair distribution of costs, benefits and equality across the country.

MDBs and development finance institutions (DFIs) are playing an important role in overcoming shortcomings in the domestic market. For example, the International Finance Corporation (IFC) has supported renewable energy-focused private equity funds, the Asian Development Bank (ADB) introduced one of the first partial risk guarantee facilities in India, and the World Bank Group's Partial Risk Sharing Program provided support for energy efficiency programmes.

²⁴⁷ IEA (2021): "India Energy Outlook 2021"

²⁴⁸ Climate Action Tracker: "India"; <https://climateactiontracker.org/countries/india>

²⁴⁹ Climate Investment Funds (2021): "Supporting Just Transitions in India"; https://www.climateinvestmentfunds.org/sites/cif_enc/files/knowledge-documents/supporting_just_transitions_india_summary.pdf

6.2 Appendix 2

Select COP26 finance announcements

6.2.1 Private funding announcements

- The **Glasgow Financial Alliance for Net Zero (GFANZ)**, a global coalition of leading financial institutions, announced it would commit \$130 trillion in financing to help global economies to transition to Net Zero by 2050
- The **Bezos Earth Fund** committed \$2 billion for restoring nature and transforming food systems, with a view to improving food and water security, creating jobs and sequestering carbon
- The **Global Energy Alliance for People and Planet** announced \$10 billion of capital commitments to accelerate further investment into green energy, the reduction of climate emissions and increased support for millions of jobs in developing and emerging economies
- **InfraCo Africa**, part of the Private Infrastructure Development Group (PIDG), and **Helios Investment Partners** announced the launch of a pan-African investment vehicle: **Climate, Energy Access and Resilience (CLEAR)**. CLEAR is expected to raise more than \$350 million for investment into sustainable infrastructure and businesses which will provide at least 100,000 new jobs, connect more than one million people to power for the first time and avoid 100 million tonnes of carbon emissions. CLEAR will initially be established as a private vehicle but designed and capitalised with a view to listing the vehicle within three years of final close

6.2.2 Public funding announcements

Donors

- The **Adaptation Fund** has been further capitalised with a further \$232 million committed by public and private donors to increase financing to support developing countries respond to the impacts of climate change. This includes a further \$20 million provided by the UK, alongside a number of other donors including the US, Switzerland, Canada and Germany
- As part of the **Declaration on the Just Energy Transition in South Africa**, several countries, including Britain, France, Germany, the United States and the European Union, committed to provide \$8.5 billion over the next five years to transition from coal to clean energy, whilst supporting workers affected by this shift
- The **Forest, Agriculture and Commodity Trade (FACT) Roadmap** was launched with the UK committing £500 million to support its implementation. Twenty-eight countries will work together to protect forests and promote development and trade. A further £65 million will support a '**Just Rural Transition**' to help support developing countries establish sustainable agriculture and food production
- As part of the **Global Forest Finance Pledge**, a number of countries committed \$12 billion to support forest-related climate finance between 2021–2025 to support action in Official

Development Assistance-eligible countries where there is the ambition to end deforestation by 2030. By working closely with the private sector, the \$12 billion of public funds committed will leverage vital private funding necessary to deliver change at scale

- The **UK** committed £576 million in funding for a package of initiatives to mobilise finance into emerging markets and developing economies. The UK provided a further £66 million to expand the **UK's MOBILIST programme**, which helps to develop new investment products that can be listed on public markets and attract different types of investors, including institutional investors
- **CDC Group**, the UK development finance institution (DFI), committed to invest over £3 billion in emerging markets to help them meet their Paris Agreement goals and to adapt and build resilience to the effects of climate change over the next five years
- As part of the **Taskforce on Access to Climate Finance**, the UK has committed £100 million in capital grants to support the countries most vulnerable to climate change – access to finance is linked to countries' emissions reduction and adaptation plans, thus seeking to incentivise greater climate ambitions. The Taskforce is co-chaired by the UK and Fiji, and partnerships are established with five pioneer countries – Bangladesh, Fiji, Jamaica, Rwanda and Uganda – to support their local communities to get the finance they need for their climate plans
- The **UK** pledged £27.5 million of new funding, through the **International Climate Finance** pledge, to the **Urban Climate Action Programme (UCAP)** to support cities across Africa, Asia and Latin America to implement climate action plans and prepare low-carbon infrastructure projects to meet Net Zero by 2050
- A number of governments committed to put **gender at the forefront of climate action**. For instance, Canada pledged that 80% of its \$5.3-billion climate investments over the next five years will target gender equality outcomes. The UK outlined how £165 million of funding will address gender inequality and climate change. The US announced it would invest at least \$14 million of the Gender Equity and Equality Action Fund toward gender-responsive climate programming, and further invest more than \$20 million towards increasing women's economic opportunities in the clean energy sector, tackling gender-based violence and the environment, addressing barriers to women's land rights and

supporting farmers in East Africa adapt to climate impacts

- In 2009, a commitment was made that developed countries would deliver \$100 billion of funding annually to emerging markets by 2020. While the target has not yet been met, the timeline was extended until 2025. At COP26, at the request of the UK presidency, Canada and Germany, supported by climate finance contributors, announced a Delivery Plan. The **Delivery Plan** sets out the progress on the \$100-billion goal to date, the estimated trajectory of climate finance from 2021 through to 2025 taking into account new climate finance pledges from individual developed countries and multilateral development banks (MDBs), as well as collective qualitative actions to deliver on the finance commitment

Multilateral development banks

- The **Energy Transition Mechanism (ETM)** launched by the **Asian Development Bank** seeks to accelerate the transition to clean energy – the ETM is expected to raise \$2.5 to \$3.5 billion through blended finance to retire coal-fired power plants in the Philippines and Vietnam
- The **International Finance Corporation (IFC)**, working with **Amundi**, announced a \$2-billion fund to directly mobilise private investment from institutional investors into anchor investments involving sustainable and green bond issuance in emerging markets
- The **World Bank Group** and the **Asian Development Bank** aim to raise up to \$8.5 billion in new finance to support climate action and sustainable development by sharing risk with developing countries
- A new **World Bank trust fund** was launched to mobilise over \$200 million over the next 10 years to support the acceleration of transition to zero emission vehicles in both emerging and developing markets including India, Rwanda and Kenya
- The **Climate Investment Funds (CIF)** announced the **CIF Capital Markets Mechanism (CCMM)**, which will boost investment into clean energy and sustainable infrastructure in developing and emerging economies, with bonds planned to be issued in 2022. The CCMM aims to mobilise \$700 million annually, with the potential to leverage \$70 billion from the private and public sector

²⁵⁰ UN Climate Change Conference UK 2021: "News"; <https://ukcop26.org/news>

Source: COP26 President Daily Media Statements.²⁵⁰

6.3 Appendix 3

Select initiatives helping to progress a Just Transition by country/region

Just Transition initiatives around the globe

Canada

Government consultation on a Just Transition launched, leading to the formation of a **Just Transition Advisory Body** (2021)

UK

UK Infrastructure Bank launched to tackle climate change and support local economic growth;
Sovereign green bonds with reporting on defined social co-benefits launched, meeting record market demand (2021);
Just Transition Commission launched by the Scottish Government (2020)

EU

European Green Deal launched, with aim to mobilise over €1 trillion in investments by 2027, including a €100 billion 'Just Transition Mechanism' targeting a fair and just green transition (2021)

France

'**Investors for a Just Transition**' coalition launched by investors managing 3.6 trillion in assets (2021)

Germany

Commission on Growth, Structural Change and Employment appointed to advise on the structural changes to energy and climate policy required to transition from coal, including prospects for existing, new and future-proof jobs (2019)

Italy

ENI and ENEL, two utilities partly owned by the Italian Government, committed to adopt a Just Transition approach in fossil fuel phase-out

Japan

'**Green Growth Strategy Through Achieving Carbon Neutrality in 2050**' published, outlining how carbon neutrality can be achieved by 2050 whilst being inclusive for all parts of society (2021)

China

\$14.3billion in **support for redundant workers in coal and steel** pledged since 2016, as well as policies which promote the settlement and re-employment of coal workers

US

Executive Order on Climate Change signed, outlining the job-creating potential of climate policies and introducing measures to promote environmental justice for disadvantaged communities (2021)

Colombia

Pledge for Green Jobs and a Just Transition signed by the Government, aiming to improve the capacity of the labour force for a transition to the green economy (2019)

Argentina

Following dialogue between UN Partnership for Action on Green Economy (PAGE), **National Just Transition Strategy** developed (2021)

South Africa

Discussion Paper on Energy released by the National Planning Commission, calling for coordinated stakeholder action to facilitate a transparent decision-making process on the future of coal as part of a just energy transition (2018)

Kenya

National Adaptation Plan (NAP) adopted for 2015-2030, emphasising the need to increase the number of beneficial, fair-paying jobs available and conduct extensive consultation for social protection and consultation in responding to climate change

India

Just Transition Finance Roadmap (JTFR) produced by financial institutions in partnership with Indian legislators, identifying the priority actions that can be taken by financial institutions to support climate action that also delivers positive results in terms of livelihoods

This Appendix should be read in conjunction with Appendix 2, which summarises funding announcements made during COP26.

Country/Region	Initiative
EU (G7 Member)	<ul style="list-style-type: none"> The EU launched the 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. It is expected to mobilise at least €100 billion in investments over the period 2021–2027 to support workers and citizens of the regions most impacted by the transition²⁵¹
UK (G7 Member)	<ul style="list-style-type: none"> In 2020, the UK government announced that it would issue a series of sovereign green bonds and report on their defined social co-benefits. The UK government also formed a Stakeholder Discussion Form on green finance, which supports the government on its green financing programme for institutional and retail investors, including developing its methodology and approach on social co-benefits reporting.²⁵² The UK's inaugural green gilt sale in September 2021 was met with record demand, with investors placing more than £100 billion of bids on the initial £10-billion sale In 2019, a Just Transition investor roadmap was released by the London School of Economics (LSE), with recommendations for investment strategy, shareholder engagement, capital allocation and policy dialogue²⁵³ In 2020, the UK's first Financing a Just Transition Alliance (FJTA) was established with over 40 banks, investors and financial institutions joining forces with universities and trade unions²⁵⁴ The devolved Scottish government has set up a Just Transition Commission, aiming to "provide practical, realistic, affordable recommendations for action"²⁵⁵ The UK Infrastructure Bank was launched in 2021, aiming to help tackle climate change and support regional and local economic growth. The bank is operationally independent and works with the UK Treasury²⁵⁶ In 2018, the UK government backed the creation of a Work and Opportunities for Women programme. In 2021, it published a briefing on how governments can ensure a Gender Just Transition to Net Zero, with reference to garment, agriculture and energy supply chains²⁵⁷
US (G7 Member)	<ul style="list-style-type: none"> In January 2021, President Joe Biden signed an Executive Order on Climate Change, which stressed the job-creating potential of solutions to the climate crisis. The order outlined a range of measures to promote environmental justice for disadvantaged communities²⁵⁸

²⁵¹ 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

²⁵² UK Government (2021): "Green Financing Framework"; https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1002578/20210630_UK_Government_Green_Financing_Framework.pdf

²⁵³ LSE (2019): "Financing inclusive climate action in the UK: An investor roadmap for the just transition"; <https://www.lse.ac.uk/granthaminstitute/publication/financing-inclusive-climate-action-in-the-uk-an-investor-roadmap-for-the-just-transition>

²⁵⁴ Responsible Finance (2020): "Dozens of banks, investors and institutions commit to financing a just transition for the UK"; [https://responsiblefinance.org.uk/2020/11/dozens-of-banks-](https://responsiblefinance.org.uk/2020/11/dozens-of-banks-investors-and-institutions-commit-to-financing-a-just-transition-for-the-uk)

[investors-and-institutions-commit-to-financing-a-just-transition-for-the-uk](https://responsiblefinance.org.uk/2020/11/dozens-of-banks-investors-and-institutions-commit-to-financing-a-just-transition-for-the-uk)

²⁵⁵ Scottish Government: "Just Transition Commission"; <https://www.gov.scot/groups/just-transition-commission>

²⁵⁶ UK Government (2021): "UK Infrastructure Bank"; <https://www.gov.uk/government/publications/uk-infrastructure-bank>

²⁵⁷ UK Government (2021): "Women and the Net Zero economy: A briefing on changes in garment, agriculture and energy supply chains"; <https://www.gov.uk/guidance/work-and-opportunities-for-women#resources>

²⁵⁸ The White House (2021): "Executive Order on Tackling the Climate Crisis at Home and Abroad"; <https://www.whitehouse.gov/briefing-room/presidential-actions/2021/01/27/executive-order-on-tackling-the-climate-crisis-at-home-and-abroad>

Country/Region	Initiative
US (G7 Member)	<ul style="list-style-type: none"> • In 2019, Los Angeles published a Sustainability City Plan.²⁵⁹ The plan announced that the city would launch a Jobs Cabinet to serve as both an advisory body and a task force on job creation, training and a Just Transition. Los Angeles has committed to creating 100 thousand green jobs and to collaborate with stakeholders on a Just Transition for workers into the green jobs of the future • In 2020, the San Francisco Public Utilities Commission listed a green bond with reported social co-benefits on the London Stock Exchange²⁶⁰ • In January 2021, President Joe Biden signed an Executive Order on Climate Change, which stressed the job-creating potential of solutions to the climate crisis. The order outlined a range of measures to promote environmental justice for disadvantaged communities²⁵⁸ • A number of states are also developing strategies: <ul style="list-style-type: none"> ~ Colorado has released a Just Transition Action Plan²⁶¹ ~ California has released a Climate Investment Framework²⁶² ~ Kentucky has expanded on a long-existing severance tax for coal, whereby a law introduced in 2018 provided for 100% of surplus coal severance tax revenues to go towards a Local Government Economic Assistance Fund²⁶³
France (G7 Member)	<ul style="list-style-type: none"> • In 2021, Finance for Tomorrow (F4T), a government-backed initiative, launched 'Investors for a Just Transition' as a global investor engagement coalition on a Just Transition. The initiative brings together asset managers and asset owners representing €3.6 trillion in capital, along with corporates, to promote a socially acceptable transition to low-carbon economies²⁶⁴
Germany (G7 Member)	<ul style="list-style-type: none"> • In 2018, the German government convened a Commission on Growth, Structural Change and Employment to develop a broad social consensus around structural changes to energy and climate policy for the country. It concluded that structural changes require reliable framework conditions and long-term monitoring. It also suggested that both new and existing financial instruments are needed to bring together strategic investments in the lignite mining regions and secure their funding in the long term²⁶⁵ • The Ruhr region of Germany has steadily transitioned from coal producing to a more diverse and modern economy over the last several decades. This was done with no redundancies and promoted dialogue between the coal company, trade unions and the state²⁶⁶ • The European Commission allocated €877 million of its Just Transition Fund to support structural change in German coal-mining regions. The Commission identified 18 areas within Germany that would be highly affected by structural change in a transition from coal²⁶⁷

²⁵⁹ LA Mayor (2019): "LA's Green New Deal: Sustainable City pLAn"; https://plan.lamayor.org/sites/default/files/pLAn_2019_final.pdf

²⁶⁰ London Stock Exchange (2020): "London Stock Exchange welcomes The San Francisco Public Utilities Commission's Green Bond to the Sustainable Bond Market"; <https://www.londonstockexchange.com/london-stock-exchange-welcomes-san-francisco-public-utilities-commissions-green-bond-sustainable-bond-market>

²⁶¹ Colorado Department of Labour and Employment (2020): "Colorado Just Transition Action Plan"; <https://cdle.colorado.gov/sites/cdle/files/documents/Colorado%20Just%20Transition%20Action%20Plan.pdf>

²⁶² Office of Governor Gavin Newsom (2020): "Governor Newsom Releases California Climate Investment Framework"; <https://www.gov.ca.gov/2020/09/24/governor-newsom-releases-california-climate-investment-framework>

www.gov.ca.gov/2020/09/24/governor-newsom-releases-california-climate-investment-framework

²⁶³ Kentucky Department for Local Government: https://kydlgweb.ky.gov/StateGrants/16_Coal.cfm

²⁶⁴ Finance for Tomorrow (2020): "Making a Just Transition: the Roadmap of the Paris Financial Center"; https://financefortomorrow.com/app/uploads/2020/10/Position-Paper_Just-Transition_F4Tpdf.pdf

²⁶⁵ Commission on Growth, Structural Change and Employment (2019): "Final Report"; https://www.bmwi.de/Redaktion/EN/Publikationen/commission-on-growth-structural-change-and-employment.pdf?__blob=publicationFile&v=3

²⁶⁶ WWF Germany (2019): "Just Transition for Regions and Generations"; <https://regionsbeyondcoal.eu/just-transition-for-regions-and-generations>

Country/Region	Initiative
Japan (G7 Member)	<ul style="list-style-type: none"> In June 2021, the Japanese Ministry of Economy, Trade and Industry published its Green Growth Strategy Through Achieving Carbon Neutrality in 2050. The report articulated a need to ensure carbon neutrality in a way that is inclusive for all parts of society²⁶⁸
Canada (G7 Member)	<ul style="list-style-type: none"> The Canadian government appointed a task force to develop recommendations on how to manage a Just Transition away from coal.²⁶⁹ The task force delivered its report in 2019 In 2021, the Minister of Natural Resources announced the government was launching a consultation on a Just Transition, which would inform legislation and the formation of an external Just Transition Advisory Body.²⁷⁰ Industry, labour organisations and community stakeholders, as well provincial, territorial and indigenous stakeholders, were all invited to respond to the consultation The accompanying discussion paper outlines progress to date (for example, retrofitting homes to make them more energy efficient and launching a Strategic Innovation Fund Net-Zero Accelerator to expedite decarbonisation projects) and what a potential path forward for Just Transition legislation could look like²⁷¹
Italy (G7 Member)	<ul style="list-style-type: none"> Eni, a multinational oil and gas company in which the government of Italy owes a golden share (enabling it to outvote other shares in certain circumstances), has committed to play a decisive role in the Just Transition to a low-carbon future in a way that contributes to the achievement of the SDGs, both in Italy and its other global sites, including in emerging markets. In 2020, it launched its Just Transition plan²⁷² Enel, a manufacturer and distributor of electricity and gas partly owned by the Italian government, pledged, in 2015, to achieve carbon neutrality by 2050, aligning with international best practice.²⁷³ In 2020, the company explicitly embraced a commitment to a Just Transition²⁷⁴ Enel launched a country-wide effort to repurpose 23 power plants and a mine, including redeploying all affected workers and undertaking a participatory process to select new uses for the sites²⁷⁵ The project involves 23 power plants and a mining area in Italy and four coal-fired production facilities in Spain. According to Enel, all affected workers have so far been re-employed or retired. Following on from the success of the initiative, the approach will be extended to cover more than 40 sites globally, including in emerging markets²⁷⁶
South Africa (G7 guest country)	<ul style="list-style-type: none"> In South Africa, there is broad acknowledgement of the importance of a Just Transition, which is prominently featured across the country's trade union policies on climate change, National Development Plan (NDP), National Climate Change Policies, and Nationally Determined Contributions (NDC)²⁷⁷

²⁶⁷ European Commission (2020): "Communication from the Commission to the European Parliament, the European Council, The Council, the European Central Bank and the Eurogroup"; https://ec.europa.eu/info/sites/default/files/2020-european_semester_country-report-germany_en.pdf

²⁶⁸ Government of Japan (2021): "Green Growth Strategy through Achieving Carbon Neutrality in 2050"; https://www.meti.go.jp/english/press/2021/0618_002.html

²⁶⁹ Government of Canada (2019): "Task Force: Just Transition for Canadian Coal Power Workers and Communities"; <https://www.canada.ca/en/environment-climate-change/services/climate-change/task-force-just-transition.html>

²⁷⁰ Government of Canada (2021): "Canada Launches Just Transition Engagement"; <https://www.rncanengagenrncan.ca/en/collections/just-transition>

²⁷¹ Government of Canada (2021): "People-Centred Just-Transition Discussion Paper"; https://www.rncanengagenrncan.ca/sites/default/files/pictures/home/just_transition_discussion_paper_-_en_-_july_15.pdf

²⁷² Eni (2019): "For a Just Transition"; <https://www.eni.com/assets/>

<documents/eng/just-transition/2019/Eni-for-2019-eng.pdf>

²⁷³ Enel (2015): "Seeding Energies Sustainability Report"; https://www.enel.com/content/dam/enel-com/documenti/investitori/sostenibilita/2015/sustainability-report_2015.pdf

²⁷⁴ Enel (2020): "A Just Transition, so that nobody is left behind"; <https://www.enelgreenpower.com/stories/articles/2020/09/just-transition>

²⁷⁵ Enel (2015): "Seeding Energies Sustainability Report"; https://www.enel.com/content/dam/enel-com/documenti/investitori/sostenibilita/2015/sustainability-report_2015.pdf

²⁷⁶ Robins, Nick, Sabrina Muller and Katarzyna Szwarc (2021): "From the grand to the granular: translating just transition ambitions into investor action"; https://www.lse.ac.uk/granthaminstitute/wp-content/uploads/2021/07/From-the-Grand-to-the-Granular_translating-just-transition-ambitions-into-investor-action.pdf

²⁷⁷ Climate Investment Funds (2020): "Supporting Just Transition in South Africa"; https://www.climateinvestmentfunds.org/sites/cif_enc/files/knowledge-documents/supporting_just_transitions_in_south_africa.pdf

Country/Region	Initiative
South Africa (G7 guest country)	<ul style="list-style-type: none"> In February 2018, the National Planning Commission issued a paper on energy, laying out the challenges facing a system dominated by coal following the Paris Agreement and the rapid global development of clean energy technologies. The paper highlighted that the risk of stranded infrastructure investment in the South African coal industry is “significant” and pointed to “an urgent need for co-ordinated stakeholder action driven by government to facilitate a transparent decision-making process on the future of coal in South Africa as part of a just energy transition”²⁷⁸
India (G7 guest country)	<ul style="list-style-type: none"> CDC, the UK DFI, has collaborated with Indian legislators, the Indian National Institute of Public Research, the Harvard Kennedy School, the London School of Economics and the International Monetary Fund to produce an India Just Transition Finance Roadmap (JTFR) project²⁷⁹ The project identified the priorities for financial institutions that can support climate change to deliver positive results for communities’ livelihoods and sustainable development
Argentina	<ul style="list-style-type: none"> In March 2021, the UN Partnership for Action on a Green Economy (PAGE) hosted a national dialogue on a Just Transition in Argentina. This dialogue brought together the Ministry of Labour, Employment and Social Security, the Ministry of Productive Development, the Argentine Industrial Union (UIA) and the General Labour Confederation (CGT) to discuss an inclusive green economy, a Just Transition and green jobs in Argentina.²⁸⁰ The government is reportedly developing a National Just Transition strategy²⁸¹ Argentina has embedded the protection of workers’ rights in its Just Transition commitments, specifically in its recent Nationally Determined Contributions²⁸²
Columbia	<ul style="list-style-type: none"> In 2019, the government signed a Pledge for Green Jobs and a Just Transition that will improve the capacity of the labour force for a transition to the green economy²⁸³
Kenya	<ul style="list-style-type: none"> Kenya’s National Adaptation Plan (NAP) aligns Kenya’s need to increase the number of beneficial, fair-paying jobs available with the need for effective responses to climate risks that are organised and led by Kenyan stakeholders Reducing the vulnerability of Kenyans through economic growth, increasing employment opportunities and improving wages is seen to be an integral part of climate-compatible development. The plan envisages that training young Kenyans in relevant careers and imparting new skills to both employed and unemployed will build national resilience to climate change while aiding the country’s economic development²⁸⁴ The NAP mentions Gender, Vulnerable Groups and Youth as priority groups for adaptation action and that this should be done by strengthening the adaptive capacity of the most vulnerable groups and communities through social safety nets and insurance schemes. In addressing climate change issues, public entities are required to undertake public awareness campaigns and consultations, and ensure gender mainstreaming, in line with the Constitution and the Climate Change Bill (2014). For a Just Transition, the NAP mentions that Kenya has extensive consultation processes for social protection, which serve to ensure all stakeholder interests are considered in all climate action. The NDC also mentions human rights, food security, an all-of-society approach and gender equality (Kenya has various laws to promote gender equality and provide for protection against discrimination on the basis of gender, with equal opportunities in education and work, and in cultural and professional development)
China	<ul style="list-style-type: none"> In 2016, the Chinese central government pledged to provide 100 billion Yuan (~\$14.3 billion) in total for redundant workers in coal and steel industries²⁸⁵ In recent years, relevant government departments have introduced policies to promote the settlement and re-employment of coal workers. For example, the central government formulates specific employment-support policies for unemployed coal workers, providing them with free employment guidance, job placements, consultation and other services

²⁷⁸ Ibid.

²⁷⁹ CDC Group (2021), Towards a Just Transition Finance Roadmap for India 2021; <https://www.cdcgroup.com/en/news-insight/insight/articles/towards-a-just-transition-finance-roadmap-for-india>

²⁸⁰ UN Partnership for Action on Green Economy (2021): “New Studies Finalised on Just Transition in Argentina”; <https://www.un-page.org/Just-Transition-in-Arentina>

²⁸¹ Ibid.

²⁸² Government of Argentina: Second Argentina NDCs (2020); <https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/Argentina%20Second/Actualizacio%CC%81n%20meta%20de%20emisiones%202030.pdf>

²⁸³ Government of Columbia (2019): “Pacto por los Empleos Verdes y Transición Justa en Colombia, firmaron OIT y MinTrabajo”; <https://www.mintrabajo.gov.co/prensa/comunicados/2019/noviembre/pacto-por-los-empleos-verdes-y-transicion-justa-en-colombia-firma-onit-y-mintrabajo>

²⁸⁴ Republic of Kenya, Ministry of Environment and Natural Resources (2016): “Kenya National Adaptation Plan 2015–2030”; <https://www.greengrowthknowledge.org/sites/default/files/downloads/policy-database/KENYA%29%20Kenya%20National%20Adaptation%20Plan%202015-2030.pdf>

²⁸⁵ He, Gang et al. (2020): “Enabling a Rapid and Just Transition away from Coal in China.” *One Earth* Vol 3, Issue 2; <https://www.sciencedirect.com/science/article/pii/S2590332220303560>

6.4 Appendix 4

Available resources on reflecting community voice in fund design

General

- **"Strategic Community Investment – A Good Practice Handbook for Companies doing Business in Emerging Markets" by the IFC (2010)**

This handbook by the International Finance Corporation (IFC), specifically chapter 4, outlines how the use of participatory methods throughout the lifecycle of investments can cultivate stakeholder involvement and ownership, with examples of case studies and practical tools. (Available at: <https://www.ifc.org/wps/wcm/connect/95c6b4b5-2097-4f47-9518-7a21b8516c1a/12014complete-web.pdf?MOD=AJPERES&CACHEID=ROOTWORKSPACE-95c6b4b5-2097-4f47-9518-7a21b8516c1a-jkD15-5>)

- **"How Do You Engage Communities?" by Bang the Table (2021)**

This series of articles by Bang the Table, a specialist consultancy, provides a brief introduction on how to incorporate community voice into the design of projects (including in energy) through participatory models, with international case studies demonstrating how community voice can be reflected. (Available at: <https://www.bangthetable.com/how-do-you-engage-communities>)

Social investment

- **"Nothing About Us, Without Us" by The Young Foundation (2020)**

This guide shows how the voices of those affected can be brought into different stages of the social investment process. It illustrates how including the voices of those affected has the power to positively impact stated social investment outcomes – and the lives of the people those funds are intending to serve. (Available at: <https://youngfoundation.org/wp-content/uploads/2020/02/Nothing-About-Us-Without-Us-Report-2020.pdf>)

- **"Meeting of Minds" by The National Lottery Trust (2019)**

This series of case studies outlines the positive role of the community voice or 'co-production' in the design, development and maintenance of projects, from the perspective of project funders but with applicability for commercial

actors as well. (Available at: https://www.tnlcommunityfund.org.uk/media/A-Meeting-of-Minds_How-co-production-benefits-people-professionals-and-organisations.pdf?mtime=20190919092658&focal=none)

- **Outcome Star (2017)**

This social enterprise provides a guide to using a set of evidenced-based tools which emphasise a person-centred approach is necessary whereby the community affected is an active agent in the production stage. The tools also measure and demonstrate impact when working with people. (Available at: <https://www.outcomesstar.org.uk/about-the-star/what-is-the-outcomes-star>)

Agriculture

- **"Knowledge into Action Note Series Community Engagement Strategies" by World Bank (2018)**

This note provides guidance on the overall approach to consulting, engaging, and partnering with local communities, bridging gaps in information and expectation between communities and investors, creating the social license to operate. It focuses on agricultural investment but its principles have broader relevance. (Available at: <https://openknowledge.worldbank.org/bitstream/handle/10986/29473/124290-BRI-PUBLIC-KN15.pdf?sequence=1&isAllowed=y>)

Energy

- **"Best Practice in Community Engagement Projects" by Centre for Sustainable Energy**

This guide provides a comprehensive checklist for best practice in community engagement by describing what should be done and how this should be achieved. (Available at: <https://www.cse.org.uk/local-energy/download/best-practice-in-community-engagement-projects-378>)

Housing

- **"Neighbourhood Charters" by Peabody**

This source outlines how neighbourhood charters developed in partnership with local communities can be beneficial in addressing local concerns. (Available at: <https://www.peabody.org.uk/neighbourhoods/neighbourhood-charters>)

6.5 Appendix 5

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6.6 Appendix 6

List of abbreviations and acronyms

2X	Referring to the 2X Challenge	CCC	Climate Change Committee (UK)
ACCF	Africa Climate Change Fund	CDC	CDC Group (UK)*
ACO2	Africa Credit Opportunities Fund 2 (Ninety One)	CDP	Cassa Depositi e Prestiti (Italy)
ACPF	Access to Clean Power Fund (responsAbility)	CDSB	Climate Disclosures Standards Board
ADB	Asian Development Bank	CFAI	CFA Institute
ADP III	African Development Partners III Fund (DPI)	CGT	General Labour Confederation (Argentina)
AFC	Africa Finance Corporation	CHF	Swiss Francs
AFD	French Development Agency	CIF	Climate Investment Funds
		CLO	Collateralized Loan Obligation
		CNBC	Consumer News and Business Channel (United States)
AfDB	African Development Bank	CO ₂	Carbon dioxide
AFI	Acacia Forest Industries (Malaysia)	COP21	21st Conference of the Parties (Paris, France)
AFOLU	Agriculture, Forestry and Other Land Uses	COP24	24th Conference of the Parties (Katowice, Poland)
AIFM	Alternative Investment Fund Manager	COP26	26th Conference of the Parties (Glasgow, UK)
AIG	American International Group	CPI	Climate Policy Initiative
AIPA	Apex Committee for Implementation of Paris Agreement (India)	CPPIB	Canada Pension Plan Investment Board
AIS	Actis Impact Score	CSR	Corporate Social Responsibility
AllianzGI	Allianz Global Investors	DAC	OECD Development Assistance Committee
APPG	All-Party Parliamentary Group	DCA	Development Credit Authority
AR5	Assessment Report 5 (Intergovernmental Panel on Climate Change)	DCM	African Debt Capital Markets
ASEAN	Association of South East Asian Nations	DD	Due diligence
ATI	African Trade Insurance Agency	DEG	German Investment Corporation
AUM	Assets under management	DFC	US International Development Finance Corporation
BIS	Bank for International Settlements	DFI	Development Finance Institution
BMZ	German Federal Ministry of Economic Cooperation and Development	DFID	Department for International Development (UK, now FCDO)
BNEF	Bloomberg New Energy Finance	DGGF	Dutch Good Growth Fund
BoD	Board of Directors	DM	Developed markets
BRICS	countries: Brazil, Russia, India, China and South Africa	DPI	Development Partners International
BTPS	BT Pension Scheme	DRC	Democratic Republic of Congo
C&I	Commercial and Industrial	E&Y	Ernst & Young
CA100+	Climate Action 100+	EAIF	Emerging Africa Infrastructure Fund (Ninety One)
CAGR	Compound Annual Growth Rate	EBRD	European Bank for Reconstruction and Development
CalSTRS	California State Teachers' Retirement System	EDFI	European Development Finance Institutions
CAT	Climate Action Tracker		

* 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>

EDGE	Global assessment methodology and business certification standard for gender and intersectional equity	GABV	The Global Alliance for Banking on Values
EFSD	European Fund for Sustainable Development	GBCSA	Green Building Council of South Africa
EGO	Amundi Planet Emerging Green One Fund (Amundi and IFC)	GBP	British pound sterling
EIB	European Investment Bank	GCB	Ghana Cocoa Board
EIOPA	European Insurance and Occupational Pensions Authority	GCB	Global Consumer Bank
EM	Emerging markets	GCF	Green Climate Fund
EMCA	Emerging Market Climate Action strategy (AllianzGI and EIB)	GDP	Gross domestic product
EMLF	Emerging Markets Loan Fund (NN Investment Partners and FMO)	GEAPP	Global Energy Alliance for People and Planet
EMPEA	Emerging Markets Private Equity Association	GEEREF	Global Energy Efficiency and Renewable Energy Fund (European Investment Bank)
ESG	Environmental, social, and governance	GEF	Global Environment Facility
ETFs	Exchange Traded Funds (US)	GEMs	Global Emerging Markets (database)
ETI	Energy Transition Index	GEMS	Grant Evaluation and Management Solution
EU	European Union	GHG	Greenhouse gas
EV	Electric Vehicle	GIIN	Global Impact Investing Network
E&S	Environmental and social	GISD	Global Investors for Sustainable Development Alliance
F4T	Finance for Tomorrow (France)	GNI	Gross national income
FCDO	Foreign, Commonwealth & Development Office (UK)	GOGLA	Global Off-Grid Lighting Association
FCPF	Forest Carbon Partnership Facility	GP	General partners
FIG	Financial Institutions Group (IFC)	GP	Gross profit
FIIRM	Financial performance, Impact, Innovation, Risk Management measurement framework (LeapFrog Investments)	GPCA	Global Private Capital Association
FinDev	Canadian DFI	Greco	Green Credit Continuum
FJTA	Financing a Just Transition Alliance (UK)	GSG	Global Steering Group for impact investment
FMO IM	FMO Investment Management (Subsidiary of FMO)	HDI	Human Development Index
FMO	Dutch Development Bank	HKI	Hutan Ketapang Industri (Indonesia)
FoF	Fund-of-funds	ICE	Intercontinental Exchange
FTSE 100	Financial Times Stock Exchange 100 Share Index	ICMA	International Capital Market Association
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)	ICRF	Infrastructure Climate Resilient Fund (AFC Capital Partners)
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	IEA	International Energy Agency
		IFC AMC	IFC Asset Management Company (division of IFC)
		IFC	International Finance Corporation
		IFRS	International Financial Reporting Standards Foundation
		IHS	International Housing Solutions
		IIF	InsuResilience Investment Fund (BlueOrchard)
		IIF Debt	InsuResilience Investment Fund's private debt sub-fund (BlueOrchard)
		IIGCC	Institutional Investors Group on Climate Change

ILO	International Labour Organization	MIGA	Multilateral Investment Guarantee Agency
IMF	International Monetary Fund	MLAs	Mandated Lead Arrangers (AfDB)
IMM	Impact Multiple of Money (Rise Fund and Bridgespan Group)	MSCI	Morgan Stanley Capital International
IMP	Impact Management Project	MSMEs	micro, small and medium enterprises
INR	Indian rupee	MTP	Mekong Timber Plantations (Laos)
IPCC	Intergovernmental Panel on Climate Change	MW	Megawatt
IPP	Independent power producer	NAB	National Advisory Board for impact investing
IPO	Initial Public Offering	NAP	National Adaptation Plan
IRIS+	System for measuring, managing, and optimising impact (GIIN)	NASA	National Aeronautics and Space Administration (US)
Iriss	Institute for Research and Innovation in Social Services (Scotland, UK)	NBI	National Business Initiative (South Africa)
IRP	Integrated Resource Plan (South Africa)	NBIM	Norges Bank Investment Management
IRR	Internal Rate of Return	ND-GAIN	Notre Dame Global Adaptation Initiative
ISSB	International Sustainability Standards Board	NDCs	Nationally Determined Contributions
ITUC	International Trade Union Confederation	NDF	Nordic Development Fund
JBIC	Japan Bank for International Cooperation	NDP	National Development Plan
JICA	Japan International Cooperation Agency	NGO	Non-governmental organisation
JTF	Just Transition Fund (European Union)	NNIP	NN Investment Partners
JTFR	India Just Transition Finance Roadmap (IMF)	NRDC	Natural Resources Defense Council
JTM	Just Transition Mechanism (European Union)	NSIA	Nigerian Sovereign Investment Authority
KBC	Asset Management Kredietbank ABB Insurance CERA Bank (Belgium)	N/A	Not available or not applicable
KfW	Credit Institute for Reconstruction (German state-owned investment and development bank)	ODI	Overseas Development Institute
KPI	Key Performance Indicator	OECD	Organisation for Economic Co-operation and Development
KPMG	KPMG International Limited	OeEB	Oesterreichische Entwicklungsbank AG (Austrian development bank)
LatAm	Latin America	OPIC	Overseas Private Investment Corporation (US DFI, now DFC)
LOEP	Low Carbon Energy Programme (ASEAN)	PAGE	UN Partnership for Action on a Green Economy
LCF	Local Currency Facility	PAYGo	Pay as You Go
LGBTQIA+	Lesbian, Gay, Bisexual, Transgender, Queer or Questioning, Intersex, Asexual or Ally	PCAF	Partnership for Carbon Accounting Financials
LP	Limited partner or limited partnership	PETN	Parc Eolien Taiba N'Diaye (Taiba N'Diaye Wind Power Station)
LSE	London School of Economics and Political Science	PIDG	Private Infrastructure Development Group
LTV	Loan-to-value	PPP	Purchasing power parity
MCPP	Managed Co-Lending Portfolio Platform (IFC)	PPP	Public-private partnerships
MDB	Multilateral development bank	PRI	Principles for Responsible Investment
		PSW	Private Sector Window
		PwC	PricewaterhouseCoopers, LLP
		R&D	Research and development

REDD+	Reducing Emissions from Deforestation and Forest Degradation	SPV	Special purpose vehicle
REIT	Real estate investment trust	SSA	Sub-Saharan Africa
RMBS	Residential mortgage-backed securities	SWF	Sovereign wealth fund
S&P	S&P Global Ratings	TAFF	Tropical Asia Forest Fund (New Forests)
SA	South Africa or South Asia	TCFD	Task Force on Climate-related Financial Disclosures
SCREIF	Schroder Capital UK Real Estate Impact Fund (Schroders)	tCO ₂	Total carbon dioxide
SCSp	Special limited partnership (Luxembourg)	TCX	The Currency Exchange Fund
SDGs	United Nations' Sustainable Development Goals	TPG	Texas Pacific Group
SDIP	Sustainable Development Investment Partnership	Triodos IM	Triodos Investment Management
SEA	Southeast Asia	UBS	Union Bank of Switzerland
SECO	Swiss State Secretariat for Economic Affairs	UCITS	Undertakings for the Collective Investment in Transferable Securities
SET	Solar Energy Transformation Fund (SunFunder)	UIA	Argentine Industrial Union
SFDR	Sustainable Finance Disclosure Regulation (EU)	UK	United Kingdom
SFWG	Sustainable Finance Working Group (G20)	UN	United Nations
SHS	Solar home systems	UNCTAD	United Nations Conference on Trade and Development
SICAV	Société d'investissement à capital variable (open-end investment fund structure used in Luxembourg)	UNDP	United Nations Development Programme
Sida	Swedish International Development Cooperation Agency	UNEP	UN Environment Programme
SIFMA	Securities Industry and Financial Markets Association (US)	UNFCCC	United Nations Framework Convention on Climate Change
SIF	Specialised investment fund (Luxembourg)	US	United States
SMART	Specific, Measurable, Assignable, Realistic and Time-Related	USAID	United States Agency for International Development
SMEs	Small and Medium Enterprises	USD	United States Dollar
SPEED	Special Situations Partnership to Expedite Energy Decarbonization	VC	Venture capital
		WASH	Water, sanitation and hygiene
		WBA	World Benchmarking Alliance
		WEF	World Economic Forum
		WFE	World Federation of Exchanges
		WWF	World Wildlife Fund
		ZAR	South African Rand

