The imperative – and the opportunity - of the Just Transition

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The Just Transition is about building a fair, inclusive and sustainable society for all. It's about integrating our environmental and social objectives: achieving Net Zero, while ensuring that we're meeting the needs of people everywhere and creating new opportunities for advancement.

The climate imperative has been attracting more and more attention lately. But unless we're paying attention to the social consequences – where the negative effects of climate change tend to flow, and the fairness, affordability and accessibility of solutions – we won't be successful in achieving net zero. Failing to acknowledge the needs of people, particularly those who have borne the brunt of climate crisis, is a recipe for social unrest and tension. For investors, too, there is a clear downside risk to ignoring social and environmental considerations.

The flip side, though, is that investing in the Just Transition represents a tremendous opportunity. Analysis suggests it could increase economic value globally by $26 to $30 trillion. In the UK alone, it has been estimated that investing to achieve Net Zero and the Sustainable Development Goals could increase GDP growth by 2%. That's a material increase. Investors don't invest because of need, they invest because of opportunity. And we see that opportunity across asset classes, across strategies, across geographies.

Tackling the barriers to progress

Any Just Transition investment requires three essential elements.

The first is that you're doing something tangible to advance a particular climate or environmental objective. The second is that you're increasing socio-economic equity and distribution (perhaps via affordability, accessibility, or fairness). And the third element is community voice: creating opportunities for engagement and, critically, responding to those voices.

This third element is perhaps the least intuitive: even if people agree with the broad principle, it's not always clear what this should look like in practice. But various options have started to emerge, such as co-designing investment vehicles with communities, broadening ownership structures and expanding advisory bodies. Low-cost survey instruments have also made it much easier to collect ongoing feedback.

But while these ideas sound attractive on the face of it, there are still some legitimate barriers to adoption (both real and perceived).

For instance, carbon is just easier to count. So it's easier to understand, and easier to agree what good looks like. Whereas questions around socio-economic equity and distribution are seemingly more complex (affordable to whom? Fair relative to what?).

Another barrier is that investors tend to perceive added complexity in combining investment objectives, both in terms of analysing opportunities and assessing performance.

Cost can also be an issue: people sometimes believe the effort involved in understanding a community's perspectives and priorities entails a higher cost of delivery. We do have examples now that disprove that. But this perception still creates hesitation.

So how do we get around these barriers? A key way to galvanise action is to take action – not just individually, but collectively. The Just Transition Finance Challenge, which was announced in

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July, now has over 20 founding participants – asset owners, asset managers and other investment practitioners.

Another important way to galvanise action is to showcase examples. When investors see something (a strategy or geography or both) being invested in, it often inspires them to replicate it, or at least to learn from it and do something else. The G7 Impact Taskforce report got so much traction because it's filled with examples across various geographies, strategies, and asset classes. So it debunks the myth that investing in a Just Transition can't be done.

And the other critical point is to really engage with communities – especially those who are not always seen or heard – asking up-front what will make a real difference to their lives.

How to mobilise more capital

What we're trying to do with the Challenge is to put substance and consistency on what we mean by some of these increasingly familiar terms. So if you have an infrastructure strategy, private debt, or private equity, or fixed income – what does that strategy need to look like to qualify as a just transition infrastructure vehicle? By clarifying what good looks like and establishing this label, we hope it will create a sense of upward competition and upward momentum.

We know that there's enough capital out there. What we're not successfully doing yet is mobilising and deploying this capital for strategies that will support the Just Transition. The Just Transition elements can be applied across

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strategies, both those that lead with climate objectives such as clean and renewable energy and sustainable infrastructure, and those that lead with social objectives such as affordable housing and financing inclusion.

It's really important that we look to all investors to allocate at least part of their portfolios to invest in the Just Transition; it shouldn't just be the purview of one kind of investor.

But particularly in emerging markets, development finance institutions (DFIs) and multilateral development banks (MDBs) have a critical role to play; by moving first they are often in a position to mobilise other investors.

A number of these DFIs and MDBs are stepping up, recognising that their role is to bring others in. It's not jut about investing their own balance sheet: it's about mobilising other investors from across the spectrum. These investment entities have significant track record; they have talented, experienced people; they've got exemplary origination capabilities. So they bring a lot to the investment opportunity set for others.

For example, the IFC have a debt programme where they will underwrite a package of loans: they're actually putting their own capital to work, but also inviting other investors to participate alongside them.

We can also make greater use of insurance products and guarantee instruments. Sometimes we use these at a discrete asset level, to chip away at those perceived barriers of risk. But I think there's a tremendous opportunity for us to use these (quite familiar) products in new and different ways at a vehicle or portfolio level. That will help to bring some of those investors who are excited by the opportunity to invest to advance a Just Transition, but are still hesitant because it's so new.

Finally, transparency is crucial. It's not always clear where money is flowing in terms of locations, populations and communities – and, importantly, what's happening as a result.

The necessary sense of urgency hasn't quite landed with everyone yet. But there are more and more investors out there having conversations about what a Just Transition looks like, and thinking about how they might commit at least some of their capital to advancing the Transition.

I think this portfolio approach is critically important: if investors start thinking in terms of making some investments that are deeply aligned with the Just Transition – perhaps while also pursuing broader strategies – that will really help to move the dial. So there's plenty of cause for optimism.

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She serves as a Non-Executive Director of British International Investment (formerly the CDC Group) and a Member of the Board of Lendable. She was the lead author of the G7 Impact Taskforce report that formed the basis for the UK's Impact Investing Institute's Just Transition Finance Challenge, an initiative aiming to attract more private and public investment to support a Just Transition.

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