2021 Report of the UK Financing a Just Transition Alliance

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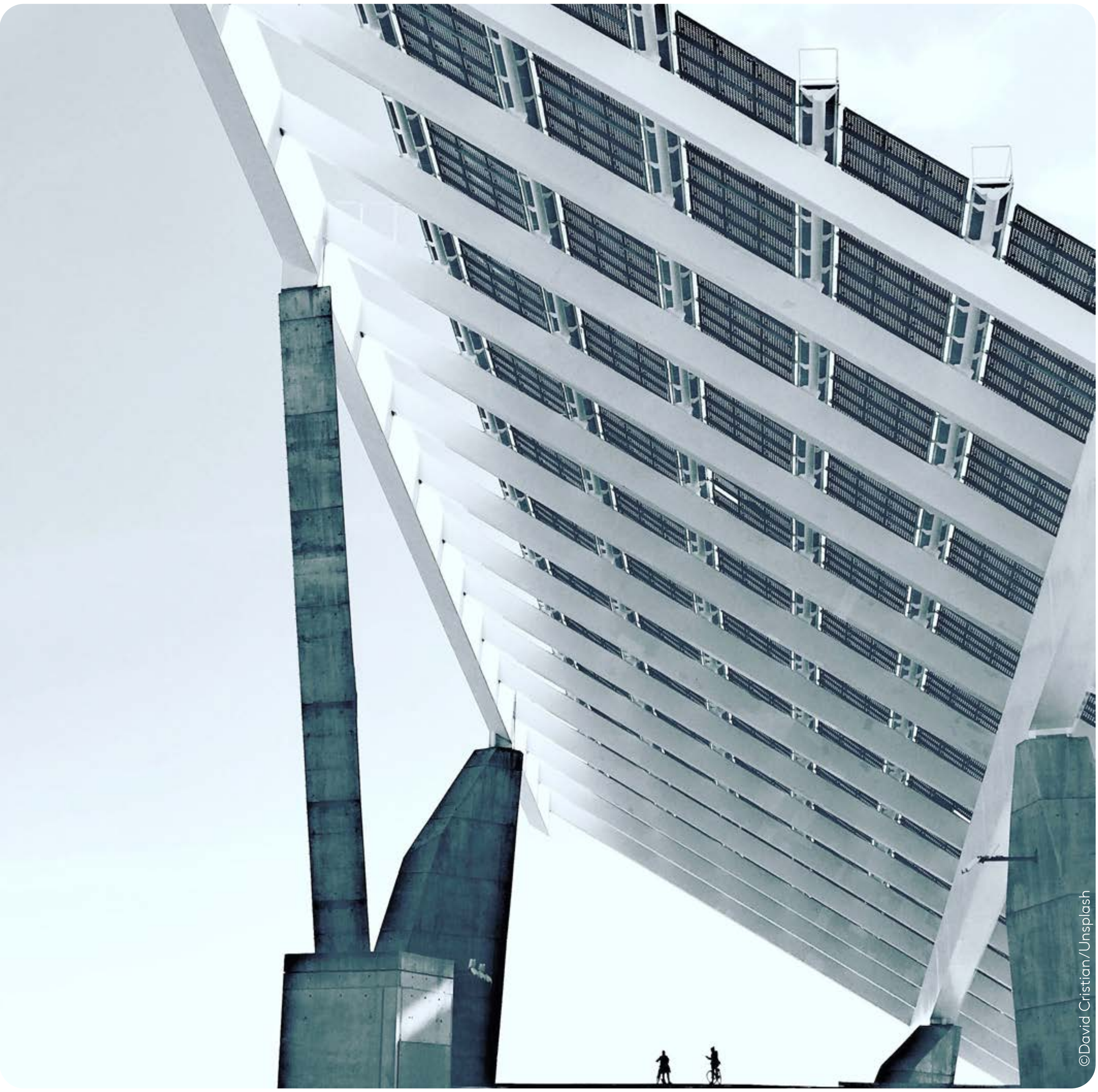
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Summary

Report headlines

- Reallocating capital to achieve net-zero greenhouse gas emissions can also drive more and better-quality jobs, revitalise communities and reduce inequality in the UK.
- Financial institutions can play a significant role by fully integrating the environmental and social dimensions of the transition into their policies and decision-making.
- More than 40 financial institutions and other stakeholders have formed the UK's Financing a Just Transition Alliance and are working to translate the high-level acknowledgement of the need for a just transition into operational steps and tangible outcomes.
- The Alliance has focused over the past year on the relationships between finance and business; place-based financial action; and the policy frameworks that are needed to deliver the systemic change required for a just transition. This report makes specific recommendations for action across these priority areas.

Investment approaching £6 trillion is needed in the UK to 2050 to achieve net-zero

The published findings of the *Sixth Assessment Report* of the Intergovernmental Panel on Climate Change (IPCC) have made it clearer than ever that the 2020s are a decisive decade for transformational action to prevent the worst impacts of global warming. Commitment to achieving net-zero greenhouse gas emissions is growing across the financial system, and an unprecedented reallocation of capital will be required, involving investments in the UK approaching £6 trillion between 2021 and 2050. This financial mobilisation has the potential to not only deliver essential emission reductions, positive macroeconomic benefits, valuable energy savings and attractive investment returns, but also drive more and better-quality jobs, revitalise communities and reduce inequality across the country.

A just transition is needed to distribute the benefits and costs of net-zero fairly across the UK

The just transition is embedded in the Paris Agreement and is recognised worldwide as a critical enabling factor for net-zero success. In the UK, the just transition is the policy glue that connects net-zero with the Government's levelling-up agenda. National and local government hold the primary responsibilities for delivering and coordinating a just transition, with business, trade unions and civil society also playing their part.

The finance sector has a clear case for action

Financial institutions can play a significant role by fully integrating the social dimension into the way they allocate capital for net-zero. The just transition is a relatively new concept for many in finance, but the case for action is clear:

1. It is the right thing to do and is fully consistent with longstanding commitments to social and human rights standards and the Sustainable Development Goals.
2. It is the necessary thing to do to ensure long-term public support for rapid and potentially disruptive change.
3. It is the smart thing to do because it will minimise transition risks and strengthen the human and social capital needed for long-term investment. It is a material issue for all financial institutions.

"Financial institutions can play a significant role by fully integrating the social dimension into the way they allocate capital for net-zero."

The UK's Financing a Just Transition Alliance is putting theory into practice

Over the past year, the more than 40 financial institutions and other stakeholders that form the UK's Financing a Just Transition Alliance have worked to translate this high-level acknowledgement into operational steps and tangible outcomes. The focus has been primarily on the net-zero transition within the UK, while recognising critical global linkages and the connections with making the UK economy nature-positive and resilient to climate impacts in ways that work for individuals and communities.

The work of the Alliance has taken place against the harsh backdrop of the COVID-19 pandemic, which has produced widespread commitment to making the recovery both green and inclusive. In many ways, the shock of the pandemic has been pivotal in cementing the importance of the just transition agenda. This means designing an investment-led recovery, one that is anchored in the long-term opportunity of net-zero, resilience and nature and doing this in ways that do not exacerbate existing inequalities, leave no one behind and generate positive social impact. Preparations for the UK-hosted COP26 climate summit have further amplified the importance of the just transition for delivering global climate ambitions.

The Alliance has been evaluating evidence, identifying priorities for systemic innovation and engaging with policymakers at the national and local levels. The process has been dynamic, with Alliance members contributing to concrete changes that give financial expression to what the just transition means in practice. To take two examples in the bond market: first, the UK's inaugural green sovereign bond in September 2021 was both the largest ever at £10 billion and the first to commit to measuring the social co-benefits of its financing. Second, at the other end of the scale, local authorities have started to issue community municipal investments, pointing to the potential for a local climate bond market with the priorities of place at its heart.

Where the financial sector can make a difference: strategic recommendations

Experience to date points to five strategic recommendations for how investors, banks and other financial institutions can make a real difference, particularly in terms of the impacts of the transition on people as workers and in supply chains, communities and consumers.

- **Finance recommendation 1: Strategy and leadership –** Embed the just transition into climate strategies and financing plans, supported by the Board, and signal the importance of the just transition internally and externally.
- **Finance recommendation 2: Engagement –** Integrate the just transition into the engagement on corporate net-zero plans between investors and the companies they hold, and between banks and the customers and clients they lend to. This extends to dialogue between financial institutions and other stakeholders such as workers, trade unions, communities, and civil society.
- **Finance recommendation 3: Capital allocation –** Actively seek to finance those companies committed to positive social impact for workers, communities and consumers on the road to net-zero. Make it clear to potential investees and clients that these factors will be included in the firm's appraisal and due diligence policies for investment and lending. Develop new mechanisms that are specifically aligned with a just transition, particularly for place-based investment.
- **Finance recommendation 4: Policy dialogue –** Encourage local and national policymakers to put in place the policy frameworks that can scale up financing for the just transition, covering real economy frameworks as well as public finance and financial policies.
- **Finance recommendation 5: Delivering impact and measuring contribution –** Include just transition factors in the way that financial institutions deliver positive social and environmental impacts at both the asset and system level, and report these contributions to their clients and stakeholders in public disclosures.

This report includes 18 examples of initial actions by Alliance members to bring these priorities to life – see box on page 8.

Case studies and perspectives from members of the Alliance

1. **Triodos Bank:** The social in the green and the green in the social
2. **Federated Hermes:** Infrastructure investing and the just transition
3. **Royal London Asset Management and Friends Provident Foundation:** Engaging for change
4. **Rathbone Greenbank Investments:** Engaging on the just transition in social housing
5. **Nationwide Building Society:** Developing fair financing for new-builds and existing homes
6. **Bridges Fund Management Limited:** Investing against fuel poverty
7. **HSBC UK:** Banking, agriculture and beyond
8. **Barclays:** Supporting local business and addressing the skills gap
9. **Impact Investing Institute:** Scaling up investment for place-based impact
10. **Legal & General Investment Management:** Supporting the just transition through place-based impact
11. **Abundance and the Green Finance Institute:** Local climate bonds
12. **Kensa:** Developing a new asset class in the heat sector
13. **Friends Provident Foundation:** Financing SMEs in community energy
14. **Responsible Finance:** The role of community development finance institutions
15. **Place-based Climate Action Network (PCAN):** Developing local climate finance hubs
16. **All-Party Parliamentary Group for Local Authority Pension Funds:** Ensuring responsible investment for a just transition to net-zero
17. **CDC Group:** Financing the just transition in emerging economies
18. **Impact Investing Institute:** The G7 Impact Taskforce

Taking a systemic approach

The actions we are recommending for individual financial institutions need to come together at the systemic level, with wider action by business, government and society. To understand how this could be achieved in practice, the Alliance has focused on three priority areas: the relationships between finance and business; place-based financial action; and the policy frameworks that are needed both for the real economy and the financial system.

Building the just transition into the relations between finance and business

The relations between finance and business provide a crucial set of levers for supporting the just transition. Leading investors are starting to incorporate just transition expectations into their stewardship strategies and shareholder engagement activities, with an initial focus on the energy sector. Major UK businesses have begun to include just transition in their climate plans, in part resulting from shareholder engagement with Alliance members.

A common set of just transition expectations that investors and banks can apply to the businesses they own and lend to will be critical to the effectiveness and broadening of financial sector efforts. Based on international standards and emerging best practice, this report sets out key ingredients for such expectations. These include how the just transition is made a core part of corporate strategy; how the needs of workers and the supply chain, communities and consumers are incorporated; and how companies include the just transition in their policy lobbying and external reporting and disclosure.

"The actions we are recommending for individual financial institutions need to come together at the systemic level, with wider action by business, government and society."

Further action is needed. The first priority is to include the just transition in shareholder engagement across the UK economy, notably in energy, construction and buildings, transport and industry, as well as food, land use and agriculture. The second priority is to deepen the integration of just transition expectations into the relations between banks and their corporate clients.

Deploying financial strategies that respond to place-based needs and ambitions

The net-zero transition has a profound geographical dimension and its delivery should seek to overcome the entrenched regional inequalities across the UK. Ultimately, delivery will have to be local, with place-based financing becoming a major pillar of delivering a just transition. Finance will need to respond to the specific needs of localities and regions who are developing ambitious climate and ecological emergency plans, often ahead of national targets.

"Delivery of the net-zero transition will have to be local, with place-based financing becoming a major pillar of delivering a just transition."

Early efforts are underway. Establishing the UK Infrastructure Bank with its dual net-zero and local mandate is an important step forward. Several commercial banks are starting to translate high-level net-zero plans into regional applications. A new generation of place-based strategies for institutional investors holds great promise, particularly for local authority pension funds. Innovations are emerging to fill financing gaps, such as the development of local climate bonds. Small and medium-sized enterprises (SMEs) are at the heart of local economies, and innovative approaches from across the financial system are needed to support them in the transition, involving public, commercial and social finance – not least from financial institutions rooted in particular communities, such as Community Development Finance Institutions (CDFIs).

However, strategic gaps remain, and new mechanisms that build capacity in local businesses, government and communities are required to close the divide between the demand and supply of finance. Local climate finance hubs could play a key coordinating role, particularly in project development.

- **Place recommendation 1:** Provide blended financial and non-financial support on the just transition to SMEs in local areas.
- **Place recommendation 2:** Develop local climate finance hubs as a way of connecting the demand and supply of capital for net-zero and the just transition.

Constructing the policy frameworks that can deliver systemic change

Efforts by financial institutions to support a just transition are clearly starting to happen, but achieving the necessary scale and speed will require stronger policy frameworks that provide the incentives, rules and pivotal public finance to deliver systemic change.

"The improved remits for the UK's leading financial regulators can connect net-zero, climate risk and social implications."

The importance of the just transition in the UK's net-zero journey is increasingly recognised by public and private actors alike, and the Alliance has identified two sets of recommendations for action at the UK level to build the policy framework:

i) Place the just transition at the heart of net-zero policies

Making the just transition a pillar of the implementation of the UK's Net Zero Strategy will realize the positive synergies between climate action and levelling up. Delivering on the recommendations of the Green Jobs Taskforce will also catalyse vital investment in skills and human capital and support workers in high carbon sectors. Establishing a national Just Transition Commission would provide expert guidance across government, helping to develop common approaches and sector priorities.

- **Policy recommendation 1:** Make the just transition a core element of the implementation of the Net Zero Strategy.
- **Policy recommendation 2:** Implement the recommendations of the Green Jobs Taskforce.
- **Policy recommendation 3:** Establish a Just Transition Commission.

ii) Design financial policies to support the just transition

Incorporating the just transition across fiscal policy is essential, to ensure, for example, that carbon pricing is designed to benefit low-income and vulnerable groups. With its dual mandate, the UK Infrastructure Bank could become an anchor financial institution for the just transition (akin to the European Investment Bank within the EU), while the British Business Bank could play a similar role for SMEs. Another way to drive alignment with net-zero, decent work and community benefit is by deepening the application of social value in public procurement. The improved remits for the UK's leading financial regulators can connect net-zero, climate risk and social implications. This will involve developing shared social taxonomies, indicators and reporting frameworks as part of integrated sustainability disclosure requirements. The next iteration of the UK's Green Finance Strategy will be an opportunity to tighten the links between finance for climate and nature with the delivery of social co-benefits.

- **Policy recommendation 4:** Incorporate fairness and social considerations into fiscal policy for climate action.
- **Policy recommendation 5:** Connect the twin objectives of the UK Infrastructure Bank in operational delivery.
- **Policy recommendation 6:** Harness the British Business Bank to support SMEs through a just transition to net-zero.
- **Policy recommendation 7:** Deliver social co-benefits through the UK's green sovereign bond programme.
- **Policy recommendation 8:** Use the social value framework in public procurement to boost market uptake of the just transition to net-zero.
- **Policy recommendation 9:** Develop financial standards and regulation for the just transition, including in terms of disclosure.

- **Policy recommendation 10:** Strengthen the social dimension in the UK's updated Green Finance Strategy, particularly in terms of place-based investment.

Supporting international efforts to finance a just transition

The just transition is a global imperative, and UK financial institutions and policy commitments can take a leadership role in advancing collaborative efforts, particularly in emerging and developing economies. Priorities for further financial sector engagement on the just transition include accelerating the phase-out of coal, bolstering social and environmental performance in supply chains, strengthening social standards in nature-based solutions and developing dedicated just transition financing mechanisms.

Just zero: seizing the moment

The just transition is essential for building the trust required for a rapid shift to a resilient, net-zero economy. This insight is stimulating growing action across the world by governments, businesses and trade unions, civil society and financial institutions. This report highlights initial efforts by leading financial institutions in the UK and points to what is needed to achieve system-wide change. The momentum behind financial action on the just transition is set to intensify, placing it in the mainstream of the climate agenda. For example, the Climate Action 100+ international investor initiative will include the just transition as one of the key indicators in its net-zero company benchmark – a foundation for further shareholder engagement.

Following its first year of work, the Alliance will dig deeper into the practicalities of operationalising the just transition. This could involve, for example, piloting innovative place-based initiatives, identifying ways to capture just transition outcomes, aggregating promising approaches, and promoting the analysis and dialogue that can contribute to wider transformations. This is a work in progress, and we hope it inspires others both in the UK and in the international community.

"Following its first year of work, the Alliance will dig deeper into the practicalities of operationalising the just transition."

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Introduction

The just transition as a critical enabler of net-zero success

The published findings of the *Sixth Assessment Report* of the Intergovernmental Panel on Climate Change (IPCC) have made it clearer than ever that the 2020s is the decisive decade for transformational action to prevent the worst impacts of global warming[1]. Commitment to achieving net-zero greenhouse gas emissions is growing across the financial system – banks, insurers and investors – as well as among financial ministries, central banks and supervisors. This will require an unprecedented reallocation of capital: in the UK, for example, annual net-zero investment needs to grow five-fold between 2020 and 2030, and required total investment will approach £6 trillion by 2050 (CCC, 2020; ABI, 2021).

This financial mobilisation will not only deliver essential emission reductions, positive macroeconomic improvements, valuable energy savings and attractive investment returns, but it can also drive more and better-quality jobs, revitalise communities and reduce inequality across the country. This is the just transition agenda, which focuses on ensuring that the benefits and the costs of change are distributed fairly. The just transition is embedded in the Paris Agreement and is increasingly seen as a critical enabling factor for net-zero success. Integrating fairness into climate action is a fundamental matter of principle – and it will also build public support for the often disruptive and challenging road ahead.

"Integrating fairness into climate action is a fundamental matter of principle – and it will also build public support for the often disruptive and challenging road ahead."

The Financing a Just Transition Alliance: turning commitment into practice

There is a growing commitment to a just transition across the financial sector, and in November 2020 more than 40 banks, investors and other financial institutions joined forces with universities, civil society and trade unions to launch the Financing a Just Transition Alliance (FJTA), the first grouping of its kind in the UK. The objective of the Alliance is to translate this commitment into real-world impact. Doing this will help to accelerate progress towards the UK's climate goals, generate social co-benefits and contribute to long-term financial success.

Through its collaborative format, the Alliance provides:

- Opportunities for innovation and creativity through cross-sectoral dialogue.
- Means to identify systemic challenges and solutions by involving people across sectors and regions.
- Stimulus for practical pilot projects attempting to apply just transition principles in practice.
- Ways to build the empathy needed between different actors to deliver the just transition.

1 Working Group I's contribution to the Sixth Assessment Report was published in August 2021, addressing "the most up-to-date physical understanding of the climate system and climate change". See https://www.ipcc.ch/report/ar6/wg1/#SPM

In this report the Alliance sets out what the delivery of a just transition in the UK will require, highlights initial efforts by leading financial institutions towards achieving a just transition, and points to what is needed to achieve system-wide change. While the Alliance and this report focus on the UK, we also draw out implications and possible applications for the international context.

Report structure

- **Chapter 1** defines the foundations for financial action towards the just transition.
- **Chapter 2** tackles the ways banks and investors can incorporate the just transition into their lending and business investments (for example, through shareholder engagement).
- **Chapter 3** focuses on the financial mechanisms that can respond to the needs and ambitions of specific places to overcome longstanding regional inequalities.
- **Chapter 4** addresses the real economy and financial policy frameworks that can provide the incentives, rules and blended finance needed to scale up private capital for the just transition.
- **Chapter 5** explores the potential for the UK financial sector to contribute to delivering a just transition internationally, notably in emerging and developing economies.
- **Chapter 6** looks forward to the next phase in the Alliance's work on financing the just transition.
- **Chapter 7** provides a summary of our recommendations.

Case studies

Throughout, the report is illustrated by case studies and perspectives from Alliance members, to provide a sense of the practicalities of financial sector engagement. Action on the just transition is still relatively new and small scale. While these efforts remain incomplete, both in terms of depth within financial institutions and companies and breadth across sectors and regions, the case studies aim to highlight first steps in the right direction.

1. Building the foundations for financial action on a just transition in the UK

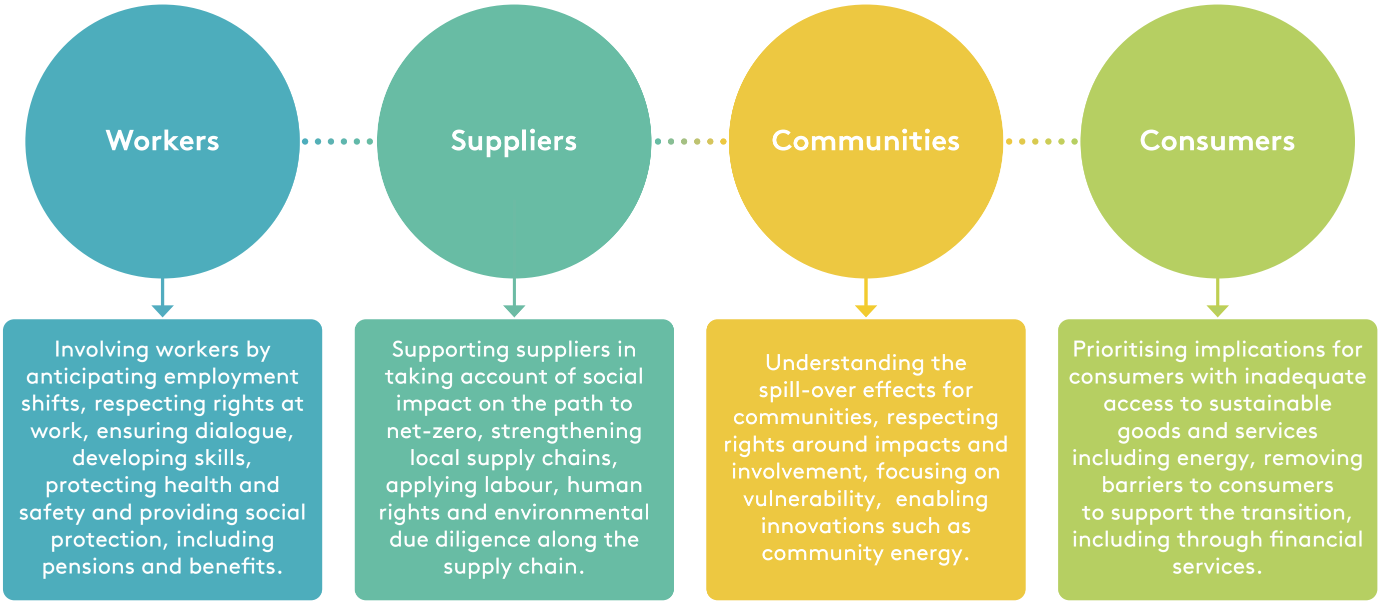
The just transition is a global goal, one that is set out in the 2015 Paris Agreement and elaborated in guidelines produced by the International Labour Organisation. In the UK, the just transition is the policy glue that connects net-zero with the Government's levelling-up agenda. The harsh impacts of the COVID-19 pandemic have generated a broad commitment to making the recovery both green and inclusive, and structured to ensure a high level of popular support. In many ways, the shock of the pandemic has heightened recognition of the need to make the just transition an integral part of the UK's policies and economic decision-making. This means designing an investment-led recovery that realises the long-term opportunities of net-zero, resilience to climate change impacts and a healthy natural environment, and does not exacerbate existing inequalities, leaves no one behind and generates positive social impact. Planning for the UK-hosted COP26 climate summit has further amplified the importance of the just transition for delivering global climate ambitions.

A just transition in the UK means ensuring that those affected by net-zero measures are involved in shaping the shift and have the resources to succeed (including the new skills and the affordable capital this requires). The University of Leeds and the London School of Economics have developed a Just Transition Jobs Tracker, with which they have estimated that the transition will impact around one job in five, notably in construction, transport and manufacturing (Sudmant et al., 2021). The Jobs Tracker further estimates that around 10% of jobs will be in higher demand in the transition than now, and another 10% of workers will require upskilling. This underscores that the shift to net-zero comes with risks to be mitigated and opportunities to be leveraged, while accounting for local needs and inequalities. Additionally, it is important to connect the net-zero transition with wider forces shaping employment and livelihoods, such as automation.

Of course, the just transition will not become a reality without targeted policies. As the economy recovers from COVID-19 and the Government acts to put the UK on a path to net-zero in line with its commitments, positive social impact will need to be ensured, through action that is:

- **Inclusive:** Climate change policies and initiatives need to respond to priorities across socioeconomic groups, addressing inequalities linked to income, gender, race, age and location. **Figure 1.1** highlights the key groups that need a just transition, notably workers and suppliers, communities and consumers.
- **Place-based:** The specific requirements of different places will need to be addressed to make sure that regions are not left behind, and communities can prosper in the shift.
- **Sector-specific:** The distinct impacts of the transition on different sectors will need to be considered, to manage risks and realise opportunities. (Robins et al., 2020)

Figure 1.1. Priority groups in the just transition



Connecting the environmental and social dimensions of climate action

A clear set of strategic reasons for financial institutions to take this rounded perspective to climate action have emerged, including respecting social standards, supporting sustainable development and delivering positive impact. For financial institutions, the just transition is not only the necessary and the right thing to do, but it is also smart because it minimises transition risks and strengthens the human and social capital needed for long-term investment. In essence, it means joining up the E (environment) and the S (social) of ESG in the climate transition.

In the UK, investors, banks and other financial institutions have been working to understand their role in the just transition. In 2019, the Grantham Research Institute and the University of Leeds published an investor roadmap and in 2020 released a similar strategy for the banking sector (Robins et al., 2019; 2020).

Turning commitment into practice

Over the past year the Alliance has been evaluating evidence, identifying priorities for systemic innovation and engaging with policymakers at the national and local levels. There have been several developments in this period, many of which have had important contributions from Alliance members:

- **The UK's green sovereign bond programme** includes a recognition of the just transition and a commitment to report on the social co-benefits of green spending.
- **Scotland's Just Transition Commission** published a comprehensive set of recommendations leading to new policy commitments and funding allocations.
- **Leading UK businesses are taking first steps to include the just transition** in their climate plans (including Anglo-American, BP and SSE), in part as a result of engagement with Alliance members.

- **The broader financial community has also recognised the importance of the just transition,** for example, in the Association of British Insurers' Climate Change Roadmap (ABI, 2021).
- **The All-Party Parliamentary Group for Local Authority Pension Funds** has completed an inquiry into responsible investment for a just transition.
- **The just transition is being included in key climate rating exercises**, notably by the Climate Action 100+ and the World Benchmarking Alliance.
- **The UK's presidency of the G7** has established an Impact Task Force, focusing on just transition investment mechanisms.

The Alliance has focused primarily on the net-zero transition and its social dimension, recognising the important linkages with making the UK resilient to climate impacts and building a nature-positive economy. Based on the experience to date, we identify five recommendations for financial institutions to support a just transition, particularly in terms of the impacts of the transition on people as workers and in supply chains, communities and consumers (**Box 1.1**). We elaborate on each of these recommendations in subsequent chapters.

Box 1.1. Strategic recommendations for financial action on the just transition

1. **Strategy and leadership**
   - Embed the just transition into climate strategies and financing plans, supported by the Board, and signal the importance of the just transition internally and externally.
2. **Engagement**
   - Integrate the just transition into the engagement on corporate net-zero plans between investors and the companies they hold, and between banks and the customers and clients they lend to. This extends to dialogue between financial institutions and other stakeholders such as workers and trade unions, communities, and civil society.
3. **Capital allocation**
   - Actively seek to finance those companies committed to positive social impact for workers, communities and consumers on the road to net-zero. Make it clear to potential investees and clients that these factors will be included in the firm's appraisal and due diligence policies for investment and lending.
   - Develop new mechanisms that are specifically aligned with a just transition, particularly for place-based investment.
4. **Policy dialogue**
   - Encourage local and national policymakers to establish the policy frameworks that can scale up financing for the just transition, covering real economy frameworks as well as public finance and financial policies.
5. **Delivering impact and measuring contributions**
   - Include just transition factors in the way financial institutions deliver positive social and environmental impacts at both the asset and system level, and report these contributions to their clients and stakeholders in public disclosures.

Table 1.1. Examples of how different financial institutions can incorporate the just transition

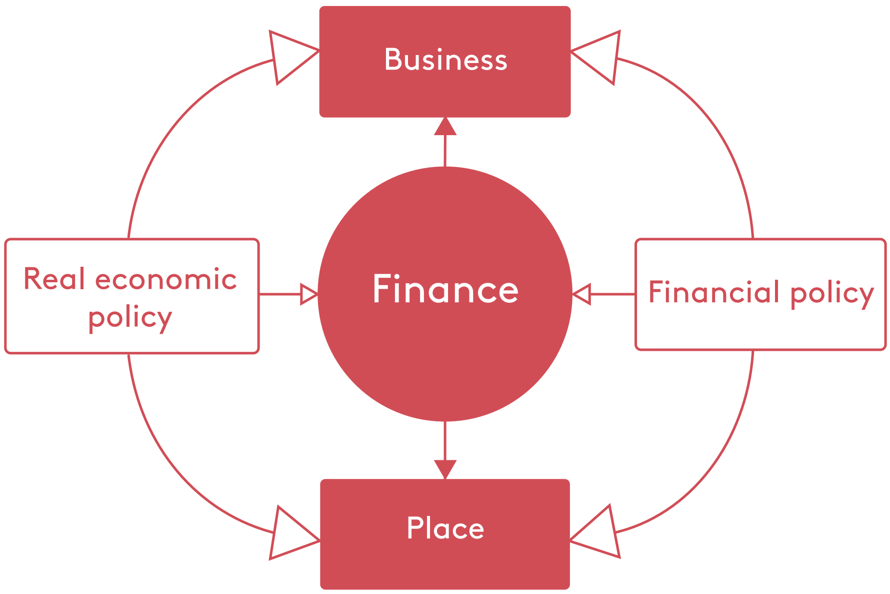
Asset owners	Signal just transition expectations to the market by specifying that mandates will be awarded to asset managers with just transition policies.
Asset managers	Incorporate just transition conditionality into asset allocation decision-making.
Commercial banks	Apply just transition principles to lending across the client base, from corporates to individuals.
Public banks	Incorporate the just transition into efforts to crowd in private capital for net-zero.
Social finance institutions	Pioneer place-based net-zero initiatives with SMEs, communities and local government.
Brokers and research providers	Disseminate wider understanding of the definition of just transition performance and its benefits.

All financial institutions should consider how their operations contribute to or detract from climate action and social justice; how individual institutions do so will vary, depending on the type of institution, as illustrated in **Table 1.1.**

This report: taking a systemic approach

These actions within the finance sector need to come together to fully harness the UK's financial system, connecting efforts by individual institutions with action by government and regulators. From a financial sector perspective, this report sets out what the delivery of a just transition in the UK will require, what actions are underway, and what should happen next. It takes a systemic approach, recognising that, while there are many actions that financial institutions can already take, the UK financial system will require policy reforms to deliver the scale of change required to realise the just transition, as set out in **Figure 1.2.**

Figure 1.2. Connecting finance, business, policy and place



2. Financing a just transition by business

Developing comprehensive approaches to the just transition

The first step we recommend for financial institutions is to embed the just transition into their climate strategies and financing plans. We begin this chapter with two examples of how financial institutions are approaching this from a strategic perspective, from Triodos Bank and Federated Hermes.

Case study 1 | *The social in the green and the green in the social*

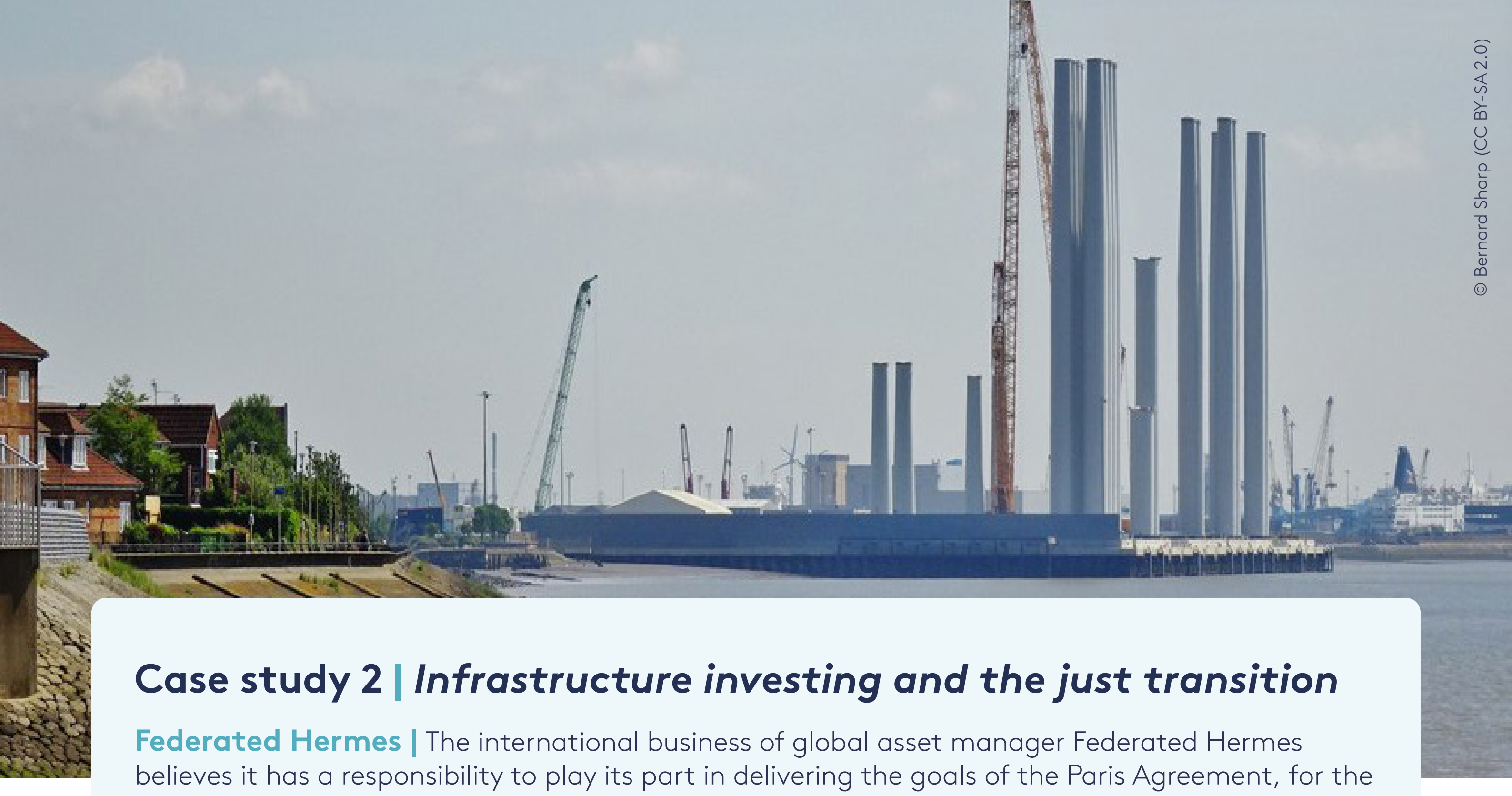
Triodos Bank | Triodos Bank is an ethical bank based in the Netherlands with branches in Belgium, Germany, France, the UK and Spain. Speaking in 2020, UK CEO Bevis Watt stated that "sustainable banking means using money consciously today without compromising the needs of future generations". For the bank, a just transition considers these needs, addresses wealth inequality, and delivers both social and environmental outcomes.

Triodos Bank's approach to sustainable lending includes minimum standards that exclude industries such as fossil fuels and aims to identify sustainable sectors where it can stimulate innovation and drive forward positive change. This means making sure green investments have social benefits, and also drawing out the environmental value of social initiatives.

An example is the bank's support for community energy initiatives through organisations such as Awel Co-op. In 2017, Triodos, along with the Welsh government, provided financial backing for a project to build a community-owned wind farm in a low-income region of Wales. In an area with historical links to coal mining, the project addressed a local lack of funding for community initiatives and enabled the community to tackle climate change and advance the low-carbon transition.

Triodos also finances socially-minded organisations that deliver on the green agenda, including charities, social enterprises and values-based businesses. One example is Emmaus, a national charity that offers formerly homeless people homes, meaningful work and a chance to rebuild their lives. The charity's social enterprises also make a significant contribution to reducing the amount of waste that goes to landfill by collecting donated furniture and household goods, upcycling and re-selling them.

Source: Triodos Bank



Case study 2 | *Infrastructure investing and the just transition*

Federated Hermes | The international business of global asset manager Federated Hermes believes it has a responsibility to play its part in delivering the goals of the Paris Agreement, for the long-term financial and broader holistic interests of its clients. The beneficiaries of its infrastructure assets are primarily UK pension schemes, whose members can be the end users of infrastructure investments, workers and/or the local communities in which Hermes' investments operate.

Climate risk, opportunity, resilience and a just transition are relevant to both the financial performance of the company's investments and to beneficiaries' everyday lives. Hermes states that achieving the Paris goals and protecting individual health, environment, jobs, or economic assets go hand-in-hand. The company engages in regular dialogue with directors, executives and co-shareholders about climate change mitigation and adaptation and associated social and economic factors. In the investment process, Hermes considers how a company may navigate the transition to net-zero, and its social impact and obligations while doing so, from the outset.

In 2015, the infrastructure team of Federated Hermes International acquired a 40% interest in Associated British Ports (ABP) in consortium with the Canada Pension Plan Investment Board. ABP is the UK's leading port group, owning and operating 21 ports in England, Scotland and Wales, which handle around a quarter of the country's seaborne trade (ABP, 2020a). With shareholder support and engagement, the way ABP supports its industrial and shipping customers and their supply chains has transformed over the years, notably regarding a considerable reduction of coal-related revenues. ABP is now a key partner for the UK's offshore wind industry and its ports are focussed on supporting regional hubs for emissions reduction, nature recovery and economic growth. ABP is investing in some of the UK's most deprived coastal and industrial areas.

ABP Humber contains four ports: Hull, Goole, Grimsby and Immingham, which handle £75 billion worth of trade, support 33,000 jobs, and contribute £2.2 billion to the UK economy every year. ABP has delivered major green projects in the region, such as the £310 million Green Port Hull offshore wind manufacturing facility in Immingham and the £140 million Immingham Renewable Fuels Terminal for Drax Group. In 2021 the Chancellor of the Exchequer announced the creation of eight Freeports in the UK, aimed at boosting investment in areas of high unemployment and deprivation, including Grimsby and Immingham (ABP, 2020b). As bid leader for the Humber Freeport, ABP intends that the Humber will play a central role in the development of emerging green technologies like carbon capture, utilisation and storage (CCUS) and hydrogen, which will create 7,000 new jobs and boost manufacturing. Beyond representing an attractive core investment for Hermes, ABP also meets the demand of Hermes' investors for sustainable long-term returns alongside positive environmental and social outcomes.

Source: Federated Hermes

Financial engagement with business: the role of shareholders

The rest of this chapter focuses on the second recommended action outlined in **Box 1.1** – how financial institutions can make progress through their engagement with business.

The just transition needs to be an integral part of corporate climate plans. Shareholder engagement is an invaluable mechanism for investors to express their net-zero and just transition expectations of business, and a basis for wider stakeholder engagement and communication. Just transition is already becoming part of the stewardship agenda, and shareholder engagement is starting to grow. Now is the time to mainstream it and ensure meaningful engagement for all relevant sectors, leading to real change at the board level. This will enable investors to simultaneously mitigate climate and social risks and take advantage of just transition opportunities. Companies, for their part, are showing a marked interest in just transition discussions.

"Just transition is already becoming part of the stewardship agenda, and shareholder engagement is starting to grow."

Shareholder engagement in practice – the utilities sector

Investors increasingly include the just transition in their engagement with the companies they own, deploying expectations to commit to action, with an example provided in **Case study 3**. Identifying a sector champion, such as SSE in this case study, and encouraging it to take the lead on developing a just transition strategy, can also help to prompt other companies to act. Shareholders have also engaged with other companies in the UK power sector, increasing the likelihood that all major companies in this sector could have credible just transition plans in the near future.

Consolidating just transition expectations of business

Financial institutions can draw on the growing body of research designed to help them support a just transition. Alongside pioneering examples of shareholder engagement, efforts are underway to mainstream the just transition into the assessment and rating of companies by investors, banks and other finance sector actors. Financial institutions should be aware of these efforts and consider their responses. The first attempts towards just transition-specific benchmarks have been launched to provide large businesses and investors with greater granularity about the just transition and include:

- **Climate Action 100+:** The CA100+ coalition brings together more than 610 investors with more than US$55 trillion in assets under management to coordinate investor engagement with 167 companies that account for over 80% of corporate industrial greenhouse gas emissions. In October 2021, CA100+ launched the latest iteration of its Net Zero Company Benchmark. This includes a 'beta' indicator for corporate action on the just transition. The indicator covers four key areas of business behaviour: whether the company has acknowledged the just transition, the commitments it has made, the stakeholder engagement it has undertaken and the concrete actions it has taken to support the just transition (CA100+, 2021). Initially, data will be collected for

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Case study 3 | *Engaging for change*

Royal London Asset Management and Friends Provident Foundation | Royal Royal London Asset Management (RLAM) and Friends Provident Foundation (FPF) have been engaging energy utility companies since 2018 on the trends transforming the power sector. Since 2019, this programme of engagement has informed and been informed by recommendations from the Grantham Research Institute's Financing a Just Transition programme.

In 2020 RLAM, in partnership with FPF, had discussions with seven utility companies, Centrica, E.ON, EDF, National Grid, RWE, SSE and Scottish Power, about trends transforming the power sector, including decarbonisation. Most of the companies were already working to decarbonise and transform their systems but had not established refined approaches to addressing the social implications of their ambitious goals.

RLAM and FPF proposed that the companies develop formal just transition strategies and embed social considerations into their climate change mitigation plans. In a pioneering move, SSE committed to develop a just transition strategy after asking RLAM and FPF to submit a related question to the board at the company's AGM. Following feedback from RLAM, FPF and the London School of Economics, SSE published its Just Transition Strategy in November 2020. This world-first dedicated just transition strategy from a utility company establishes 20 principles to embed 'fairness' into decarbonisation plans, divided into what's needed to 'transition out' of high-carbon and 'transition in' to net-zero. It addresses the needs of four key stakeholder groups: workers, communities, suppliers and consumers (SSE, 2020).

In December 2020 RLAM and FPF targeted a call for action at the other six utility companies, requesting that they publish just transition strategies ahead of COP26 in November 2021. The call for action included a reference to RLAM and FPF's investor expectations for just transition strategies for the utilities sector as guidelines for implementation (RLAM and FPF, 2020), including expectations on extensive engagement and minimum requirements to address impacts on workers, communities, the supply chain and consumers. E.ON published a Just Transition statement in March 2021 (see E.ON, 2021), while Centrica, Scottish Power and EDF UK agreed to publish strategies ahead of COP26.

Source: Royal London Asset Management

internal use but not publicly released or assessed. Even so, this exercise will provide further operational insights for investors in their shareholder engagement in 2022 and beyond.

- **World Benchmarking Alliance:** The WBA has developed a methodology for assessing companies on the just transition, applying its existing low-carbon and social indicators complemented by newly developed just transition indicators (WBA, 2021). The latter are based on international norms, frameworks, and standards. The framework covers issues such as human rights, social dialogue, just transition planning, job creation, retaining and retraining, social protection, and policy advocacy. The methodology has been used to assess 180 companies across three sectors.
- **The Council for Inclusive Capitalism:** The Council for Inclusive Capitalism with the Vatican, in partnership with BP and BCG, is leading a CEO initiative to develop unified principles and a framework for a just energy transition by companies. The Council has published an initial set of principles, with the framework due in October 2021 (Council for Inclusive Capitalism, 2021).

Synthesising existing guidance: a just transition framework for financial institutions

Drawing from existing policy, stakeholder frameworks and early-stage applications by investors, we developed in an earlier report a set of seven just transition expectations (Robins et al., 2021). The Framework (**Box 2.1**) combines governance (strategy, policy dialogue and transparency) and stakeholder dimensions (including workers, communities, supply chains and consumers). It is intended to be used in investment assessment and due diligence, shareholder engagement and stewardship, as well as capital allocation decisions for portfolio companies. Banks could also use the framework to engage corporate clients with their net-zero plans.

Expanding financial engagement across the whole economy

Financing net-zero is an economy-wide undertaking and this means ensuring that a just transition is designed and delivered for every sector. Although one focus of the financial sector to date has been on utilities, the just transition is vital in many other sectors too. As became apparent in the utilities sector with SSE, and in housing with Rathbone Greenbank Investments (see **Case study 4**), first movers can catalyse action from other players within the sector and act as prime examples for just transition good practice.

Box 2.1. A framework of just transition expectations of business for use by financial institutions

1. **Strategy**
    - Establish a company strategy and plan for the just transition in the context of delivering net-zero and resilience goals, to be adopted at the Board level with clear Board oversight.
    - Incorporate the just transition in remuneration, planning, risk management, scenario exercises, capital investment, acquisitions and restructuring.
    - Ensure social dialogue and representation of workers and trade unions in company-level climate decision-making and implementation.
    - This strategy should be based on established international frameworks and standards (including from the United Nations, International Labour Organization [ILO] and Organisation for Economic Co-operation and Development [OECD]) and should cover themes 2–7 below.
2. **Workers**
    - Deliver good jobs and decent work in the transition and respect for worker and human rights (including, for example, pay and benefits, job formality and contract length, skills development and training, health and wellbeing, diversity and inclusion, freedom of association and collective bargaining).
    - Promote and provide reskilling and retraining, redeployment, or retirement support.
3. **Supply chain**
    - Support suppliers (including small and medium-sized enterprises) through access to skills, finance and technology.
    - Apply labour, human rights and environmental due diligence and policies along the supply chain, particularly in developing countries.
4. **Communities**
    - Engage with local communities to address social risks of transitions to regional economies and promote local wellbeing, with a particular focus on vulnerable groups as well as wider sustainability considerations (such as biodiversity).
    - Partner with local communities to share value in net-zero and resilience investments. This needs to include engagement and respect for the rights of Indigenous communities.
5. **Consumers**
    - Support consumers (notably vulnerable groups) by ensuring affordable access to key goods and services in the transition and enabling consumers to actively participate in the transition.
6. **Policy and partnerships**
    - Advocate for the just transition to net-zero in industry associations and government lobbying, and support partnerships at the local, sectoral, national and global levels.
7. **Transparency and disclosure**
    - Report on just transition policies and performance, including through Task Force on Climate-related Financial Disclosures (TCFD) reporting.

Source: Robins et al. (2021)

Other sectors should replicate this dynamic, with leading sector champions identifying the opportunities and means to do this, as follows:

- **Energy:** Beyond the power sector, oil and gas must become consistent with the UK's legal obligation to reach net-zero by 2050 (Ward, 2021). In this shift, it is vital to consider the social implications for workers, communities and consumers. Oil and gas companies are starting to act on the social impacts of the move to net-zero; BP includes the just transition as one of its aims for tracking its sustainability performance, for example.
- **Construction and housing:** These sectors have the most employees impacted by the net-zero transition, which is critical for new buildings and retrofitting. Social housing is a crucial area, and other major issues include job creation, retraining and reskilling, job quality, social value for households, supply chain dynamics and the needs of SMEs. (See **Case studies 4–6**.)
- **Transport:** Transport is the largest source of carbon emissions, with significant employment clusters across automotive and aviation manufacturing, as well as aviation, logistics, public transport and shipping.
- **Industry:** This includes many foundation sectors such as cement, chemicals and metals, where fundamental process changes are needed for net-zero, potentially along with carbon capture and storage clusters, which could sustain and attract new jobs. The UK also hosts international mining companies with profound just transition challenges. Investors have started to engage with companies on these issues and some are taking their first steps; for example, Anglo American signed an agreement with its global unions strengthening global social dialogue in May 2021 (IndustriALL, 2021).
- **Food and agriculture**: A just transition is crucial for the future of the food and farming sectors as they rise to the challenge of the interconnected climate and nature crises. A holistic approach to sustainable farming and nature recovery is needed, one that is regionally balanced and flexible, accounting for unique regional challenges. The just transition should be a central pillar of agricultural reforms, with agroecology providing significant job creation potential in addition to its environmental benefits (see **Case study 7**).

Case study 4 | *Engaging on the just transition in social housing*

Rathbone Greenbank Investments (Greenbank) | Housing in the UK accounts for 15% of greenhouse gas emissions and requires large-scale investment to achieve reductions. Investors need to ensure that any housing associations they finance have viable decarbonisation strategies to meet the demands of the climate challenge and protect against future costs. Energy efficiency measures also reduce fuel bills, easing the financial pressure on residents, important because many living in housing association properties are among the 4.5 million people living in fuel poverty in the UK.

In the context of its engagement activities, Greenbank wrote to several registered providers of social housing, including the UK's largest social housing organisation, Clarion Housing, regarding tenant wellbeing and energy performance. In follow-up meetings, Clarion provided a good example of how it is supporting the just transition through its joined-up thinking on climate change and fuel poverty.

Clarion is focusing on the challenge of fuel poverty by prioritising energy efficiency changes to help residents with their fuel bills, which also works towards its decarbonisation targets. It also provides targeted support for those most vulnerable to fuel poverty by providing energy efficiency advice, and support in engaging with energy suppliers and accessing the Warm Homes Discount. Clarion has a 'Sustainable Development Roadmap' for its new-build properties. As part of this, zero-carbon-ready retrofit models and pilot schemes are being developed, which can be scaled to address the challenges of existing homes. Furthermore, Clarion is engaging with suppliers on reducing carbon, particularly for new construction, repairs and maintenance.

Greenbank and Clarion were early adopters of the Sustainability Reporting Standard for Social Housing, established in 2020 to address gaps in transparency, consistency and comparability of ESG reporting. Together, they urge investors and housing associations to commit to this standard and use it as a forum for collaboration and sharing of best practice to support the just transition to a low-carbon economy.

Source: Rathbone Greenbank Investments

Case study 5 | *Developing fair financing for new-builds and existing homes*

Nationwide Building Society | Nationwide began life as the Co-Operative Permanent Building Society in 1884. Building societies were formed in response to two of the challenges faced by the 'industrious classes' – poor quality housing, and lack of financing to provide an alternative. Building societies empowered ordinary people to pool their resources to buy land and build homes. In the Victorian era building society pioneers wanted to tackle the health problems caused by poor quality homes. Today, one of Nationwide's stated ambitions is that all good quality homes should be green homes, regardless of income.

Although reducing emissions from homes will be essential to meeting climate targets, Nationwide research shows that 60% of consumers do not think their energy consumption at home has much of an impact on emissions. Even when people are aware of the energy efficiency of their home, they do not take action; the complexity of the process and inability to afford the cost are cited as two major deterrents.

To address these concerns Nationwide is convening a cross-industry Green Homes Action Group, including E.ON, Rockwool and Energiesprong, to set out guiding principles for a national retrofit strategy. One of the principles is that any strategy must be fairly financed. So that no one is priced out of a good-quality green home, the Group proposes that government set aside a substantial amount of grant funding for those on low incomes who cannot afford to retrofit their homes, to proactively support low-income families and upgrade Britain's housing stock, ensuring the 'retrofit revolution' necessitated by net-zero is inclusive of all. Such grants should also stimulate demand (and, by extension, the supply chain) within the owner-occupier part of the market. They should be made with a long-term commitment to levels of spend so that companies in the green retrofitting supply chain can have confidence to invest.

Nationwide has earmarked £1 billion in low-interest lending to encourage people to green their homes but demand has so far been relatively low. The building society's view is that if the Government helps people through a clear retrofit strategy and some financial support, lenders will also be able to step in with financing for those who are able to pay.

Source: Nationwide Building Society

© Kevin Grieve/Unsplash

Case study 6 | *Investing against fuel poverty*

Bridges Evergreen Holdings | Bridges Evergreen Holdings, the UK's first long-term, impact-focused equity fund, is an investor in Agility Eco Services Ltd, which runs several affordable warmth and retrofit services across Britain in partnership with energy suppliers and other partners in the public and third sectors, helping to tackle the challenge of cold homes.

© klevo

Since its launch in 2013, AgilityEco has grown rapidly, supporting nearly 45,000 low-income and vulnerable households in 2020/21, generating over £200 million of lifetime energy bill savings through energy efficiency measures and advice. These energy bill savings translate into an average annual saving of £543 per household, contributing considerably to reducing fuel poverty. In addition to the energy bill savings, AgilityEco's services in 2020/21 abated over 545,000 tonnes of lifetime CO_2 emissions.

Bridges Evergreen provides financial, strategic and operational support to help ambitious mission-led businesses grow and deliver more impact. It is managed by Bridges Fund Management, which has been investing in businesses that support the transition to a more inclusive and sustainable economy for nearly 20 years. Bridges Evergreen is working in partnership with AgilityEco and its senior management team to support the continued scaling of the business and so help more people out of fuel poverty.

Source: Bridges Fund Management Ltd

Case study 7 | *Banking, agriculture and beyond*

HSBC UK | Partnering with University College London, HSBC has funded a report outlining what is needed to achieve a net-zero transition in the UK's agricultural sector (UCL, 2021). It highlights the need for a just transition in which all farmers and land managers can play their role in reducing adverse environmental impacts and benefit from opportunities related to the agricultural transition. This shift will require collaboration between farmers and a range of stakeholders, including throughout the supply chain. Moving to a net-zero-aligned agricultural model can enhance resilience, also improving food security.

HSBC provides training to ensure staff can fully support their customers and that they are equipped with the latest information, including findings from HSBC's reports on sustainability. HSBC has also created a country-wide network of over 500 Sustainable Finance Ambassadors who act as local advocates of sustainability and sustainable finance. The ambassadors are provided with a bespoke training programme and an opportunity to gain external accreditation in sustainable finance.

Source: HSBC UK

© Markus Spiske/Unsplash

3. Financing place-based just transitions

After first examining the need to connect net-zero and regional rebalancing across Britain, this chapter sets out the agenda for financing place-based just transitions. It looks at emerging practice among banks and investors, focusing on the critical needs of SMEs and highlighting the system innovations that are needed to help close the gap between the demand for place-based finance and its supply.

Bringing together the net-zero and levelling-up agendas

A key test of how net-zero investment can support a just transition is how capital is delivered at the local level. This is a crucial dimension of the third recommendation for financial sector action, capital allocation (**see Box 1.1**).

The net-zero transition has a profound geographical dimension and will play out differently across the country, which makes a differentiated place-based approach essential. In addition, the UK has some of the most significant regional inequalities in Europe, with high output gaps across the country (Resolution Foundation and Centre for Economic Performance, 2021).

To give a sense of the scale of the challenge, **Table 3.1** shows the parliamentary constituencies in the top 10% for multiple deprivation (i.e. the most deprived) and ranks them by the proportion of occupations experiencing higher demand or requiring upskilling in the transition. The West Midlands, Scotland, and Yorkshire and the Humber account for nine of these.

Table 3.1. Estimated transition impacts on jobs in the UK's most deprived constituencies

Parliamentary constituency	Region	New and in-demand jobs generated by transition	Jobs requiring upskilling	New and in-demand jobs (% of current employment)	Jobs requiring upskilling (% of current employment)
Bradford South	Yorkshire and the Humber	6,024	5,431	16%	15%
Kingston upon Hull East	Yorkshire and the Humber	7,265	5,761	18%	14%
West Bromwich West	West Midlands	7,414	7,001	15%	14%
Airdrie and Shotts	Scotland	3,874	4,125	13%	14%
Wolverhampton South East	West Midlands	4,641	4,085	15%	14%
Glasgow North East	Scotland	4,754	4,993	12%	13%
Birmingham, Erdington	West Midlands	4,820	4,429	14%	13%
Birmingham, Yardley	West Midlands	4,689	4,452	13%	13%
Barking	London	4,081	4,484	12%	13%
Glasgow East	Scotland	4,380	4,418	13%	13%

Note: The underlying methodology for the jobs assessment is drawn from Robins et al. (2019).

Source: Robins et al. (2020), using data on deprivation by local authority from Abel et al. (2016) to account for differences between national Indexes of Multiple Deprivation.

On average, Robins et al. (2020) estimate that around 14.2% of the jobs in these 10 constituencies will be in higher demand in the transition, substantially above the national average of 10.3%. Alongside this, an average of 13.5% of jobs in these areas will require upskilling, which is likewise higher than the 10.5% national average (Sudmant et al., 2021). The Just Transition Jobs Tracker provides similar data by combined authority, country, local authority (county and district), local enterprise partnership, town/city, metropolitan county, parliamentary constituency and Scottish parliamentary constituency.

Across government, business, finance and wider society, there is a clear recognition that the net-zero transition should not deepen these inequalities, but consciously broaden regional opportunities and proactively support places vulnerable to the shift from a high-carbon to net-zero economy. Here, the just transition most explicitly connects the Government's net-zero plans with its 'levelling up' agenda. Net-zero and 'levelling up' need to be brought together so that greening the economy also supports the regeneration and prosperity that reduces deep-rooted inequalities. The establishment of the UK Infrastructure Bank directly responds to this twin need to connect net-zero with local economic development. It was also a central principle of the Net Zero Strategy which suggested the Government would "also take a place-based approach to net zero, working with local government to ensure that all local areas have the capability and capacity for net zero delivery as we level up the country" (HM Government, 2021b).

The agenda for place-based finance

A growing proportion of the UK's financial system is now committed to delivering net-zero. As well as decarbonising investment and banking portfolios, the just transition translates these assets into real investment flows that serve the needs and ambitions of localities and regions across the UK. In one sense, there is no shortage of local capital to invest in climate action; by one estimate, there is around £4 billion of investable wealth per 100,000 people in the UK (PCAN, 2020). However, the bulk of this asset base flows into funds and markets outside of the communities in which the investor or saver lives.

Closing the gap between place-based needs and financial flows involves addressing several critical priorities, including:

- Enabling places to articulate the financing needs to deliver climate emergency commitments.
- Developing an explicit place-based dimension as part of UK financial institutions' net-zero strategies.
- Deploying the capital and expertise of public financial institutions such as the British Business Bank and the UK Infrastructure Bank to crowd-in private capital for local projects and programmes.
- Building the capacity of local and regional authorities to identify investable climate projects and attract and deploy finance to deliver on their climate strategies in all areas, urban and rural.

- Supporting the development of anchor financial institutions for projects and places where there is currently no or only little supply of finance, championing place-based financing and providing project preparation support.
- Tapping the demand from local citizens and the wider investor base for place-based climate solutions.

Other actors beyond the finance sector also have a critical role to play. An important precondition for finance to effectively deliver place-based climate action will be for local authorities to articulate their specific needs clearly, which will require support from research institutions and collaboration between local authorities. Universities also have a crucial role in ensuring their teaching is fit for the new green economy and supporting the upskilling and reskilling of workers. Financial institutions can, in turn, help support these activities.

Emerging practice across the financial spectrum

While the challenges of place-based finance are considerable, the Alliance has identified a number of first steps undertaken by different players within the system. These will need to be scaled up to deliver a just transition in the UK. The relevant groups of actors are described below, alongside first initiatives highlighted in **Case studies 8–15**.

Public finance: the UK Infrastructure Bank

Nationally, the UK Infrastructure Bank must play a pivotal role given its dual objectives of net-zero and local economic development. These should be seen as being connected by the just transition, rather than being separate goals. Partnering with local government and financial institutions already active in place-based financing will be a crucial component for the UKIB to effectively deliver both of its objectives and is part of the core mission of the Bank. In its Net Zero Local Leadership communique, UK100[2] highlighted the key role of the UKIB "to work with local, city and regional authorities to develop investable proposals for place-based Net Zero projects and programmes". It adds that "the Bank should provide development capital and leverage additional private investment to kickstart local energy schemes that are at too early a stage for private finance" (UK100, 2021).

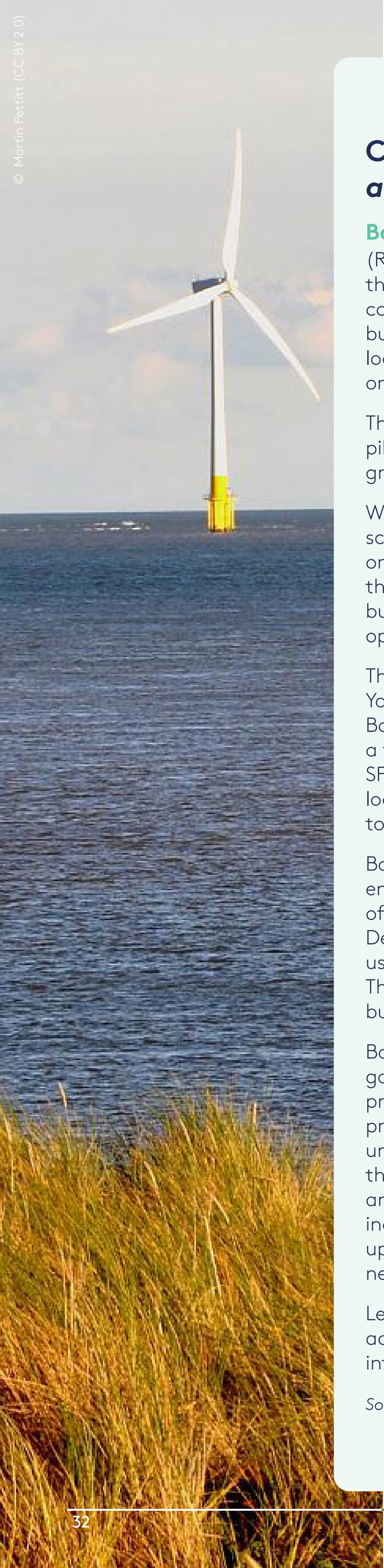
"An important precondition for finance to effectively deliver place-based climate action will be for local authorities to articulate their specific needs clearly."

Commercial and investment banks

Commercial banks are in a position to include a strong place-based dimension in their net-zero strategies, evolving new approaches to serve regions through the just transition. It will be important that they work with local authority clients to explore how to access finance for the investments needed for critical infrastructure, workers and skills, local businesses, households, and the public sector itself. Barclays provides one example of how banks can respond to this agenda – see **Case study 8**.

Beyond commercial banks, investment banks can also play their part in supporting the just transition. As a result of the rise in investor demand for ESG-related products, public sector borrowers have access to cost-effective debt that brings

2 "UK100 is a network of local government leaders, which seeks to devise and implement plans for the transition to clean energy that are ambitious, cost effective and take the public and business with them" (**www.uk100.org/about**).



Case study 8 | *Supporting local business and addressing the skills gap*

Barclays | Barclays' Rebuilding Thriving Local Economies (RTLE) programme is a five-year initiative, launched in 2018, that aims to boost local economies across the country through cooperation with local authorities, academics, schools and business groups. Tailoring growth plans for each pilot area towards local needs, for some areas this includes support to capitalise on the opportunities arising from the low-carbon transition.

The coastal community of Great Yarmouth was announced as a RTLE pilot area in March 2021; its large offshore wind sector represents a growing industry key to the decarbonisation of the UK's energy supply.

While in the early stages of this pilot, Barclays has begun to scope out ways to help facilitate a just transition, focussing on two areas – supporting local businesses and addressing the local skills gap. Barclays will work directly with businesses, business groups and local business leadership to help them find opportunities for growth and job creation from the transition.

The RTLE programme is exploring ways of supporting Great Yarmouth's offshore wind sector, port and marine companies. Barclays Eagle Labs are well-positioned to support this, having a track record in Portsmouth and Bournemouth through Project SPEED. Barclays has delivered workshops on the Internet of Things for local businesses in these locations on how to use smart technology to reduce a port ecosystem's carbon footprint and save money.

Barclays plans to offer educational webinars to upskill local entrepreneurs in other sectors, too. Barclays Eagle Labs already offers sessions on sustainability, notably the Sustainable Development Goals, to help business owners identify ways of using sustainability as a tool to strengthen their businesses. These free events also provide a platform to connect people and businesses, encouraging the growth of local support networks.

Barclays intends to deliver activities to fill the skills and training gaps identified through research by working with education providers, business groups and employment agencies. Its LifeSkills programme in schools and colleges is designed to help young people understand the skills for the world of work, recognise and develop their core, transferable skills, understand routes to employment, and develop their CVs. In Great Yarmouth, these sessions will include tailored content on the offshore wind sector. This helps upskill the future workforce of the local industry, ensuring the next generation of workers is not left behind in the transition.

Lessons from this pilot will apply to other coastal communities across the UK and Barclays plans on sharing further information and insight about the pilot as it progresses.

Source: Barclays

environmental and social benefits. For example, in the social housing sector, ESG-linked bonds are issued with the support of investment banks, resulting in better pricing compared to alternative financing and improved engagement with investors.

Institutional investors

Institutional investors can play an important role in financing local climate action with positive social impact, not least through real assets and private markets: infrastructure, real estate, private equity and private debt. Through their inherent ties to workers and the long-term investment horizon, pension funds can be key actors and it is in the interest of beneficiaries to increase future-proof investments in their regions while creating positive financial returns.

Work by the Impact Investing Institute has highlighted the potential for pension funds to develop explicit place-based strategies (see **Case study 9**). Increasing engagement between beneficiaries and pension funds could foster support for local investment. Strong collaborative relationships between pension funds and local governments will also be essential to ensure investments align with local development plans and specific needs. A minimum allocation to place-based investments from pension funds could be a useful tool to spur the local investments needed for a swift, fair and inclusive transition.

Individual asset managers are also exploring how to bring decarbonisation together with building a more equitable society at the local level, as illustrated by Legal & General Investment Management's work in its real assets portfolio (**Case study 10**).

Case study 9 | *Scaling up investment for place-based impact*

Impact Investing Institute | Place-based impact investments are made to yield financial, social and/or environmental returns that focus on addressing the needs of specific places to enhance local economic resilience, prosperity and sustainable development. Place-based impact investing addresses five main sectors: SME finance, social housing, clean energy, infrastructure and regeneration. Increasing the flow of institutional capital and broader financial services into meeting these objectives, within these sectors, will deliver just transition outcomes for local areas around the country.

A recent report by The Good Economy, the Impact Investing Institute and Pensions for Purpose (2021) finds that the total value of local government pension scheme (LGPS) investment in place-based impact investing in key sectors is currently only £7.7 billion, which equates to just 2.4% of the total value of LGPS investments – and only £3.2 billion (1% of the LGPS) is invested within the UK. If all LGPS funds allocated 5% of their assets under management to local investing, this would unlock £16 billion for local investing, more than matching public investment in the £4.8 billion Levelling Up Fund and associated government initiatives. The Greater Manchester Pension Fund has allocated 5% of its portfolio for impact investments in the North West of England. The next step will be to pilot the reporting framework set out in the report to scale up reporting on place-based impact performance from investors.

Source: Impact Investing Institute

Case study 10 | *Supporting the just transition through place-based impact*

Legal & General Investment Management | LGIM Real Assets has committed to achieving net-zero carbon by 2050 or sooner across its real estate equity portfolio and believes that its decarbonisation efforts will need to link intrinsically to creating a more equitable society. LGIM takes a place-based approach to investing in and managing its property assets. It believes the impact of its investments should consider the specific needs of the local community.

LGIM has developed a new vision for its retail assets and recently commenced a pilot place-based impact project in Poole, centred on the Dolphin Shopping Centre. This model is part of LGIM's long-term goal to create a community hub in the centre of Poole, the aim of which is to engage and support residents and contribute to a resilient, prosperous and sustainable local economy. Support will be offered to help set up social enterprises tackling climate change and generating positive environmental impact in areas such as recycling and active green transport.

Finally, LGIM is establishing an innovative programme to provide interest-free loans through a dedicated impact investment fund aligned with the objectives of the pilot impact project, with the aim of driving forward a circular economy that will help support a just transition and equitable community in the town.

LGIM's longer-term vision is to replicate and adapt its place-based impact model across its UK portfolio to catalyse the growth of local businesses and jobs, improve community resilience and create assets that are fit for the future.

Source: Legal & General Investment Management

Place-based financial innovation

In countries such as France, Germany, Sweden and the USA, issuance of green bonds by municipal and state authorities has been an important part of growth in local climate finance. The UK has historically lacked a developed municipal bond market, although the Municipal Bond Agency is now working to fill this gap (Cockell, 2020). There are lessons to be learnt from other jurisdictions that have successfully linked green bonds to well-established regional public banks and a focus on the municipal bonds market. Financial innovation is also emerging, using efficient crowdfunding techniques to provide cost-effective financing for local authorities for climate action (see **Case study 11**).

As well as innovations to deliver traditional financial instruments such as municipal bonds, the transition can generate new place-based assets, notably around heat networks with the potential to serve low-income households, as illustrated by Kensa in **Case study 12.**

Case study 11 | *Local climate bonds*

Abundance and the Green Finance Institute | Abundance has applied its crowdfunding experience to introduce municipal green bonds in the UK. These Community Municipal Investments (CMIs) enable local authorities to fund sustainable projects at a low cost by enabling retail investors to back projects with low minimum investment thresholds. The first CMI in the UK enabled West Berkshire Council to install rooftop solar panels at council-owned sites, advancing it on its path to become carbon-neutral by 2030 (Abundance, 2020). Tapping residents' interest in tackling the climate emergency is an important dimension of the CMIs, and 22% of the West Berkshire bond was subscribed by local investors. These mechanisms also enable investors elsewhere in the UK to channel capital, thus broadening the pool of capital.

With the Green Finance Institute, Abundance launched the Local Climate Bond campaign in July 2021 to raise awareness and support UK councils in issuing CMIs to drive their sustainability aspirations. In the run-up to and beyond COP26, the campaign will target all 404 local authorities in the UK, over 70% of which have declared a climate emergency. Abundance has calculated that these bonds could raise as much as £3 billion if issued by the 343 local authorities in England (GFI, 2021).

Source: Abundance and GFI

Case study 12 | *Developing a new asset class in the heat sector*

Kensa | Kensa is a heat pump manufacturer, 35%-owned by Legal & General. Focused on net-zero heating solutions, particularly for social housing, the Cornwall-based business creates jobs in a relatively deprived part of the UK.

Given the scale of the challenge in moving the country's heating sources away from fossil fuels, Kensa believes a 'house-by-house' approach to heat pump deployment will not be optimal. Instead, it advocates for introducing ground source heat pumps (GSHPs) on a 'street-by-street' basis using a 'split ownership' model. The approach envisages the ambient loop infrastructure (outside the home) and the heat pump and related equipment (within the home) to be funded and owned separately, reducing costs for householders. The approach mimics long-established arrangements in the gas sector, where householders do not overtly pay for the underground infrastructure – with the ambient loops becoming the 21st century equivalent of the gas network.

In a flagship project for the London Borough of Enfield, Kensa Contracting installed over 400 Shoebox heat pumps into individual apartments in eight tower blocks. Bill savings were around 65% and will likely increase as tenants switch to time-of-use tariffs to allow their hot water cylinders to be recharged when electricity is lower cost. Carbon emissions declined by a similar amount and will drop even further due to the continuing decarbonisation of the electricity grid.

Kensa Utilities has secured a substantial grant to deliver 500 GSHP installations in Cornwall, showcasing the split ownership approach. Installations will take place in 2021 and 2022 in an off-gas village suffering from significant levels of fuel poverty. Beyond creating jobs in installing heat pumps, Kensa also provides employment and training as one of the only UK-based manufacturers of GSHPs.

Source: Kensa

Place-based priority: financing a just transition for SMEs

Small and medium-sized enterprises lie at the heart of local economies, generating employment, economic prosperity, innovation and social cohesion, especially in deindustrialised, rural and semi rural parts of the country. Careful consideration is needed of how the transition to net-zero impacts SMEs, how they can contribute, and how to ensure that no local businesses are 'left behind'. The SME sector is dispersed, diverse and complex, and often unable to fully engage in sustainability, energy transition or climate risk issues. This diversity and the resulting different transitions need to be better understood.

In the transition, SMEs can be broadly segmented into three groups, each of which will need different forms of finance and support:

- **Green solution providers** range from innovative technology companies to installation businesses (e.g. housing retrofit).
- **Green adopters** cover all sectors and require advice and finance to decarbonise their operations and services (e.g. upgrading buildings and logistics).
- **Transition-exposed** includes SMEs operating in high-carbon sectors, supply chains and regions. Such SMEs are likely to be hardest hit by the transition and require most help to achieve net-zero in a socially equitable, resilience-building way.

Awareness of the net-zero transition varies greatly between different SMEs. Some are already acting on and realising the opportunities of transition, including making a clear commitment to positive social impact in the transition. This is illustrated in the example of Riding Sunbeams, a new company with investment from Friends Provident Foundation that has placed the just transition in its articles of association (**Case study 13**).

Many SMEs would like to take action but do not know where to start. Others are reluctant, due to resource constraints, lack of knowledge or other reasons. Some may have been put off by changes in government policy that undermine the business case (for example, over greening the housing stock).

Many SMEs are already in a precarious position and additional environmental requirements could have an unintended consequence of marginalising them further if not implemented with care and attention.

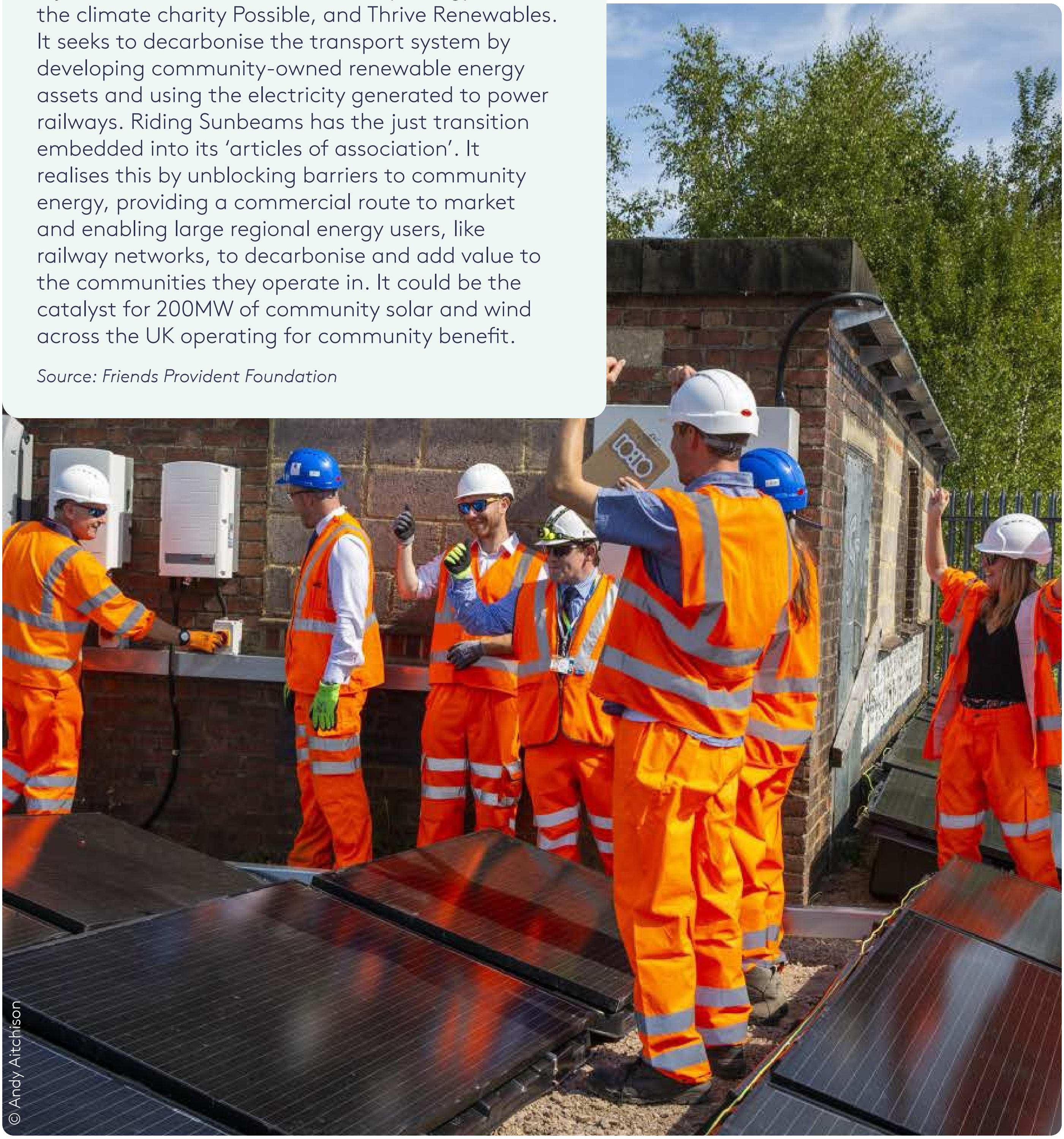
Crossing this 'valley of frustration' between awareness of the climate imperative and delivering it in time- and resource-poor small businesses is a critical task. This means that engaging the SME sector around net-zero and the just transition needs to be highly practical, ensuring that businesses can stay competitive and are not disadvantaged unfairly. Providing SMEs with incentives to take steps towards reducing emissions, robust information and standardised approaches to measure and report climate indicators will be essential (Bankers for NetZero, 2021).

Case study 13 | *Financing SMEs in community energy*

Friends Provident Foundation | Friends Provident Foundation (FPF) has committed 10% of its endowment to impact investments that generate powerful social benefits, such as community-owned renewable energy. As well as contributing to decarbonisation, this brings place-based social and economic benefits such as creating community assets and income streams for community benefit.

In 2020, FPF invested in equity in Riding Sunbeams, a joint venture between Community Energy South, the climate charity Possible, and Thrive Renewables. It seeks to decarbonise the transport system by developing community-owned renewable energy assets and using the electricity generated to power railways. Riding Sunbeams has the just transition embedded into its 'articles of association'. It realises this by unblocking barriers to community energy, providing a commercial route to market and enabling large regional energy users, like railway networks, to decarbonise and add value to the communities they operate in. It could be the catalyst for 200MW of community solar and wind across the UK operating for community benefit.

Source: Friends Provident Foundation



To address these challenges, key areas for financial institutions to support SMEs in the net-zero transition include:

- **Knowledge building:** SMEs need better access to business, financial and legal advice to be able to invest in decarbonisation effectively and be persuaded of the commercial importance and of becoming more sustainable and the negative consequences of not doing so. It is important to build a broad understanding that just transition and net-zero action carry significant benefits, for example in terms of growth opportunities and building business resilience. Government and the finance sector have a key role to play in providing accessible information on the net-zero transition and related social impacts to SMEs. Financial institutions can also facilitate introductions to providers of sustainability solutions, other businesses and wider networks to help with awareness-raising.
- **Financial capacity:** Some SMEs may need particular support as they seek to overcome the additional financial challenges created by COVID-19. There are opportunities to explore linking the refinancing of COVID-19 loans with net-zero and the just transition, making sure that these initiatives do not land as 'sticks' rather than 'carrots', to encourage sustainability efforts.
- **Supply chain management:** It is critically important that delivery of corporate net-zero plans are proportionate and do not place unnecessary pressure on their suppliers (for example, through a plethora of different carbon calculators). One route financial institutions can take to support a just transition for SMEs is through attention to the supply chains of the corporates that they invest in or lend to, as discussed in the previous section.
- **Place-based financing:** SMEs can also work with Community Development Finance Institutions (CDFIs), which take a local, relationship-based approach to lending and, given their size and regulation, have the ability to very effectively respond to place-based needs (see **Case study 14**). A recent report commissioned by the All-Party Parliamentary Group on Fair Business Banking also shows strong evidence that regional mutual banks can provide credit to SMEs where other models struggle (Ahern and Bovill Rose, 2021). Being purpose-led rather than primarily shareholder-focused gives a structural and governance advantage for aligning with just transition outcomes to such institutions. Effective partnerships can also be formed with local public sector anchor institutions such as local authorities, universities and NHS Trusts.

SMEs need practical financing measures across the spectrum of capital that support them in becoming more sustainable. The diverse financing tools and strategies include:

- **Sector-wide awareness-raising** to educate SMEs on what the net-zero transition will mean for them and the measures they can take. Both government and financial institutions have a key role to play in filling the information gap.
- **Government finance** to provide grant support, investment and risk guarantees, for example through the British Business Bank. Incentives such as Social Investment

Case study 14 | *The role of community development finance institutions*

Responsible Finance | Many viable enterprises are excluded from commercial bank finance. An innovative business that helps SMEs reduce their carbon footprint might not get a bank loan to grow if it is new and has a limited trading history or no security for a loan. Community development finance institutions (CDFIs) lend around £200 million annually to such businesses that are creditworthy but excluded or under-served by mainstream lenders. Ninety per cent of their customers have previously been declined by a mainstream lender and they lend disproportionately more to under-served groups, such as BAME-led and women-led businesses and in areas of higher deprivation, including areas exposed to the zero-carbon transition. Sixty-three per cent of CDFI loans are made in the Midlands, Yorkshire and the Humber and Scotland, areas identified in this report as particularly vulnerable to negative impacts from the transition.

COVID-19 has shown that low-income communities are at most risk from and disproportionately affected by macroeconomic changes. CDFIs have a unique ability to grow businesses and create jobs in these communities because of their local, relationship-based approach to lending. CDFIs are already supporting 13,000 new jobs for every £100 million lent (Responsible Finance, 2021), and lend to sustainable and innovative SMEs, social enterprises and community energy projects.

One beneficiary business is CorkSol. Based in West Yorkshire and founded in 2017, it supplies a sustainable, natural cork render for new-build and renovation projects. The firm needed to build and train a network of installers across the UK but as a new business was unable to secure financial support from high street banks. A £75,000 start-up loan from the Business Enterprise Fund enabled CorkSol to open its training centre in October 2017. It has also been tasked by Innovate UK to develop a new internal insulation coating with enhanced thermal properties to protect uninsulated homes against heat loss and damp. This will reduce energy use, addressing fuel poverty and fighting respiratory problems.

Several CDFIs lend to early-stage community energy projects, enabling them to get through the planning and building stages before they can generate income. Social Investment Scotland's loan to a wind farm in the Outer Hebrides completed the funding necessary to build it. Through the income generated from the wind power, the trust that owns it has since put over £1 million into local social, cultural, educational and other environmental projects.

Finance through the Key Fund enabled Yorkshire's first community-owned hydroelectric scheme, Settle Hydro, to be built 10 years ago. The scheme uses the energy generated to power 50 homes. Any surplus revenue from selling the hydroelectricity is invested in regenerating the local economy. Settle Hydro went on to advise over 400 communities globally, multiplying its impact.

CDFIs have developed a model of in-depth analysis, assessing future viability, flexible finance and advice. They can use their infrastructure to support many more sustainable businesses and projects and deliver specialist sustainability advice to SMEs and social enterprises alongside finance. They can also partner with mainstream banks or be part of a blended finance solution to multiply and scale up their impact.

Source: Responsible Finance

"There is a lack of a clear field of practice in place-based climate finance with clarity on what it is and how it can be effectively and efficiently delivered to meet local needs."

Tax Relief are also helpful levers. Government-backed venture capital funds for climate action can support SME cleantech innovation (Owen, 2021).

- **Regional public banks** as important players in the levelling up and place-based finance agendas.
- **Community development and social finance** to provide funding while seeking positive social returns in critical regions during the transition, including impact investors.
- **Commercial banking financial services** to provide tailored products, place-based financing and new blended finance initiatives. Banks also have a key role in guiding SMEs in the transition through relationship management, and through improving access to sustainability-linked loans for SMEs (Bankers for NetZero and Green Finance Institute, 2021).
- **Marketplace finance** to provide debt and equity.
- **Institutional investors** to provide debt and equity, potentially with the help of pooling mechanisms that aim to increase ticket sizes to levels attractive to investors.

Partnerships between the above actors and sources of finance can be a powerful lever to increase impact and scale-up funding.

Growing place-based finance: sharing knowledge and systemic innovation

These promising signs of place-based financing solutions have yet to achieve scale. There is a lack of a clear field of practice in place-based climate finance with clarity on what it is and how it can be effectively and efficiently delivered to meet local needs. One part of this is the lack of a trusted source of information that aggregates and shares place-based finance approaches, displaying various tools to accelerate climate action at the local level. To help close this gap, the Alliance is developing the Place-based Climate Finance Toolkit.

Beyond information, there are more systemic barriers, notably the absence of markets to connect demand and supply for sustainable finance at a local level. Financial institutions seek net-zero investment opportunities but complain of a lack of investable projects and programmes of the right scale and form. Local authorities and other place-based actors have a wealth of potential projects but find it difficult to develop and aggregate these to attract finance. A middle layer is needed that focuses on bridging the gaps between macro-frameworks and micro-development.

To an extent, leading cities and regions are starting to step forward to develop local financing facilities and platforms to close this gap, notably Bristol, Edinburgh and South East Scotland City Region, Glasgow City Region, London, and the West Midlands Combined Authority. Learning from experience, the Place-based Climate Action Network (PCAN) has developed a proposal for a network of local climate finance hubs. These can mobilise finance for local climate action in ways that also deliver inclusive development for workers and communities (**Case study 15**).

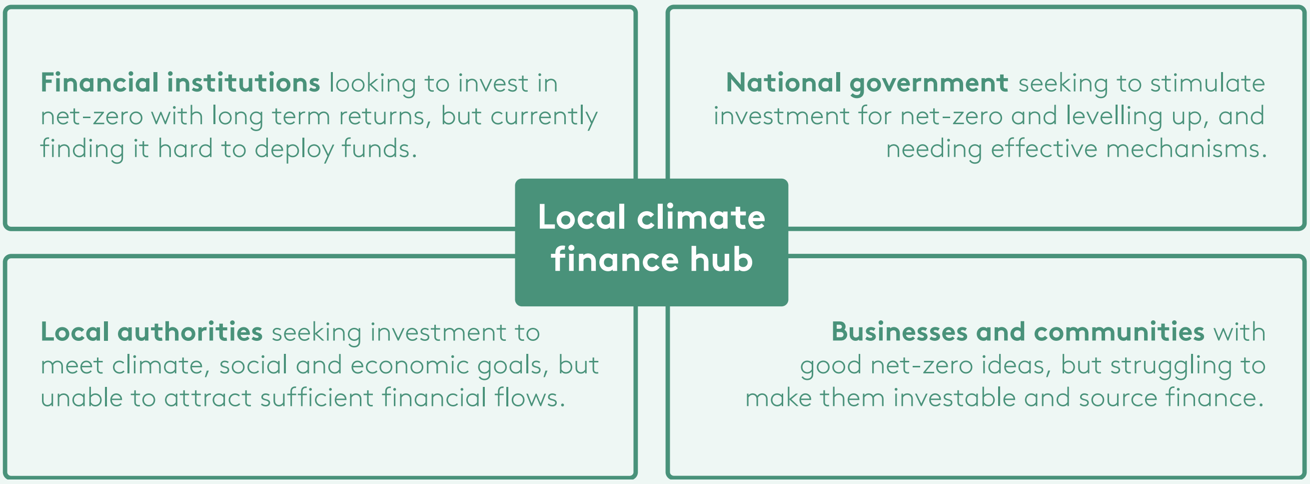
Case study 15 | *Developing local climate finance hubs*

The Place-based Climate Action Network (PCAN) | Many local communities, cities and regions across the UK have made climate emergency declarations and pledged to achieve climate neutrality by mid-century – and some much earlier. The Place-based Climate Action Network (PCAN) was established in 2019 to bring about transformative change 'on the ground'. It has set up Climate Commissions in Belfast, Leeds and Edinburgh and a Finance Platform.

Drawing on its experience to date, PCAN has developed a proposal for a network of Local Climate Finance Hubs (Brogan et al., 2021).

The hubs aim to address the needs of four key audiences:

Stakeholders of local climate finance hubs



These hubs would have a catalytic role and would be locally embedded to develop and maintain a pipeline of high-quality, high-impact projects informed by a deep knowledge of local opportunities, needs, capabilities and capacities, and the benefits of place-based projects.

The role of local climate finance hubs

A network of such hubs across the country would ensure that they are centrally connected to expertise, knowledge and networks for finance and investment, not least to institutions such as the UK Infrastructure Bank and major financial institutions.

Source: PCAN

4. Policy frameworks for systemic change

The need for ambitious policy action for the just transition

Efforts by financial institutions to support a just transition to net-zero are getting underway, but they remain relatively new and small-scale. As well as intensified efforts by financial institutions themselves, delivering systemic change requires strong policy frameworks. This is the Alliance's fourth recommended area for financial sector action on the just transition: policy dialogue, encouraging government to provide the incentives, rules and blended finance to scale up investment in net-zero activities with positive social impacts for workers, communities and consumers.

The importance of the just transition as a key element of the UK's policy framework for net-zero has gained increasing recognition. For example, the Climate Change Committee (CCC)'s sixth Carbon Budget concludes that "only a transition that is perceived as fair, and where people, places and communities are well-supported, will succeed", recommending that "a strategy for a just transition is required" (Climate Change Committee, 2020).

In its analysis of the just transition challenge, the CCC (2020) has highlighted the potential for higher overall employment and the shift in jobs in key sectors (notably for oil and gas, automotive and aviation, livestock and dairy). It has also confirmed the strong place-based dimensions, with investment targeted towards areas most likely to be impacted. Regarding measures to support a just transition, the CCC has underlined the importance of planning (unplanned transitions tend to be unjust transitions) and public engagement, so that people have a sense of ownership in the net-zero project. Critically, equity should reside at the heart of climate policies, which need to be systematically screened for their impact on vulnerable and excluded groups and for the opportunity to address existing inequalities. The UK could be at the forefront of addressing fairness in the global transition.

Following a recommendation from the CCC, the Treasury established the Net Zero Review to analyse how "the costs of achieving net-zero emissions are distributed and the benefits returned". The Review's Final Report found that "UK climate action could provide a boost to the economy" and also generate co-benefits (such as improved air quality (HM Treasury, 2021c). The report also highlighted that "the costs and benefits of the transition will pass through to households" in terms of jobs, consumer prices and asset values and that these costs and benefits will "not fall evenly across households."

The Alliance has identified two sets of recommendations for action at the UK level to build the policy framework to support a just transition, discussed below: the first cluster focuses on placing the just transition at the heart of net-zero policies; the second addresses financial policy design for a just transition. These are echoed in the findings of the inquiry on responsible investment and the just transition conducted by the All-Party Parliamentary Group for Local Authority Pension Funds (**Case study 16**).

Case study 16 | *Ensuring responsible investment for a just transition to net-zero*

All-Party Parliamentary Group for Local Authority Pension Funds | Taken together, local government pension funds represent the largest pension scheme in the UK. The Local Authority Pension Fund Forum encompasses 84 of these funds, with assets over £300 billion. The Forum has been taking action on the climate crisis for a long time, recognising that the environmental impacts of companies and how they treat their workers matters for long-term returns. In response to the growing recognition of the social dimension of net-zero, the All-Party Parliamentary Group for Local Authority Pension Funds launched an inquiry in January 2021 to explore how responsible investment could contribute to a just transition. The inquiry received inputs from investors, industry representatives, trade unions, civil society, academia and others. Based on this, the inquiry report makes clear that the just transition is financially material for investors and that part of a pension fund's fiduciary duty is to consider the financial implications of climate change and with it the need for a just transition. Not fully considering a just transition poses a material risk to investors (APPG LAPF, 2021).

The inquiry proposes a series of actions by investors to mitigate the financially material risks of an unjust transition. These echo the strategic recommendations for financial institutions contained in this report and include:

- Recognising the just transition challenge
- Understanding the risks and opportunities
- Setting clear expectations of companies
- Engaging companies on just transition risks
- Considering just transition risks and opportunities in capital allocation
- Defining measurable objectives and reporting impact
- Engaging policymakers.

The inquiry stressed that pension funds need the Government to embed concrete actions to deliver the just transition in national policies and plans. To make this happen, the inquiry calls for a set of policy measures from the UK government, including:

- Making a clear and comprehensive just transition commitment
- Formulating a just transition plan
- Making company disclosure on social risks mandatory
- Identifying investment opportunities, including the issuance of a Green Sovereign Bond with a focus on social co-benefits
- Crowding in private finance
- Establishing a UK-wide Just Transition Commission.

The above measures are fully aligned with the recommendations in this report.

Source: All-Party Parliamentary Group for Local Authority Pension Funds

Recommendations – place the just transition at the heart of net-zero policies

i) Make the just transition a core element of the implementation of the Government's Net Zero Strategy

In its *Progress Report to Parliament* of June 2021, the CCC made clear that social risks and opportunities related to climate action need to be considered in the Net Zero Strategy. The CCC called for easy access to information and funding for low-carbon solutions for the public, ensuring fairness in funding the transition, and strengthening the role for local delivery (CCC, 2021).

The Government's Net Zero Strategy makes clear the links between the country's climate goals and levelling up. As the Government implements the Strategy, it will be important to make delivering a just transition a core aspect. Delivering this will require credible, detailed policies that ensure the transition maximises social opportunities and leaves no one behind. The rationale for doing so would be two-fold:

First, the just transition is a question of principle, to ensure that net-zero is guided by a requirement for fairness and justice. (Incidentally, this need emerged strongly too from the Climate Assembly UK, a citizens' assembly.) This fits with one of the four key principles of the Net Zero Strategy to "ensure that the most vulnerable are protected through Government support."

Second, the just transition is also an instrumental imperative to build broad-based public backing for the rapid and potentially disruptive changes that will be needed. This would build on the importance this government attaches to making net-zero a driver of more and better-quality jobs, revitalised communities and reduced inequality. This has positive synergies with the levelling-up agenda and would help build confidence among those concerned about the impact that the transition could have on their livelihoods and communities.

ii) Implement the recommendations of the Green Jobs Taskforce

The Green Jobs Taskforce forms part of the Government's *Ten Point Plan for a Green Industrial Revolution*, 'building back better' via supporting green jobs and accelerating the UK's path to net-zero (HM Government, 2020). It has played an important role in informing the Government's planned action steps to achieve net-zero. In July 2021, the Taskforce published its action plan, making recommendations in three areas:

- Driving investment in net-zero to support good quality green jobs in the UK.
- Building pathways into good green careers.
- A just transition for workers in the high carbon economy (Green Jobs Taskforce, 2021).

These recommendations need to be adopted and implemented by government, to help close the green skills gap and build the human capital needed by investors to generate long-term returns. The Net Zero Strategy outlined the Government's first steps to addressing the recommendations of the Taskforce. Initiatives include the North Sea

Transition Deal, where "the sector, government, and unions will work together … to deliver the skills, innovation, and new infrastructure required" (HM Government, 2021b). A UK-wide body is also needed to drive forward and coordinate the workforce transition (such as a Just Transition Commission, as described below). Financial institutions can also help make these recommendations a reality by including the priorities of good green jobs and pathways for workers in the high carbon economy in their engagement with the companies they own or lend to (see Chapter 2), and through place-based partnerships (see Chapter 3).

iii) Establish a Just Transition Commission

To pull the different strands of the just transition together, we recommend that the Government establish a Just Transition Commission to support the implementation of the Net Zero Strategy. The UK as a whole should establish a similar multi-stakeholder Just Transition Commission to advise on how the Government could implement its commitment to the just transition, as the Grantham Research Institute and partners have recommended in previous work (Robins et al., 2019; 2020). Such a Commission could provide expert guidance to the whole of government on how to deliver fairness on the ground, maximise the social opportunities of net-zero measures and protect those vulnerable to change.

The Commission could start by developing common definitions and sector priorities for the just transition, which would help mobilise private capital to make this imperative operational (UKSIF, 2021). To do this, the Commission could comprise individuals from business, trade unions, finance, local and devolved government, civil society and academia, and would add real value if it reflected the regional diversity of the UK so that place-based needs were front and centre. Given the great regional diversity in the UK, a national Commission would need to understand regional differences and challenges and be flexible enough to take these into account. Launching the Commission would be another example of UK leadership, signalling particularly to developing countries how net-zero can be a driver of social and economic success. For this, the UK Government can draw inspiration from the recommendations of Scotland's dedicated Just Transition Commission, which has led to real results in terms of government policy (see **Box 4.1**).

Recommendations – Design financial policies to support the just transition

i) Incorporate fairness and social considerations into fiscal policy for climate action

Climate change is a market failure as the costs of carbon pollution are not included in prices of goods and services. Policy reforms to correct these prices are essential, including changes to taxes and specific carbon pricing instruments. The success of these measures will largely depend on the full integration of principles of fairness and social justice into their design, as well as clear communication to the public to ensure that the transition is designed and perceived in a way that is fair for all. For example, gas, electricity and other heating costs – which will be affected by carbon pricing – are two-and-a-

Box 4.1. Lessons from Scotland's Just Transition Commission

Scotland established its Just Transition Commission in 2019 and presented its conclusions in early 2021 (Just Transition Commission, 2021). The Commission sets out just transition opportunities and challenges as well as practical next steps for Scotland to deliver climate neutrality in a way that is fair and inclusive. Key messages include the need to pursue an orderly transition to net-zero that benefits people, managing the skills gap for people to prosper, empowering communities, and fairly sharing the benefits and costs of climate action.

The Commission has made 24 recommendations, including the following targeted at finance:

- Public sector pension funds and business support should ensure alignment with the just transition.
- New funding methods should be developed directing funding to local projects.
- The public sector should use targeted funding to build up resilient local supply chains.
- All public funding for climate action should be conditional on Fair Work terms.
- SMEs should be supported to invest in their workforces.
- Any added costs for consumers linked to decarbonisation should be connected to the ability to pay.

The Scottish Government has published the actions it will take alongside each of the recommendations as part of its 2021–2022 programme for government (Scottish Government, 2021). It has also published a national just transition planning framework, which will result in a set of sectoral plans, ranging from energy to agriculture and land use. It has set up a £500 million just transition fund for the North-East and Moray region, an area involved in the North Sea oil and gas industry. The Scottish Government will also consult 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 publish guiding principles to ensure that no one is left behind in the heat transition. On the financial front, the Scottish Government will launch a consultation on climate risk reporting and ESG standards for local authority pension funds and explore the potential for local climate bonds. Another tool will be the Scottish National Investment Bank, which has the just transition embedded in its mission.

half times higher as a share of spending for low-income compared with high-income households (Resolution Foundation and Centre for Economic Performance, 2021).

Some policy measures to make the transition fair and mitigate adverse distributional effects include:

- **Tailoring carbon taxes:** One way of doing this is by introducing carbon dividends. This works by recycling the proceeds of a carbon tax back to households to ensure that low-income households in particular are no worse-off than before; in some instances, they may become net beneficiaries if they receive more money back than is taken by the tax (Burke, 2021). In addition, carbon pricing can be designed to recognise the larger carbon footprint of higher-income groups (for example, through a frequent flyer levy).
- **Targeting public climate funding to reduce the social risks of transition:** This could include grants targeted at fuel-poor homes, and exemptions or targeted reliefs of additional costs based on financial standing. Vehicle scrappage schemes can also be targeted at low-income groups. As well as these

adjustments to key sectoral measures, a dedicated Just Transition fund could be considered for the UK as a whole, building on the experience in Scotland and the rest of Europe (such as the EU's experience with its Just Transition Mechanism and the proposed Social Climate Fund). A final consideration is to ensure that the just transition is reflected in the Levelling Up Fund, to support regions heavily and disproportionately impacted by the net-zero transition.

"A dedicated Just Transition fund could be considered for the UK as a whole, building on the experience in Scotland and the rest of Europe."

ii) Connect the twin objectives of the UK Infrastructure Bank in operational delivery

At the national, regional and local levels, public banks can be crucial anchor institutions in providing financing solutions that connect the environmental and social dimensions of the transition and crowd-in essential capital from the private sector. The UK Infrastructure Bank (UKIB) has two central objectives: crowding-in capital to tackle climate change and supporting regional and local economic development (HM Treasury and UKIB, 2021). The Bank could be a catalyst for ambitious just transition action by treating these as mutually beneficial aims (Szwarc et al., 2021). The UKIB's stated intention to ensure it does no significant harm to the climate through any of its investments is an important step in the right direction. It will also be crucial for the Bank to provide long-term patient capital for activities inadequately served by private capital, including areas such as project development.

iii) Harness the British Business Bank to support SMEs through a just transition to net-zero

The British Business Bank has a critical role to play in supporting SMEs to become more sustainable. Its mission is to drive sustainable growth and prosperity across the UK, and to enable the transition to a net-zero economy, by improving access to finance for smaller businesses. From 2021 the Bank has a new business objective: to support the UK's transition to a net-zero economy. Its commitment is to meet net-zero before 2050. One of the ways it will do this is by reducing the emissions-intensive activities in its portfolio and helping smaller businesses to reduce their emissions. The Bank also has an important part in raising awareness among and providing information to SMEs around the strategic benefits of integrating green and social considerations and providing practical ways forward, building understanding of how to transition to net-zero.

iv) Deliver social co-benefits through the UK's green sovereign bond programme

The Chancellor announced in the 2021 Budget that green gilts would be issued twice in 2021, with a minimum issuance of £15 billion in the financial year 2021/22 (HM Treasury, 2021a). The Government also committed to report "the contribution of green gilt spending towards social benefits such as job creation and levelling up". This is in line with the framework developed by the Grantham Research Institute, the Green Finance Institute and the Impact Investing Institute in their Green+ Gilt proposal (GRI et al., 2020). The Government launched its own Green Financing Framework in June 2021, setting out indicative social co-benefit indicators covering job creation, support for SMEs, and benefits to households in terms of energy efficiency and low-carbon housing solutions (HM Treasury and DMO, 2021).

In September 2021, the UK's inaugural green bond issue was the largest first-time issuance in the sovereign segment. As the programme develops, it can be designed to show how social co-benefits can be delivered through green bond programmes, helping to catalyse similar issuance by other public bodies, companies and localities.

v) Use the social value framework in public procurement to boost market uptake of the just transition to net-zero

The 2012 Public Services (Social Value) Act requires public bodies to 'consider' social value in the services they commission and procure. These provisions have recently been tightened and since January 2021, all central government contracts – worth a total of £49 billion a year – need to explicitly evaluate social value, with a 10% minimum weighting. Since September 2021, bidders for major central government procurement contracts (above £5 million annually) also need to provide carbon reduction plans containing a commitment to net-zero by 2050 and environmental management measures for the duration of the contract (Cabinet Office, 2021).

A growing number of local authorities, businesses and investors are implementing this joined-up approach, supported by collaborative initiatives such as the Social Value Portal, which supports the TOMs [Themes, Outcomes, Measures] framework, covering the five themes of jobs, growth, social, environment and social innovation (Social Value Portal, 2021). The framework includes specific just transition outcomes and measures, focusing on improved skills for a low-carbon transition. These feature in the Jobs pillar rather than the Environmental pillar (Muller and Robins, 2021a) but it will be important to include considerations that cover both environmental and social factors in all public procurement decisions.

vi) Harness financial standards and regulation for the just transition, including in terms of disclosure

Financial standards and regulations are crucial for driving business and finance to manage environmental risks, seize sustainability opportunities, improve positive impacts and reduce negative impacts.

The UK's financial regulators have been at the forefront of responding to climate risk. In March 2021, the Chancellor updated the remit for the Prudential Regulation Committee, the Monetary Policy Committee, the Financial Policy Committee at the Bank of England and the Financial Conduct Authority to more clearly align their mandates with the UK's net-zero and wider climate goals. For example, the Chancellor's letter to the Prudential Regulation Committee highlighted the Government's economic strategy as: "structural reform to level up opportunity in all parts of the UK and to transition to an environmentally sustainable and resilient net-zero economy, including through regulation, and an ambitious programme of investment in skills, infrastructure and innovation, in order to sustain high employment, raise productivity and improve living standards" (HM Treasury, 2021b).

Three areas are worth advancing:

- **Identifying concentration risks:** One place to start would be to use the results of the Bank of England's planned climate scenario and stress-testing exercise to identify sectors and regions that could have pronounced concentration risk in terms of the net-zero transition (Robins et al., 2020).

- **Including just transition in net-zero plans:** Calls are growing for the publication of net-zero plans to become mandatory for regulated firms, and the just transition would need to be included in these, matching the integration in key finance sector benchmarking initiatives such as CA100+ (CCC, 2021; Aviva and WWF, 2021).
- **Developing shared social reporting frameworks:** Standardised solutions that are practical for financial institutions and companies are needed, including taxonomies, indicators and disclosure frameworks to ensure integrity and comparability of efforts. Increasing attention is being placed on social reporting frameworks, indicators and taxonomies so that environmental and social factors are treated equally in business and financial decision-making (BHRRC et al., 2021). The UK has committed to introducing integrated sustainability disclosure requirements, which can be an important step in standardising reporting that integrates the environmental and social dimensions. This could follow a similar dynamic to climate disclosure, starting on a voluntary basis and then becoming mandatory once critical mass is achieved. As the 2021 All-Party Parliamentary Group for Local Authority Pension Funds inquiry has highlighted, the Government should determine which disclosures on social risks and performance should be mandatory for companies. Such mandatory disclosures would help ensure just transition factors are acknowledged and better understood by companies and investors (APPG LAPF, 2021).

"The UK has committed to introducing integrated sustainability disclosure requirements, which can be an important step in standardising reporting that integrates the environmental and social dimensions."

vii) Strengthen the social dimension in the updated Green Finance Strategy

The UK's first Green Finance Strategy, published in 2019, set out the role that finance can play in delivering the country's net-zero emissions target and building an economy that is resilient to climate change impacts. Although the bulk of the strategy focuses on the environmentally-related aspects of finance, it also commits to "explore actions government can take to ensure a just transition", and states that "it is vital we make sure that this growth is inclusive, benefitting people across the UK, supporting workers as industries transform and ensuring the costs as well as the benefits are shared fairly, protecting consumers, workers and businesses" (HM Treasury and BEIS, 2019).

In October 2021, the Government released a Green Finance Roadmap which builds on the original Strategy and sets out practical steps to address the information gap on environmental sustainability for investors and consumers (HM Government, 2021a).

The Government will publish a second Green Finance Strategy on the back of the Net Zero Strategy in 2022, which is expected to define a transition pathway for a net-zero financial system by 2050 (ibid.). This will be a key opportunity to define how the net-zero economy will look and strengthen the commitment to scaling up climate finance in ways that generate positive social benefits, particularly in those regions that need it most.

5. Scaling up international action

Responding to the global imperative for a just transition

The just transition is a global policy priority. A small but growing number of countries and jurisdictions are introducing specific just transition initiatives to connect climate action and environmental justice, including Canada, the EU, Germany, New Zealand, South Africa, Spain and the USA. Several collaborative initiatives have been launched too, such as the International Energy Agency's Global Commission on People-Centred Clean Energy Transitions, to deliver better policies that deliver positive social impact and protect vulnerable people.

The UK can take a leadership role in driving support, mobilising financial resources, and helping to position the just transition as a critical enabling factor for a successful shift to net-zero globally, bringing together actions by governments, business and the financial sector, trade unions and civil society. At the UK-hosted G7 Carbis Bay Summit in spring 2021, leaders stressed the importance of the just transition, particularly in the phase-out of coal power generation, so that 'no person, group or geographic region is left behind' (G7 Ministers, 2021).

Boosting financial cooperation – priorities for UK financial institutions and policymakers

The Alliance to date has focused primarily on the role of finance in supporting the just transition within the UK but its members often have international investments and could take the lead in advancing collaborative efforts across the world. In other countries, such as France, the financial sector is also scaling up efforts on the just transition, illustrating the global relevance and need for action on the just transition (Finance for Tomorrow, 2021).

Below we outline some emerging priorities for the UK in this area.

Mobilising investment for just transition roadmaps in emerging markets

The real test of the just transition will be in major emerging and developing economies, where investment needs for net-zero and climate resilience are greatest, but access to and the cost of capital can be a challenge, and social safeguards tend to be weaker. In this context, partnerships with development finance institutions will be particularly important to build strong policy foundations, develop innovative financial solutions and reduce financial risks. The UK's development finance institution, CDC Group, is leading a programme examining the key financing options that could be available (**Case study 17**).

Financing a just transition past coal

The phase-out of coal, followed by other fossil fuels, is essential for net-zero, and the just transition for coal workers and surrounding communities is integral for achieving progress. The UK and Canada co-founded the Powering Past Coal Alliance (PPCA), which includes a dual focus on the just transition and finance (see Muller and Robins, 2021b). It is useful to bring these two priorities together, particularly in shareholder engagement and deploying credible financial mechanisms for accelerated coal retirement that involve affected workers and communities.

Bolstering social and environmental standards in net-zero supply chains

There are growing concerns over the human rights and environmental conditions in net-zero supply chains, notably in critical minerals for renewables and electric vehicles (BHRRC, 2021). Some countries are taking important first steps to extend businesses' consideration of sustainability from their own operations to supply chains. An illustrative example is the supply chain law passed in June 2021 in Germany, which requires large firms to perform risk analysis, risk management and reporting regarding human rights standards for immediate suppliers. The UK could play a role in building on these experiences to ensure social as well as environmental standards are upheld throughout supply chains, both in terms of policy expectation and due diligence norms within financial institutions. Calls to action for the UK have recently been issued by a group of organisations that includes the TUC (see Siddique, 2021). Although limited in scope, the Environment Bill currently under discussion includes language around illegal deforestation in supply chains.

Strengthening social standards in nature-based solutions

Nature-based solutions[3] will be crucial to tackling both the climate and biodiversity crises. One international initiative that includes nature-based solutions is the Just Rural Transition initiative, which brings together public and private sector stakeholders with a vision of anchoring social considerations at the heart of food and land use system transformations. Just Rural Transition aims to strengthen food security – particularly in light of population growth – while protecting ecosystems and rural and indigenous communities facing increased threats due to climate change. The initiative ties together climate, biodiversity and sustainable development goals (Just Rural Transition, n.d.).

Engaging UK financial institutions in ensuring that nature-based solutions respect social safeguards and deliver positive social impact will be increasingly important.

Driving international convergence on just transition investment mechanisms

Financial institutions are also seeking to develop specific investment strategies and mechanisms that support the just transition. A small number of just transition investment funds have been launched, which could start a new category within the wider arena of climate and sustainability. International cooperation to develop shared approaches to just transition investment is being taken forward by the Impact Investing Institute as part of the G7's impact task force (**Case study 18**).

3 **The International Union for Conservation of Nature** defines nature-based solutions as: "actions to protect, sustainably manage, and restore natural or modified ecosystems, that address societal challenges effectively and adaptively, simultaneously providing human well-being and biodiversity benefits".

Case study 17 | *Financing the just transition in emerging markets*

CDC Group | CDC Group Plc is the UK's impact investor supporting the sustainable, long-term growth of businesses in South Asia and Africa, funded by the UK government. It includes the just transition as the third leg of its climate strategy, alongside net-zero and resilience to climate change impacts. The just transition forms a core part of CDC Group's approach to aligning economic transformation with the Paris Agreement goals, to achieve net-zero in a socially just manner that meets people's needs and improves living standards, following nationally defined development priorities.

CDC has also launched the Just Transition Finance Roadmap initiative to identify the key features of effective financing in emerging economies, notably India and South Africa. The initiative includes local partners in the countries and international partners, including LSE (O'Donohoe, 2021).

The foundations for practical actions in India were outlined in a recent CDC report (Tandon et al., 2021), identifying three priorities:

1. Aligning investment opportunities and financial practices to just transition priorities.
2. Shaping financial policy and regulation to support a just transition.
3. Financing projects that support communities and workers affected by the transition.

Collaboration between development financial institutions and multilateral development banks with commercial banks and institutional investors could help take these efforts to scale.

Source: CDC

Case study 18 | *The G7 Impact Taskforce*

Impact Investing Institute | With the Global Steering Group for Impact Investment, the Impact Investing Institute is co-leading a G7 Impact Taskforce under the UK's presidency of the G7 in 2021. The first set of deliverables from the Taskforce, due in December 2021, will include a report showcasing how policymakers and investors can adopt and implement a just transition investment approach, with case studies from different asset classes and geographical regions, and a blueprint for a just transition financing vehicle designed to attract private sector capital at scale. It will demonstrate how different capital providers – from institutional investors to development finance institutions, multilateral organisations and grant providers – can work together in different capital structures (such as blended finance) to deliver just transition outcomes in the emerging markets, with a particular focus on Sub-Saharan Africa.

One of the outputs will be a plan for a just transition financing vehicle in the form of an annotated term sheet that will show how a financing structure could be produced to attract capital at scale (including from pension funds), to deliver a transition from coal in South Africa with clearly defined social co-benefits. This is designed to be a replicable blueprint.

In 2022, under Germany's G7 presidency, the Impact Investing Institute will build on this work to create a broader understanding of just transition financing among private and public investors and policymakers (capitalising on the market activity around green finance) and develop further replicable blueprints for financing vehicles designed to attract institutional capital at scale to deliver a just transition in other global markets. There will be a particular focus on countries and sectors that are integral to the success of a global transition, but to which not enough of the required capital is flowing, such as India.

Source: Impact Investing Institute

6. Next steps

Financing the just transition in the decisive decade ahead

The Financing the Just Transition Alliance has sought to translate the imperative of the just transition into operational steps for the financial sector, policymakers and others across the UK. This report has presented the growing rationale for action and profiled the steps that financial institutions and policymakers are taking to bring together the environmental and social in delivering the UK's climate goals.

"The Alliance has reviewed its first year of work and found that a majority of members have increased their just transition efforts as a result of their participation."

These efforts are only a foretaste of what needs to happen during the 2020s. This is the decisive decade for climate and nature, but also for livelihoods and communities, as the global economy recovers from COVID-19. This is the moment when Paris Agreement ambitions for climate, finance and the just transition need to become routine practice at the core of the business.

The just transition is essential for building the trust required for a rapid shift to a resilient, net-zero economy. This insight is stimulating growing action across the world by governments, businesses and trade unions, civil society and financial institutions. This report has highlighted initial efforts by leading financial institutions in the UK and pointed to what is needed to achieve system-wide change.

Important first steps have been taken by the UK's financial sector around the just transition. These efforts now need to be scaled up across the five recommended action areas: strategy, engagement, capital allocation, policy dialogue, and delivering impact. Government needs to provide the policies, incentives and public financing to stimulate change across the financial system. Financing the just transition is a global imperative and international cooperation will be increasingly important.

The momentum behind financial action on the just transition is set to intensify, placing it in the mainstream climate agenda. One example is the inclusion of a 'beta' version of a just transition indicator in the Climate Action 100+ international investor initiative on net-zero (CA100+, 2021). COP26 will intensify the policy, market and social case for action.

The Alliance has reviewed its first year of work and found that a majority of members have increased their just transition efforts as a result of their participation. But this is still only scratching the surface of this long-term agenda. It is important to recognise the need to be ambitious in moving ahead with the just transition and humble in developing solutions. Contentious issues, trade-offs and unintended consequences need to be acknowledged and addressed openly.

Following its first year of work, the Alliance will dig deeper into the practicalities of operationalising the just transition. This could involve, for example, piloting more place-based initiatives, identifying ways of capturing just transition outcomes in terms of metrics and indicators, focusing on specific sectors, and promoting the analysis and dialogue that can contribute to wider transformations. It is clear that this a work in progress, and we hope it inspires others to act, in the UK and in the international community.

7. Summary of recommendations

Finance

- **Strategy and leadership:** Embed the just transition into climate strategies and financing plans, supported by the Board, and signal the importance of the just transition internally and externally.
- **Engagement:** Integrate the just transition into the engagement on corporate net-zero plans between investors and the companies they hold, and between banks and the customers and clients they lend to. This extends to dialogue between financial institutions and other stakeholders such as workers, trade unions, communities, and civil society.
- **Capital allocation:** Actively seek to finance those companies committed to positive social impact for workers, communities and consumers on the road to net-zero. Make it clear to potential investees and clients that these factors will be included in the firm's appraisal and due diligence policies for investment and lending. Develop new mechanisms that are specifically aligned with a just transition, particularly for place-based investment.
- **Policy dialogue:** Encourage local and national policymakers to put in place the policy frameworks that can scale up financing for the just transition, covering real economy frameworks as well as public finance and financial policies.
- **Delivering impact and measuring contribution:** Include just transition factors in the way that financial institutions deliver positive social and environmental impacts at both the asset and system level, and report these contributions to their clients and stakeholders in public disclosures.

Place

- **SME support:** Provide blended financial and non-financial support on the just transition to SMEs in local areas.
- **Innovative local solutions:** Develop local climate finance hubs as a way of connecting the demand and supply of capital for net-zero and the just transition.

Policy

i) Place the just transition at the heart of net-zero policies:

- Make the just transition a core element of the implementation of the Net Zero Strategy.
- Implement the recommendations of the Green Jobs Taskforce.
- Establish a Just Transition Commission.

ii) Design financial policies to support the just transition:

- Incorporate fairness and social considerations into fiscal policy for climate action.
- Connect the twin objectives of the UK Infrastructure Bank in operational delivery.
- Harness the British Business Bank to support SMEs through a just transition to net-zero.
- Deliver social co-benefits through the UK's green sovereign bond programme.
- Use the social value framework in public procurement to boost market uptake of the just transition to net-zero.
- Harness financial standards and regulation for the just transition, including in terms of disclosure.
- Strengthen the social dimension in the UK's updated Green Finance Strategy, particularly in terms of place-based investment.

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Financing a Just Transition Alliance: Members

Abundance Investment
Aberdeen Standard
Aviva Investors
Barclays
Belfast Climate Commission
Big Society Capital
Bridges Fund Management Limited
British Business Bank
Brunel Pension Partnership
CANDRIAM
CCLA
CDC*
Charity Bank
Church Commissioners
Church of England Pensions Board
Climate-KIC
Ecology Building Society
Edinburgh Climate Commission
Federated Hermes
Finance Innovation Lab
Friends Provident Foundation
Green Finance Institute
HSBC UK
Impact Investing Institute
Institutional Investor Group on Climate Change
Investor Forum
L&G
Lloyds Banking Group
Local Authority Pension Fund Forum
Nationwide
NatWest
Principles for Responsible Investment
Pure Leapfrog
Rathbone Greenbank Investments
Responsible Finance
Royal London Asset Management
ShareAction
South West Mutual Limited
Thirty Percy Foundation
Triodos Bank UK
TUC
UK 100
UK Finance
UKSIF
Unity Bank
Yorkshire and Humber Climate Commission

** Observers to the Alliance*

It is clearer than ever that the 2020s is the decisive decade for transformational action to prevent the worst impacts of global warming. An unprecedented reallocation of capital will be required, and this financial mobilisation will drive more and better-quality jobs, revitalise communities and reduce inequality, as well as delivering essential emission reductions. This is the just transition agenda, which focuses on ensuring that the benefits and the costs of change are distributed fairly.

In November 2020 more than 40 banks, investors and other financial institutions joined forces with universities, civil society and trade unions to launch the Financing a Just Transition Alliance, the first grouping of its kind in the UK. In this report the Alliance sets out what the delivery of a just transition in the UK will require, highlights initial efforts by leading financial institutions towards achieving a just transition, and points to what is needed to achieve system-wide change. While the Alliance and this report focus on the UK, the report also draws out implications and possible applications for the international context.

Thirty Percy
Friends Provident Foundation
Centre for Climate Change Economics and Policy
Grantham Foundation for the Protection of the Environment
UKRI Economic and Social Research Council
UNIVERSITY OF LEEDS