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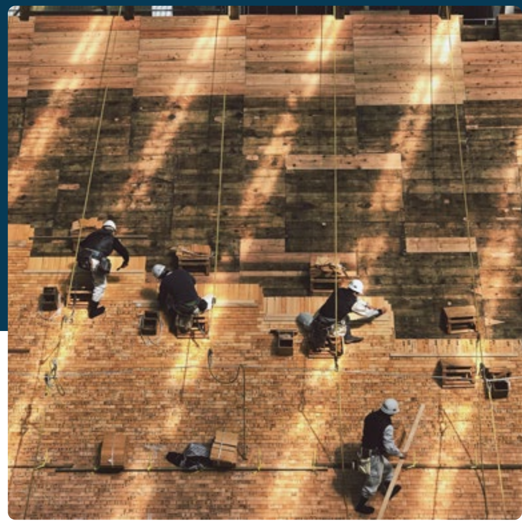
Bridging divides:

A guide on using catalytic capital for a global just transition



With the support of

Catalytic Capital Consortium

Executive Summary

This guide aims to support the achievement of a fair and inclusive transition to a net zero economy (a "just transition") in emerging and frontier markets. It assists catalytic capital providers, including development finance institutions, governments, philanthropic organisations, private investors, and corporations, in unlocking private capital investments for a just transition that combines climate action with social justice and local development needs.

The guide pays particular attention to how catalytic capital providers can partner with actors, such as fund managers, investees, and communities, based in emerging and frontier markets. It also looks at the use of catalytic instruments in funds and financing vehicles that can mobilise private capital at scale for a just transition.

Readers will find information, practical steps, and resources on the following topics:

What is the just transition?

The fundamentals of the just transition: Understand the concept of the just transition and its three elements - climate and environmental action, socio-economic distribution and equity, and community voice.

Global and local perspectives on the just transition: Learn about global imperatives and local pathways for the just transition. Find out how to ensure that activities supporting the "transitioning out" of carbon-focused economies and activities that support the "transitioning in" to a net zero world are fair and inclusive.

Relevance for catalytic capital providers: Become familiar with the key motivations for different types of catalytic capital providers to support a just transition, including mission alignment, reflecting the priorities of stakeholders, and the opportunity to mobilise additional private capital.

How can catalytic capital providers support a global just transition?

What catalytic capital does: Learn about the characteristics, roles, and uses of catalytic capital and associated catalytic instruments and how these might be used to support a just transition globally.

Problem-solving capital: Understand the barriers faced by actors across the investment chain, how catalytic capital can help address these to mobilise private investment, and how to partner with local fund managers, support local investees, and empower local communities.

Illustrative examples: Draw insights from real-life examples of emerging practice, showcasing different methods of deploying catalytic capital for a just transition.

How can catalytic capital providers support just transition funds?

Why funds matter: Explore why funds are a key tool in the private capital mobilisation toolkit.

Catalytic capital for just transition funds: From design to implementation, understand how catalytic capital providers can increase the contribution of funds to just transition outcomes.

About

About the project

This guide was produced with support from the Catalytic Capital Consortium (C3). C3 is an investment, learning, and market development initiative created and led by the John D. and Catherine T. MacArthur Foundation, The Rockefeller Foundation, and Omidyar Network to increase the flow and impact of catalytic capital, a type of impact investment that is more patient, risk-tolerant, concessionary, and flexible than conventional financing in order to achieve social and environmental impact that would not otherwise be possible.

About the partners

The Impact Investing Institute is an independent non-profit, set up to connect capital to impact. The Institute acts as a bridge between new economic ideas and mainstream capital markets to accelerate the impact investing field. It supports investors to put impact at the heart of their commercial investment strategies. It also works with policymakers and civil society to advocate for impact investing

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as a powerful tool to unlock solutions to the world's most urgent challenges, like climate change and rising inequality.

Krutham is a financial services and capital markets research and consulting house, specialising in emerging markets. Krutham works at the nexus of finance and society to unlock opportunities for investors, businesses, and communities. Krutham helps financial services clients stay ahead of trends and understand their evolving marketplaces through the strategy research practice area, while using its social economy and capital markets capabilities to support impact investors by developing innovative financial solutions to pressing social challenges with its social economy capabilities. Krutham has done extensive research on scaling financing for the just transition in South Africa and beyond.

Foreword

Achieving the transition to net zero and doing so in a fair and inclusive way is the great challenge of our era. This is particularly the case in emerging and frontier markets, where public and private finance flows remain limited.

Impact investing is an effective tool to tackle these challenges. Within impact investing, catalytic capital has emerged as one of the main ways to unlock the resources needed to drive a fair and inclusive transition. By being patient, risk-tolerant, concessionary and flexible in ways that differ from conventional investment, catalytic capital can be transformative in supporting private investors to deploy capital at scale.

Development finance institutions, multilateral development banks, governments, philanthropies, and others have started to deploy catalytic capital with the aim of mobilising private capital investment for a just transition. This is encouraging, but we need to see more. Global finance flows are still less than 20% of the $3.8 trillion we need each year to transition to net zero globally.[1]

In addition to mobilising more private capital, catalytic capital also plays a key role in ensuring that whatever capital is mobilised is deployed as effectively as possible. There is growing consensus that global capital flows should be adapted to local market needs, and that local actors need to be equal participants in the transition. Here too capital providers can play an instrumental role, by modelling effective partnerships with local investors, including fund, asset managers and asset owners. Those actors are ultimately best placed to lead on the development of financing solutions that actually meet local priorities.

The research and consultations we have undertaken as part of this guide highlight three clear goals for catalytic capital providers who want to support a just transition. The first is to mobilise capital for climate action that secures opportunities for communities to thrive. The second is to support investments that need catalytic capital as a stepping stone to becoming commercially viable. The third is to support local investors by strengthening the structures and networks they rely on.

This guide will help catalytic capital providers achieve these goals and contribute to a fair and inclusive transition to net zero. It highlights both current and emerging practice, and outlines powerful examples of how catalytic capital providers have partnered with local investors to drive a just transition. We hope these practical case studies will galvanise further action.

Going forward, our work will continue to champion the role of catalytic capital and local expertise in a transformed global economy. We will be working to create stronger networks between investors, and to co-create just transition products that are both impactful and informed by local voices. And we will do so with the help of our partners and the wide investor network who helped to create this guide.

Kieron Boyle
Chief Executive

Contents

Case studies

Introduction

What is the purpose of this guide?

Achieving a fair and inclusive transition to net zero will require a significant increase in private capital investment flows to emerging and frontier markets. The purpose of this guide is to help catalytic capital providers unlock these flows and make them more efficient in combining climate action with opportunities for people and communities to thrive in a transformed net zero economy.

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The guide pays particular attention to the deployment of catalytic instruments in funds and other financing vehicles, owing to their potential to mobilise private capital at scale. This reflects the recommendations of global initiatives such as the G7 Impact Taskforce and the Sharm El Sheikh Guidebook for Just Financing, launched at COP27, both of which called for the development of pooled structures that can help crowd in private investment.[2]

The guide also provides insights into broader uses of catalytic capital, with an emphasis on the integration of local considerations in investment decisions. The just transition is a global imperative, but solutions must reflect local needs. A cross-cutting theme is how catalytic capital providers can ensure that the needs of the places where capital is deployed are thoroughly considered and work with local actors to build and sustain investment ecosystems and networks.

Who is this guide for?

The primary audience for this guide is **providers of catalytic capital**, including development finance institutions (DFIs), multilateral development banks (MDBs), governments, philanthropic organisations, high net worth (HNW) investors and family offices, and private investors and corporates.

The content will also be relevant to fund managers, and particularly **local fund managers based in emerging and frontier markets**, as the guide includes examples of how local fund managers have succeeded in raising private capital at scale to meet local just transition needs.

The guide also provides insights and examples for other key actors involved in financing a global just transition. **Private investors** (including asset managers and asset owners) can gain familiarity with the growing spectrum of options available to them. **Local investees and communities** – and the groups and networks that coordinate them – can refer to the guide for an understanding of what "good" looks like in just transition financing and engagement with relevant actors across the investment chain.

Figure 1: Key actors

Key actors	
Catalytic capital providers	• development finance institutions (DFI) • multilateral banks (MDBs) • governments • philanthropic organisations • high-net worth investors and family officers • corporates
Private investors	• asset owners • asset managers
Local stakeholders	• fund managers • communities, community groups and networks • investees (including companies & projects)

What does this guide cover?

This guide focuses on the use of catalytic capital to deliver a just transition in emerging and frontier markets. It is structured as follows:

Section 1 provides an introduction to the concept of the just transition and its relevance for catalytic capital providers. It details entry points for catalytic capital providers to support a just transition, including examples of peers who have adopted a just transition approach.

Section 2 explores the use of capital for a global just transition. It details how catalytic capital can be used to overcome barriers faced by different actors seeking to deliver just transition outcomes.

Section 3 provides insights on the role catalytic capital can play in embedding just transition considerations within funds and other financing vehicles. It uses the framework of a fund blueprint, from its ambition and investment strategy to its operations.

The **Appendix** summarises insights from section 3 in the form of a checklist that can be used in the design of just transition-aligned vehicles.

Case studies demonstrating good practice in deploying catalytic capital for a just transition are interspersed throughout the report. The Impact Investing Institute also maintains an online repository of case studies on its website, including a range of examples of structures and financial and impact characteristics.[3]

What are the key concepts used in this guide?

This guide uses the following key concepts throughout:

- The **just transition** refers to the notion of greening the economy in a way that is as fair and inclusive as possible for everyone concerned, creating decent work opportunities and leaving no one behind, following the International Labour Organisation's definition.[4] Further reference is made to the three "just transition elements", a framework developed by the G7-backed Impact Taskforce, which articulated the just transition as climate and environmental action, socio-economic distribution and equity, and community voice (see section 1.1).
- **Emerging and frontier markets** are countries that are in the upper-middle income, lower-middle income, and low-income countries on the World Bank country classification system.[5] All other countries are referred to as 'developed' in this guide. Associated terms include emerging markets and developing economies (EMDEs) and the Global South.[6]
- **Catalytic capital** is capital that accepts disproportionate risk and/or concessionary returns, relative to a conventional investment, to generate positive impact and mobilise third-party investment that would not be possible in the absence of catalytic funding.[7]
- **Catalytic capital providers** are organisations that provide catalytic capital, including philanthropic organisations, development finance institutions (DFIs), multilateral development banks (MDBs), governments, private high net worth (HNW) investors and family offices and, in some instances, private investors.[8]
- **Private capital** refers to capital that is deployed by private investors, usually on non-concessionary, commercial terms.
- **Private investors** comprise asset owners, such as pension funds and insurance companies, as well as endowments, foundations, charities, sovereign wealth funds (SWFs), banks and credit unions, family offices and

private funds (such as mutual funds, hedge funds, private equity/debt funds and venture capital funds), and asset managers, who typically manage assets on their behalf. Private investors also include impact investors, who seek to combine positive, measurable social and environmental impact with a financial return in their investments.

- **Fund managers** are financial actors who design, develop, and manage investment vehicles. For the purpose of this report, the category also include advisors, who support the development of investment vehicles, often under mandate from the fund managers.
- **Investees** are recipients of private and/or catalytic capital, including businesses and projects (for example, infrastructure).
- **Communities** are groups of people with a tangible or symbolic connecting structure, for example: location, job role, identity, or shared values.[9] From the perspective of this report, shared ties to a location that will be affected by an investment is an obvious defining feature, although this should not be seen to diminish the importance of other key community identities and sub-identities within communities, for example, those of marginalised or disadvantaged groups based on gender, race, disability or other characteristics.
- **Local** is used to refer to actors based in emerging and frontier markets. Like "communities", local is not a static term, but rather one that should be redefined in the context of each investment.
- **Funds** are pooled investment structures. For the purpose of this guide, funds also comprise other types of investment vehicles, such as funds of funds and investment solutions.

How was this guide developed?

The guide was developed through a combination of desk research and engagement with practitioners. Engagement comprised several workshops and one-on-one interviews with representatives of the target audiences. We have particularly sought to gather input from stakeholders based in emerging and frontier markets. The guide also benefited from feedback from a range of key stakeholders. Thanks are due to the contributors listed in the acknowledgements section at the end of this report.

1. What is the just transition?

In this section you will be introduced to key concepts such as:

What is the just transition?	The three just transition elements, local pathways and 'transitioning in' vs 'transitioning out' activities.
What are the entry points for catalytical capital providers seeking to support a just transition?	Key motivations for different types of catalytic capital providers to support a just transition, including mission alignment, the priorities of stakeholders and the opportunity to mobilise additional private capital.

1.1 What is the just transition?

A just transition means greening the economy in a way that is as fair and inclusive as possible to everyone concerned, creating decent work opportunities and leaving no one behind.

As captured in the International Labour Organization's definition, a just transition pays attention to ensuring that the costs and benefits of the transition to a net zero carbon world are fairly distributed. It also seeks to ensure that inequalities, such as income inequality or unequal access to education, healthcare, economic opportunities, and basic goods and services, are neither reinforced nor perpetuated in the transition. This is not only a moral imperative, but also an approach to ensure there is societal buy-in for the transition and reduce the risk of social backlash. As reflected in the framework put forward by the G7 Impact Taskforce (see box), the success of the just transition is dependent on the inclusion of affected communities. This is crucial because the "just" element of the just transition can vary depending on the local context.

With its origins in trade unions and environmental justice action, the concept of a just transition has gained widespread recognition among different groups of stakeholders. It was incorporated into the Paris Agreement, the legally binding international treaty on climate change signed by 196 nations at the UN Climate Change Conference in 2015 (COP21). Most recently, the Sharm el-Sheikh Implementation Plan, agreed at COP27 in November 2022, made the just transition an imperative of the global climate agenda by recognising that "effective climate action should be implemented in a manner that is just and inclusive while minimizing negative social or economic impacts that may arise from climate action".[10]

The need for a just transition is also recognised at country-level in an increasing number of jurisdictions. Just transition principles are now mentioned in 38 percent of Nationally Determined Contributions – countries' self-defined national climate pledges detailing what they will do to help meet the global goal to pursue 1.5°C, adapt to climate impacts, and ensure sufficient finance to support these efforts – and 56 percent of long-term strategies.[11] Businesses are also increasingly recognising the concept, with an ever-growing number of industry initiatives and the adoption of just transition considerations in company transition plans.[12]

Three integrated and universal elements adaptable to local needs

The Impact Taskforce, backed by the UK presidency of the G7 in 2021, brought together 170 global stakeholders to mobilise capital towards a just transition. The Taskforce identified three just transition elements ("the elements") to provide a common frame of reference for financial market actors seeking to advance a just transition. The elements are applicable across geographies and can be used to determine local just transition priorities. They are interlinked and equally important: all three must be present to ensure alignment with a just transition.

Figure 2: The just transition and its three elements

1. **Advance climate and environmental action**
   including greenhouse gas emission mitigation, reduction, and removal
2. **Improve socio-economic distribution and equity**
   through, for example, inclusive opportunities for decent jobs
3. **Increase community voice**
   through, for example, engagement and dialogue with affected communities that are often excluded and marginalised

The concept of transitioning "out" and "in"[13]

Just transition pathways will be different for each project and company, for each region and for each country, and require a different mix of activities.[14] At the country-level, some pathways focus on large-scale decarbonisation of economic infrastructure (for example in South Africa and Indonesia), while others focus on the opportunity to develop new green technology and build more sustainable economies from the ground up. Transition activities can be divided into two broad categories with different just transition implications:

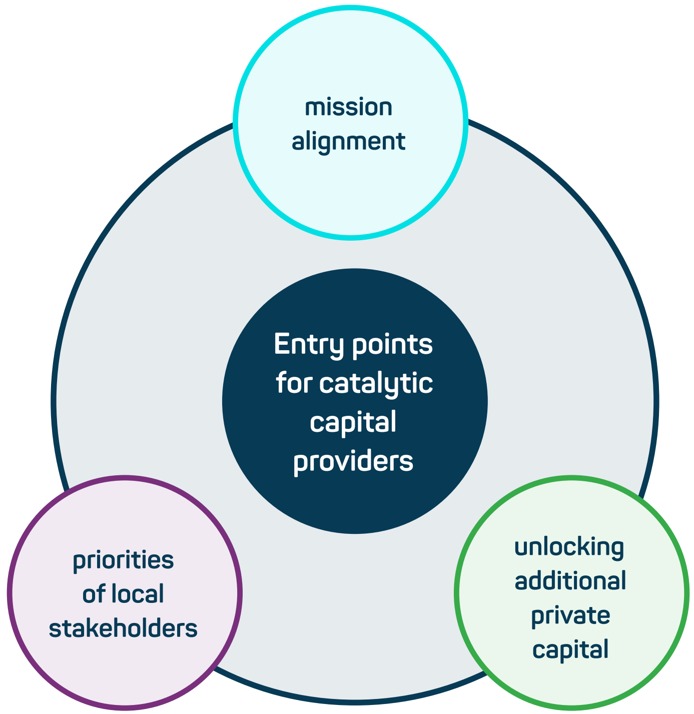
"Transitioning out" activities enable existing industries and affected workers to exit carbon-intensive activities, such as coal mining, whilst achieving justice for those affected (for example, alternative job and re-skilling opportunities for workers). Transitioning out activities are often perceived as more difficult and requiring significant funding support from public and development funders, as well as catalytic capital providers.

"Transitioning in" activities enable the development of new net zero industries and carbon mitigation and adaptation measures, such as mining for minerals that are essential for clean energy, in ways that are equitable and inclusive. "Just" approaches to transitioning in focus on building new markets in ways that avoid perpetuating historical injustices, including racial and gender inequity, through the distribution of green jobs or opportunities to gain access to cheaper goods and services and supply chains.

1.2 What are the entry points for catalytical capital providers seeking to support a just transition?

All providers of catalytic capital can support a global just transition, and many have started doing so. This has been facilitated by several entry points, including mission alignment, the priorities of their stakeholders, and opportunities to unlock additional private capital towards impact.

Figure 3: Just transition entry points for catalytic capital providers.



Mission alignment

There is a strong alignment between the mission of different types of catalytic capital providers and just transition objectives.

Development finance institutions (DFIs) and multilateral development banks (MDBs) traditionally have socioeconomic development mandates from their shareholders (typically governments) but are increasingly helping stakeholders in emerging and frontier markets respond to climate change. These twin imperatives have led many DFIs and MDBs to adopt a just transition approach in their activities.

Examples include: the MDB Just Transition Principles, developed by nine multilateral institutions with inputs from the World Bank; the European Bank for Reconstruction and Development (EBRD)'s Just Transition Initiative; British International Investment, which embeds just transition principles across its climate investments; and Private Infrastructure Development Group (PIDG), whose 2023-2030 strategy focuses on socioeconomic development and climate action.[15]

Governments, in addition to their allocation of catalytic capital through the DFIs, MDBs, and other structures of which they are shareholders, also provide catalytic capital directly – for example, through their development departments or agencies. Governments provide catalytic capital for projects in their own countries or transnationally, where the focus is on global development.

Recent years have seen multiple examples of governments adopting a just transition approach in catalytic capital deployments, including: the Just Energy Transition Partnerships, which are innovative financing mechanisms designed to channel money from developed economies to some of the bigger developing-world emitters for the purpose of a net zero transition, supported by the European Union and the governments of Canada, France, Germany, and the United Kingdom; and the Climate Finance for Development Accelerator, recently launched by the United States Agency for International Development (USAID), which explicitly links climate funding to the achievement of socioeconomic development objectives.

Philanthropic organisations, such as endowed foundations, are key providers of catalytic capital across sectors and regions, typically in pursuit of deeper impact aligned with their philanthropic objectives. Whilst many have, for a long time, held both environmental and social objectives, in recent years, several have adopted a just transition approach, recognising that they are well equipped to support social considerations in broader environmental investments and projects.

Examples include: the Ikea Foundation, The Rockefeller Foundation, and the Bezos Family Foundation, which have backed the Global Energy Alliance for People and Planet (GEAPP); the Ford Foundation and the Bill and Melinda Gates Foundation, which are backing the African Climate Foundation; and the Children's Investment Fund Foundation.

Pioneering **private high net worth (HNW) investors and family offices** have started to deploy catalytic capital to support the just transition as part of increasingly mission-driven capital allocations.

For example, Ceniarth is a private family office that has pioneered the deployment of catalytic capital, often alongside more conventional providers such as DFIs, to support climate action and socioeconomic development with a focus on disadvantaged groups in developed, emerging and frontier markets.[16]

Private investors and corporates are another emerging category of catalytic capital providers, providing catalytic capital alongside their deployment of commercial, non-concessionary capital and investment.

Private investor commitments to a just transition include: the Glasgow Financial Alliance for Net Zero (GFANZ)'s contribution to the Just Energy Transition Partnerships (see below), the United Nations Principles for Responsible Investment (UNPRI) Statement of Investor Commitment to Support a Just Transition on Climate Change; and the Just Transition Finance Challenge. On the corporate side, a recent example is Amazon's support for the Climate Gender Equity Fund, which is part of the Climate Finance for Development Accelerator run by USAID.

There is a strong alignment between the mission of different types of catalytic capital providers and just transition objectives.

Case study: Governments as catalytic capital providers

Just Energy Transition Partnerships (JETPs) are climate finance mechanisms first launched at COP26 to support emerging market countries' transition to clean energy while addressing the socio-economic impacts of decarbonisation efforts. The JETP model focuses on expanding access to both public and private finance to support critical and catalytic investment needs. JETP funding comes from the International Partners Group (IPG, comprising Canada, the European Union, France, Germany, and the United Kingdom) and GFANZ's dedicated working group. JETPs are designed to be flexible and tailored to the specific needs of each country, and they can include a range of financial instruments, such as grants, concessional loans, and risk-sharing mechanisms.

Catalytic capital can play a vital role in strengthening the impact of JETP mechanisms. It can be deployed to projects that lack bankability but are vital to the just transition, such as environmental resources and community resilience building. This can attract other investors to fund the more secure parts of a just transition project. Catalytic capital can also fund 'proof of concept' initiatives that lack a technical or commercial track record. By absorbing higher risks and lower returns, catalytic capital can attract more conservative investors for other project components. As such, catalytic capital can de-risk and validate the feasibility of high impact but risky projects that will be financed through JETPs, facilitating broader capital participation in the just transition agenda.

Reflecting the priorities of local stakeholders

While the just transition can be understood at the level of a specific project, company, region, or country, on a global scale it takes an additional dimension linked to the notion of climate justice. This is grounded in the recognition that emerging and frontier markets have been responsible for a much lower share of historical CO2 emissions compared to developed markets but are disproportionately impacted by the effects of climate change, which negatively affect broader socio-economic development prospects and increase adaptation costs.[17]

Against this backdrop, global climate action efforts, including decarbonisation commitments, have been criticised for inadequately reflecting the needs and realities of emerging and frontier markets. Stakeholders from these markets have expressed concerns that a narrow prioritisation of climate action might hinder the achievement of their countries' socio-economic development goals.[18] There have been calls to make the transition just on a global scale by ensuring it helps to address, rather than perpetuate or reinforce, inequalities between countries. Frameworks for fairer global climate action include the Bridgetown Initiative, which seeks to create a fairer global financial architecture, and the 2023 Paris Pact for People and the Planet, which states that "no country should ever have to choose between development aspirations and climate action".

Case study: Establishing common ground on just transition pathways

An initial barrier to pursuing a just transition can be a lack of common understanding of what it means to respective stakeholders, what is needed in the local context, and what the financing gaps and opportunities are.

This provides an entry point for catalytic capital providers, who can help establish common ground on just transition concepts and needs and identify the actions parties can take to address differences.

For example, the African Climate Foundation (ACF)'s **Energy Access and Just Transitions Programme**, which is backed by several catalytic capital providers, supports local stakeholders to deliver just energy transition pathways.[19] At a country level, the ACF helps identify local transition needs and opportunities and support the development of local climate and just transition institutional capacity (including in multilateral negotiations and diplomacy). At a regional and global level, it helps connect and mobilise philanthropic and private finance for locally led just transitions. In South Africa, the ACF has supported local actors to identify the financing needs in ensuring social justice considerations are integrated in the country's transition away from carbon-intensive energy sources and industries.[20]

"No country should ever have to choose between development aspirations and climate action"

The Paris Pact for People and Planet

This drive for climate justice calls for the empowerment of voices from emerging and frontier markets in global climate discussions. It follows the move towards "localisation" in global development, which recognises that development outcomes are more sustainable when local actors and communities are engaged and empowered, and action is in response to need.[21] The "Nairobi Declaration", agreed after the inaugural Africa Climate Summit in September 2023, was unequivocal in calling for more equal partnerships and consideration of local needs in global climate change action.

As further explored in section 2, local actors – including fund managers, investees, and communities – are integral to the success of the just transition and can deliver deeper, locally led impact, but often lack the resources to play this role (including finance and technical capacity). Supporting such actors across the investment chain can therefore be a powerful entry point for catalytic capital providers and is well aligned with the tools at their disposal.

Case study: Locally led investments driving deeper impact

Evolution II is a 10-year closed-ended private equity fund, launched in 2017 by Inspired Evolution. The fund invests in clean energy infrastructure projects and technology-based growth companies that are enabling energy access and developing resource efficient, reliable, affordable, disruptive solutions. It is backed by several catalytic capital providers and private investors.

As a South Africa-based manager with further offices in Mauritius, Nairobi and Abidjan, Inspired Evolution has been able to invest in opportunities with deep impact that would typically not be on other investors' maps. For example, it has invested in the first grid-connected solar photovoltaic (PV) project development by an independent power producer (IPP) in Burundi. This is the first successful project by an IPP in Burundi and represents the largest international private investment in Burundi's electricity sector in nearly 30 years. Access to basic services and infrastructure such as health centres, schools, roads, and electricity remains a major barrier to economic opportunities for most Burundians. The Burundi solar PV project empowers local communities through economic development and energy access. In addition to its impact, this investment in a severely underserved market helps build the track record for unlocking future investments.

Unlocking additional private capital

Against a backdrop of limited public budgets and traditional sources of development funding, such as overseas development assistance (ODA) or philanthropy, more private capital is needed to support the achievement of a global just transition. The global just transition funding gap has yet to be calculated but its scale can be inferred from the Sustainable Development Goals (SDGs) funding gap and the climate finance gap. The annual funding gap to achieve the SDGs in emerging and frontier markets is estimated to stand at $3.9 trillion following the COVID-19 pandemic.[22] The climate finance gap is on a similar scale: the Intergovernmental Panel on Climate Change (IPCC) estimates that between $1.6 trillion and $3.8 trillion is required annually to achieve climate adaptation and mitigation globally, with the most acute finance need in emerging and frontier markets.[23]

While most sustainable private finance flows target climate, investors are paying increasing attention to the social risks and opportunities associated with the transition and the concept of a just transition.

Efforts to mobilise private finance have wielded mixed results despite the growth of responsible and impact investment practices.[24] Various estimates place the contribution of private capital to global transition finance in the range of billions rather than needed trillions, reflecting low average mobilisation ratios.[25] With global assets under management (AUM) totalling ca. $98 trillion in 2022, there remains significant scope to increase the contribution of private investors to a global transition.[26]

While most sustainable private finance flows focus on climate, investors are paying increasing attention to the social risks and opportunities associated with the transition and the concept of a just transition.[27] This rising interest from investors in just transition finance is reflected in various commitments and initiatives. The UNPRI Statement of Investor Commitment to Support a Just Transition on Climate Change is endorsed by 161 investors representing US $10.2 trillion in assets, and the Just Transition Finance Challenge brings together 23 global investors controlling over £4 trillion in assets to collaborate on just transition finance.[28] Some just transition initiatives seek to enable a global just transition, such the Emerging Markets Just Transition Investment Initiative, comprising 12 UK-based institutional investors, worth £400 billion, committed to financing a just transition in emerging markets.[29]

Catalytic capital providers can harness this interest of private investors to channel more capital to the markets where needs are most acute. As section 2 explores, given their unique positioning, catalytic capital providers can help bridge the environmental priorities of private investors and the social needs of emerging and frontier markets. They can also support local actors in attracting investment from private investors based in developed markets.

In line with the localisation agenda of the just transition, the growth of local asset owners – those based in emerging and frontier markets – is also an encouraging trend from a mobilisation perspective. Some local pension funds are large and growing quickly: pension pools in countries such as India, Nigeria and Ghana are experiencing double-digit annual growth and are now equivalent to a substantial percentage of national GDP.[30] Sovereign wealth funds based in these geographies are also sizable.[31] These actors remain largely invested in traditional financial instruments, such as national treasury bonds, but rigid barriers including asset allocation limits are being loosened in some countries.[32] Helping local actors to develop financial propositions that enable the mobilisation of these pools of capital can be another powerful area of intervention for catalytic capital providers.

2. How can catalytic capital providers support a global just transition?

In this section, you will become familiar with opportunities for action by understanding:

What is catalytic capital?	A high-level definition and examples of instruments.
How can catalytic capital providers support a just transition?	Common barriers and how catalytic capital can help address them – by facilitating private investment, partnering with local managers, supporting local investees, and empowering local communities.

2.1 What is catalytic capital?

This guide defines catalytic capital as capital that accepts disproportionate risk and/or concessionary returns, relative to a conventional investment, to generate positive impact and mobilise third-party investment that would not be possible in the absence of catalytic funding.

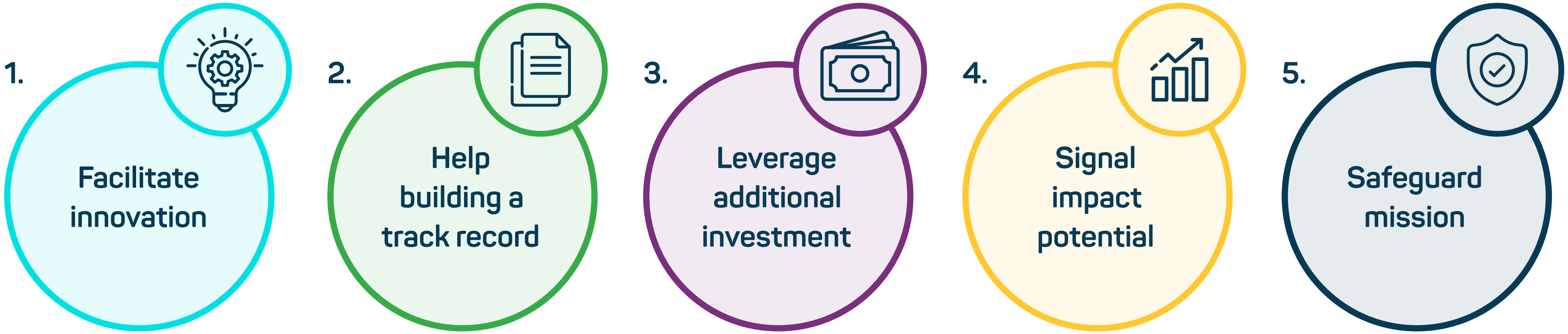
Catalytic capital is capital that accepts disproportionate risk and/ or concessionary returns, relative to a conventional investment, to generate positive impact and mobilise third-party investment that would not be possible in the absence of catalytic funding.

Catalytic capital is usually more patient, flexible and risk tolerant than private capital, which generally seeks market-rate returns, and can therefore be deployed in a manner that absorbs risks.

Catalytic capital can be invested directly into a project or enterprise, or indirectly through a fund or another type of vehicle, facility, or platform that will itself invest into the project or enterprise. The framework developed by Tideline is helpful for understanding the roles and uses of catalytic capital:[33]

- The role of the catalytic capital provider depends on the needs of the project, enterprise, or financial vehicle, but it tends to be to seed, scale or sustain.
- Catalytic capital has five broad uses by the investee: facilitating innovation, helping to build a track record, leveraging additional investment, signalling impact potential and to safeguard its mission.

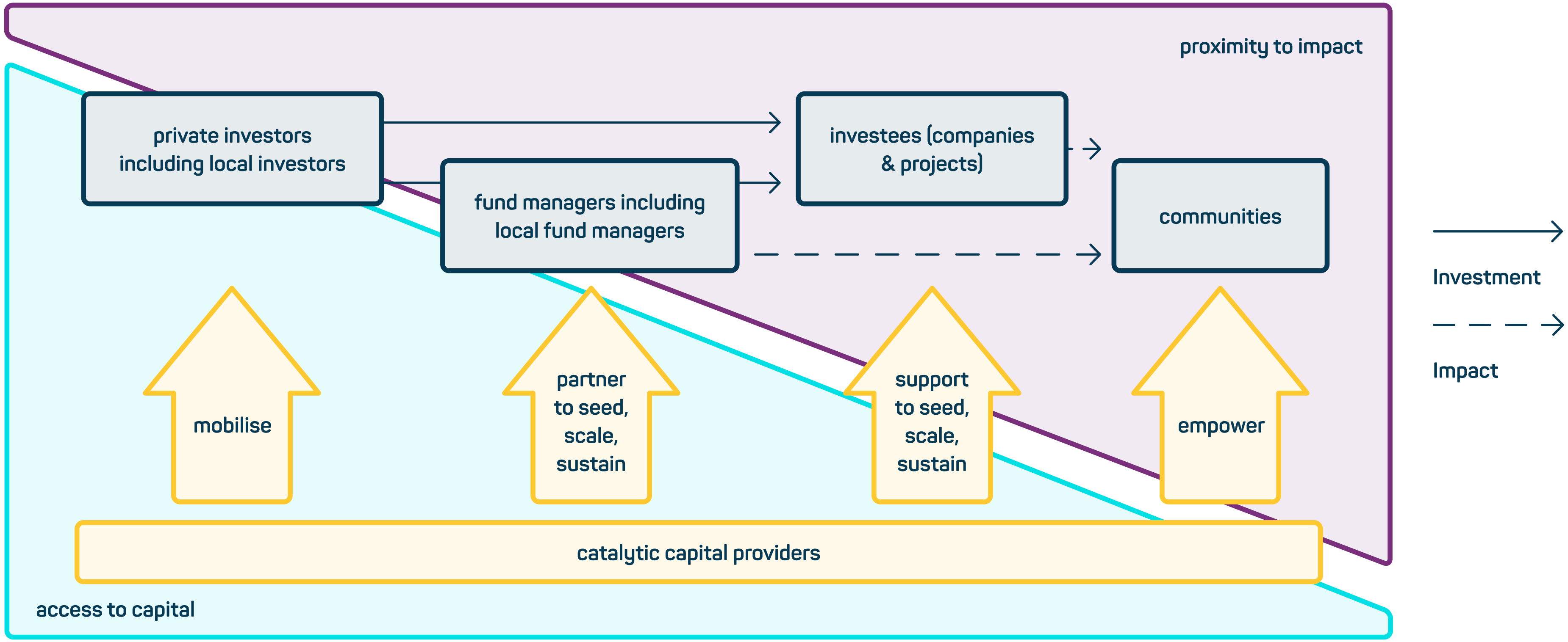
Figure 4: Five ways catalytic capital can help investees, communities, and fund managers



Catalytic capital providers also make use of other types of catalytic instruments, including grants, alongside their deployments of catalytic capital.[34] These instruments, summarised in the table below, can further the intended objectives of the catalytic capital deployed and deepen its impact.

Given the complex nature of the global just transition and the different barriers faced by stakeholders involved, the combination of catalytic capital with broader catalytic instruments is an approach privileged by catalytic capital providers seeking to support the just transition:

Figure 5: The use of catalytic capital across the investment chain



Catalytic instruments typically used by catalytic capital providers to achieve just transition objectives include:

Instrument	Examples	Purpose	Just transition example
Unfunded instruments / contingent liabilities	• Guarantees • Insurance • First-loss facilities	Reduce various kinds of investment risks	• Private Infrastructure Development Group (PIDG) / GuarantCo • Climate Action Investment Fund • BlueOrchard InsuResilience Investment Fund • Ci-Gaba Fund
Co-investment	• The catalytic capital provider invests alongside private investors, taking on first-mover risk	Encourage other investors to join through creating scale and distributing risks across a portfolio	• Evolution II
Concessionary instruments	• Subordinated debt • Subordinated equity • Convertible bonds • Securitisation	Priced at a rate designed to attract other commercial investors	• ResponsAbility Access to Clean Power Fund • GAWA Capital Kuali Fund
Results-based incentives	• Outcomes contracts • Funds • Bonds	Tie a portion of payments to the achievement of specific impact objectives	• Green Outcomes Fund
Grants	• Project design • Technical assistance • Early-stage research and development	Help make projects more commercially attractive	• KawiSafi Ventures Technical Assistance Facility • BlueOrchard InsuResilience Investment Fund (technical assistance and premium support facility)
Policy instruments	• Tax credits • Subsidies • Risk reduction mechanisms	Incentivise commercial investment in certain areas or mitigate risks	• Just Energy Transition Partnerships

Case study: A suite of catalytic instruments to respond to different needs

The **Private Infrastructure Development Group** (PIDG) is an innovative infrastructure developer and investor which mobilises private investment in sustainable and inclusive infrastructure in sub-Saharan Africa and south and south-east Asia. PIDG's mission is to get infrastructure finance moving and multiplying – accelerating climate action and sustainable development where it is most urgently needed. PIDG blends multiple donors' and private capital and deploys it across the entire lifecycle of the infrastructure assets alongside private sector entrepreneurs and investors. Since 2002, c. 70% of its over 200 infrastructure projects have been in Least Development Countries or Fragile and Conflict Affected States, enabling private finance where it wouldn't otherwise flow and making a difference to the communities that need it the most.

For example, PIDG's project development and equity investment arm, InfraCo, specialises in providing funding and expertise for transformative infrastructure projects, enabling them to seed and scale from an initial concept to a bankable investment opportunity, to a viable operating business. PIDG maintains a strong focus on integrating environmental and social considerations in its investments.

In 2022, InfraCo committed $3.8 million to support the expansion of Globology Ltd.'s Waterbus passenger transport operation on Lake Victoria. Links between Lake Victoria's mainland and island communities is limited, with passengers largely reliant upon open wooden canoes with polluting two-stroke petrol outboard motors to reach key services and to transport their produce to markets. These unscheduled canoes are unsafe, slow and lack shelter, so passengers are exposed to the elements and goods and fresh produce are vulnerable to spoilage. Violent, fast-moving storms can capsize open canoes which have few, if any, safety measures in place for their passengers. Several thousand people die every year on Lake Victoria alone.

Waterbus is the first passenger-focused service to deliver scheduled ferry routes on the Lake, currently operating two 132-seater and one 80 seater safe, modern catamaran vessels for passengers and light cargo on two Kenyan routes. InfraCo's investment will support the construction of five new fifth- generation ferries and will enable the company to finance upgrades to its existing boatyard located in Kisumu, Kenya. The new vessels will operate additional routes in Kenya and new routes in Tanzania and Uganda.

Shell Foundation joined forces with InfraCo to support the pilot retrofitting of a solar boost system to two of Waterbus's vessels with a grant of $800,000, with a target of improving fuel consumption by up to 15%.

The full suite of PIDG products includes:

- Technical assistance, viability gap funding and concessional capital to enhance project viability and impact
- Project development and equity through InfraCo
- Long term debt through the Emerging Africa Investment Fund
- Credit enhancement solutions in local currency through GuarantCo and local credit enhancement facilities

In 2002-2022, PIDG leveraged $1.9bn of ODA to make $5.2bn of commitments in infrastructure worth $40bn, including $25bn from the private sector, improving access to infrastructure for over 220 million people.

PIDG's 2023-2030 strategy puts climate, nature and sustainable development at the core of its work. The strategy focuses on infrastructure that supports climate resilient development, building on PIDG's track record as a market builder through some of the first renewable independent power producers investments in several countries and first privately issued certified green bonds, for example in Kenya and Vietnam.

PIDG's new strategy aligns all its instruments towards:

- Increasing the pipeline of projects built to international investable standards, scaling up its project development arm
- Unlocking domestic institutional capital for infrastructure investment through GuarantCo and through scaling up local credit enhancement facilities on the model of InfraCredit Nigeria and InfraZamin Pakistan
- Deploying commercial and institutional capital in developing and emerging markets through its blended finance structures, including its blended debt fund EAIF and its credit enhancement solutions

2.2 How can catalytic capital providers support a just transition?

Catalytic capital is problem solving capital. In the context of financing a just transition, each set of actors across the investment chain faces different barriers.

This section explores how catalytic capital providers can help address these barriers to:

- facilitate investment by private investors
- partner with local fund managers
- support local investees
- empower local communities.

1. Facilitate investment by private investors

As noted in section 1, there is still a significant funding gap for the global just transition, with an opportunity to mobilise private capital to bridge the gap. Private investors can:

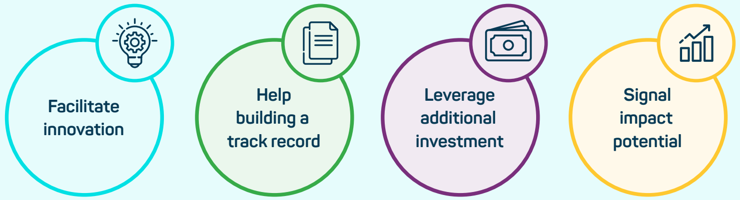
- Provide much needed **capital** for just transition projects and enterprises
- **Act with speed and flexibility** in response to urgent challenges and opportunities and be more open to backing **innovative and experimental** strategies that are essential for addressing the multifaceted challenges of a just transition.
- **Bring specialised knowledge and skills** that can complement public and non-profit initiatives and accelerate the scaling of effective solutions. This expertise includes technology, finance, marketing, and operations, which are critical for taking an initiative from concept to implementation.

Through a variety of interventions, catalytic capital providers can facilitate investment by private investors by removing barriers to their involvement, as listed below.

Private investor barriers	Catalytic capital providers can...
Information asymmetry and lack of quality data. Just transition investments are often private investments, which tend to provide non-standardised, limited, and less reliable information due to the poor availability of company level data. This can make it difficult for private investors to identify and conduct due diligence on potential investments.	• **Pioneer investment** into just transition projects to generate the initial data and metrics required by investors. • Help **develop common frameworks** to identify suitable just transition investments in local contexts, paving the way for conventional capital to enter the space.
Lack of scale. Besides infrastructure projects, businesses linked with delivering a just transition in emerging and frontier markets tend to be too small for the requirements of private investors, particularly considering the enhanced due diligence that is often required for these markets.	• **Help projects and enterprises scale**. • **Support the development of innovative and/or aggregated offerings**, such as bonds, funds, and other financing vehicles, which can provide higher ticket sizes for private investors.
Lack of technical and commercial track record. Many just transition projects in emerging and frontier markets are rooted in new or novel technologies that are still in their pilot phases, which makes it difficult to price for risk. Some funds are led by first time fund managers without a track record.	• **Fund pilot projects** that help build a track record for new technologies. • **Back first time fund managers**. • **Absorb higher transaction costs** for due diligence and risk assessments, making smaller projects more financially viable.
Lack of viable project pipeline. Investors often seek "shovel-ready" investments and projects that are well-defined, with clear objectives, timelines, and expected returns. The scarcity of such projects in the just transition context can deter potential investors. The lack of pipeline tends to restrict funding to grants or other non-commercial avenues, constraining the scale and impact of projects.	• **Provide risk-tolerant and patient capital** to help identify and prepare projects to become shovel-ready and attract more traditional investors.

Catalytic capital roles: seeding, scaling

Catalytic capital uses:



2. Partnering with local fund managers

Local fund managers can play a leading role in mobilising private finance towards a just transition and ensure finance mobilised is responsive to local realities and needs. Specifically, local fund managers can:

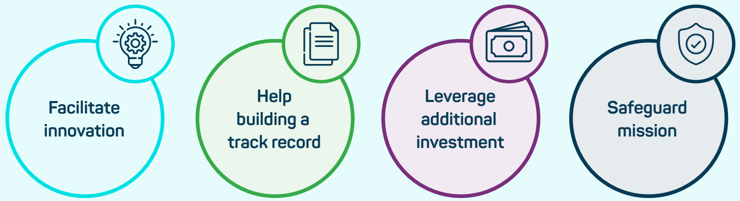
- **Tap into local pools of capital**.
- **Provide knowledge and expertise** on the financial, business, political, and cultural context to global investors and catalytic capital providers seeking to invest in their markets.
- **Draw on local networks to facilitate partnerships** with local governments, NGOs, and communities, expediting project implementation and adoption.
- Support a more precise **identification of the finance needs and support gaps** that should be addressed as part of financing a just transition in specific markets.

Catalytic capital providers can help local fund managers build a track record to enable them to raise funding from mainstream investors, act as a risk mitigant, and play a leading or anchoring role in the capital raising process. Specific interventions include:

Local fund manager barriers	Catalytic capital providers can…
Navigating funding landscape. The pool of funds traditionally dedicated to environmental sustainability in emerging and frontier markets is limited, and to social impact even more so. Limited knowledge about existing financial instruments and opportunities suitable for the just transition adds to the difficulty of securing appropriate funding.	• Work with and through local networks to **act as a bridge-builder** between global sources of capital and local needs (including mapping, deal sourcing and intermediation). For example, the Collaborative for Frontier Finance, the African Venture Philanthropy Association, and the National Advisory Boards for impact investment that now exist in 36 countries.
Inflexibility of potential investors. Private investors often operate standardised, relatively inflexible mandates and reporting requirements. This can be due to allocation policies or regulatory guidelines that limit their participation in perceived riskier, illiquid investments or emerging markets, which tend to define just transition investments. This can work to exclude local fund managers, whose business models, funds, strategies, and financing vehicles do not align with the requirements and who do not have the capacity to adjust accordingly.	• **Be flexible** in terms of risk and return profiles, enabling it to support projects that other funders might consider too risky or illiquid, including through vehicle structures (see section 3)

Primary catalytic capital roles: seeding, scaling, sustaining

Primary catalytic capital uses:



Case study: Supporting small, micro, and medium-sized enterprises (SMMEs) in participating in the transition

The **Green Outcomes Fund (GOF)** in South Africa illustrates the power of deploying catalytic capital to support small scale enterprises and enable them to participate in the transition to a green economy. The aim of GOF is to incentivise local fund managers to use new approaches and financing models to target high potential and fast-growing SMMEs operating in South Africa's green economy. GOF blends concessionary funding with private capital, thus enabling participating Catalytic Finance Partners (CFPs) to develop and adapt their SMME investment criteria and support services in ways that were not previously possible – realising greater impact in terms of the types of SMMEs funded and green outcomes created.

This approach responds to the fact that local investors need help to adapt to investing in "green" and build their sector related knowledge to invest in the target SMMEs. The National Treasury of the Republic of South Africa's Job Fund and the RMB Fund (part of the FirstRand Foundation) jointly provided cornerstone grant funding. This unlocked match-funding of over four times the investment capital from local fund managers (including IDF Capital, Conservation International Ventures, Edge Growth and Mergence Investment Managers). The outcomes payment is dispersed to the local fund managers to support SMMEs. Its deployment is dependent upon the fund manager being able to demonstrate that their investments will create green jobs, as verified by the GOF investment committee.

3. Supporting local investees

Local investees can provide substantial benefits to investors that back them, despite often being small-scale. Local investees tend to be:

- **Embedded within the communities** they serve and closer to the needs of local consumers.
- Possess **deep local knowledge and expertise**, as well as networks that can support the development of projects.

Catalytic capital providers can help address the following barriers:

Local investee barriers	Catalytic capital providers can...
Financial and risk constraints. Many just transition projects involve high upfront costs that can deter potential investors. These projects often use new or innovative technologies and approaches that lack a proven technical or commercial track record, which creates additional layers of risk. This is complicated by mismatched funding mechanisms, where traditional financial instruments are not always well-suited to meet the unique goals of just transition linked projects.	• **Bear higher risks** to provide the necessary initial funding for projects that might be deemed too risky or innovative by traditional investors. • **Support innovative financial instruments, facilities, and intermediaries**.
Technical and operational challenges. These challenges relate to the specialised technical expertise required to plan and execute just transition projects, which are typically complex and multifaceted. This challenge is not confined to investees but extends to national and subnational authorities as well as investment companies. This hinders investees' ability to engage in just transition planning and financing and prepare projects ready for accessing appropriate finance.	• **Fund technical assistance programs** to improve the capacity of national and subnational authorities and investment companies in just transition projects and businesses.
Information and transparency barriers. Investees can struggle to provide quality data, which is needed by investors to adequately assess the impact and risk associated with just transition projects. Limited knowledge about existing financial instruments and opportunities adds to the difficulty of securing appropriate funding.	• **Support investees in enhancing their reporting and transparency measures** to build trust with other potential investors.
Coordination challenges. Just transition finance requires complex coordination between different types of stakeholders. Projects often require a mix of domestic and international funding, as well as both public and private investment. Aligning these diverse funding streams is time-consuming, often requiring nuanced negotiations and trust-building among stakeholders.	• **Play a coordinating role**, aligning different funding sources, underwriting where necessary, and ensuring smooth project execution.

Primary catalytic capital roles: seeding, scaling, sustaining

Primary catalytic capital uses: Facilitate innovation; Help building a track record; Leverage additional investment

Case study: Helping to build local investee capacity on the just transition

The **Climate Action Investment Fund (CAIF)** is a blended fund with a mandate to invest in early-stage ventures and special purpose vehicles in developing countries. CAIF is being incubated by the Investment Fund for Developing Countries (IFU), and Partnering for Green Growth and the Global Goals 2030 (P4G). CAIF has secured a first loss guarantee of up to €33 million from the European Commission to mitigate early-stage investment risk. The target fund size for CAIF is €200 million including investment and catalytic capital. CAIF takes a blended approach to its investments and will cover 15% to 40% investment losses by first loss guarantee and losses will be shared with catalytic capital. CAIF is looking to address climate action combined with social impact, including local employment and gender equality in alignment with the 2X Criteria framework.

The fund's investment thesis is that early-stage ventures not only require funding support but also pre- and post-investment handholding. Given the focus on early-stage ventures, CAIF has an explicit agenda to create partnerships with in-country counterparts and become part of local entrepreneur support ecosystems. That involves working in partnership with incubators, accelerators, venture builders and co-investors to identify pipelines of potential investable opportunities.

FSD Africa Investments (FSDAi), the investing arm of FSD Africa, invested in Nithio FI, a renewable energy financing intermediary focused on the Pay as You Go (PAYG) off-grid solar sector, to provide reliable and sustainable renewable energy solutions for households and small businesses in Kenya, Nigeria, and Uganda. Nithio's mission is to standardise credit risk assessments and therefore drive more capital into the renewable energy sector, including by investing directly and efficiently into off-grid solar companies. FSDAi's investment in Nithio is designed to enhance the ability of local market actors in renewable energy to attract finance at scale and improve their data analytics and reporting capabilities.

FSDAi, which is funded by UK International Development, has invested £3.25 million into Nithio in the form of preferred equity aimed at catalysing more private capital from senior lenders to support Nithio's expansion beyond their initial core markets of Kenya, Uganda, and Nigeria. The investment allows Nithio to provide affordable finance to smaller players in the PAYG off-grid solar sector. FSDAi also provided Nithio with a grant of £310,000 alongside the investment which was used to provide capacity support for underlying off-grid energy companies, preparing them to qualify for finance and build their data capabilities, ultimately contributing to the long-term growth and health of the market.

4. Empowering local communities

Local communities will be the most affected by just transition investments and can provide critical insights throughout the investment process. At its best, community engagement is a process that allows local people and organisations to play a role in shaping projects and decisions and creates a two-way dialogue. For investors, the benefits include:

- **Increased impact**, as deeper insight into the local context and participation from affected stakeholders can help investors better respond to end beneficiary needs..
- **Enhanced risk management** and **increased long-term financial return** of relevant investments, through helping to identify positive impacts, risks, and challenges for both communities and investors, and prevent negative long-term ramifications.[35]
- Helping the **identification of partners and synergies** with other initiatives and creating and sustaining a local ecosystem of positive impacts.
- A means of **checking whether the intended impact of investments has been achieved**, which can be integrated into existing impact management processes.

Community voice is a key element of the just transition. In an investment context, it entails social dialogue and stakeholder engagement, through a participatory voice and inclusion in decision making, for those affected and those frequently excluded and/ or marginalised, including communities and people.

Just Transition Criteria

Catalytic capital providers can help address the following local community barriers:

Local community barriers	Catalytic capital providers can...
Lack of agency in investment decisions. Excluding the views of communities from the decision-making process can generate investment risk and diminish impact. However, community engagement can be resource-and labour-intensive and private investors, fund managers, and investees lack commercial incentive to fund it.	• **Support investors and investees to undertake community engagement** by providing grant funding for technical assistance, or by offering to fund or subsidise its cost.

Catalytic capital roles: seeding, scaling, sustaining

Catalytic capital uses:

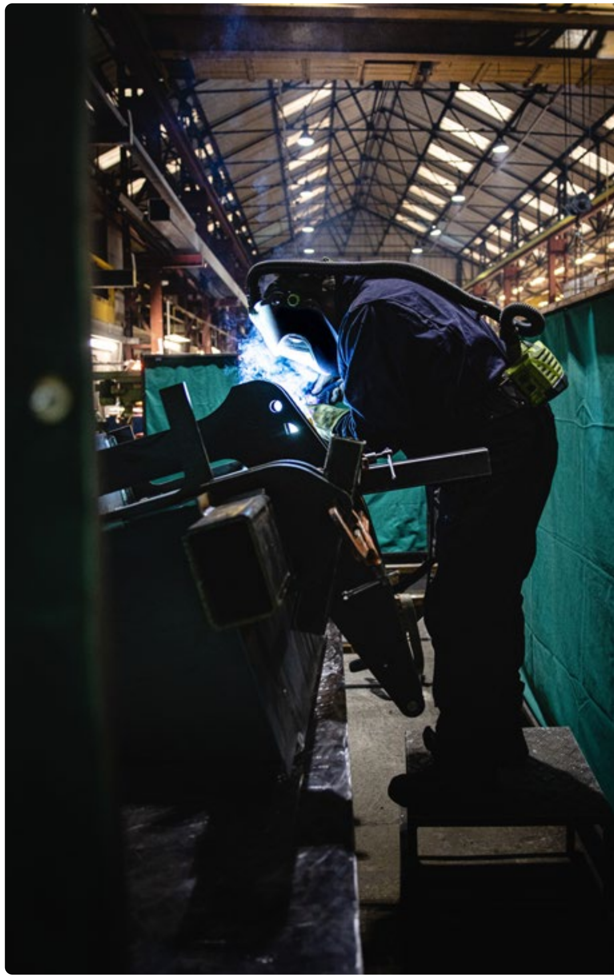
Case study: Supporting community engagement through technical assistance

The **European Bank for Reconstruction and Development** (EBRD) supports North Macedonia's public electricity utility JSC Elektrani na Severna Makedonija (ESM) as part of a broad partnership with the North Macedonian authorities to promote a just and green transition. The project encompasses investment, with a senior loan of €25 million in new green capacity for ESM, adding clean renewable energy generation to a region and country highly reliant on lignite power generation. The project supports climate mitigation objectives by enabling the construction of 30MW of solar PV generation capacity expected to result in CO2 savings of 44,000 tonnes annually. In addition, the project has a clear inclusion objective as it identifies the social implications of green transition and redeployment and reskilling opportunities at ESM.

The EBRD offered loan financing that was not available in the market from commercial sources on reasonable terms and conditions, and with a tenor that is above the market average and necessary to structure the project. Furthermore, the EBRD provided expertise, innovation, knowledge and capabilities that were material to the timely realisation of the project's objectives, including support to strengthen the capacity of the client. The project deployed strategic technical assistance support for project preparation, environmental social due diligence, and for the development and design of the project that opened the way for EBRD financing.

As part of its cooperation with the Government of North Macedonia, the EBRD's engagement aims to identify the social implications of the just transition and challenges for regional development and, in cooperation with local educational institutions, define redeployment and reskilling opportunities to retrain the coal region's local workforce.

Technical assistance has been provided for: policy dialogue on regional economic development planning; a strategy for the development of nationally accredited market-relevant curricula; the development of a programme to develop redeployment and retraining opportunities for a significant share of the affected local workforce; and the improvement of HR policies and practices to foster gender inclusion. The programme also includes the coordination and facilitation of stakeholder meetings between ESM trade unions, local civil society groups, and other relevant stakeholders.



3. How can catalytic capital support just transition funds?

This section provides practical advice for catalytic capital providers seeking to deploy catalytic capital through funds (and other investment vehicles) to help them mobilise private finance and deliver just transition outcomes. It can also be used by fund managers and advisors who design, develop and manage funds that include catalytic capital.

As outlined in section 2.2, direct investment by private investors into just transition aligned projects and businesses in emerging markets remains challenging. Investment through pooled investment vehicles, such as funds, can therefore be an easier entry point for private investors. Accordingly, initiatives including the G7 Impact Taskforce and the Sharm El Sheikh Guidebook for Just Financing launched at COP27 have called for the launch of funds dedicated to mobilising private capital for a global just transition.

Funds offer a variety of advantages, including the ability to aggregate small and dispersed investments into a common structure that allows for scale, and professional management with market access, expertise, and diversification. Partnerships with local fund managers also offer the opportunity to contribute to the localisation imperative of the just transition.

When providing catalytic capital through funds, there is a formal distinction to be made between catalytic capital's role in the fund versus its role with regards to underlying investments. For example, a catalytic capital provider might seek to seed a fund led by a first-time manager based in an emerging market, while the fund manager will make use of the catalytic capital to help scale innovative small and medium-sized enterprises that contribute to a just transition. The deployment of catalytic capital can set a positive feedback loop in motion, where the success of early vehicles and projects funded by catalytic capital attracts more investment to the space. This section focuses on catalytic capital's impact at the fund level – the more general use of catalytic capital for just transition is covered in section 2.

In addition to the Tideline framework highlighted in section 2, the section builds on the following frameworks:

- the **Blueprint** for just transition financing vehicles put forward by the G7 Impact Taskforce, which provides a common frame of reference for various contributors. The section is structured as an annotated version of the Blueprint with specific insights for catalytic capital providers.[36]
- the **Just Transition Criteria**, a fund manager-focused tool developed by the Impact Investing Institute, which provides guidance on how to integrate just transition considerations in financing vehicles across different classes.[37]

JUST TRANSITION FINANCE CHALLENGE

The Just Transition Finance Challenge brings together global financial institutions with over £4 trillion of assets, or assets under management who are committed to financing a just transition to net zero.

As part of the Challenge, participants developed the Just Transition Criteria, which provide practical guidance on how to create or align financing vehicles that advance all three elements of the just transition.

This section is presented specifically from the perspective of catalytic capital providers and those advising them in the deployment of catalytic capital (thereafter referred to as catalytic capital providers). Other actors are invited to consult the above resources for more general advice on structuring just transition aligned funds.

How to use this section

This section is framed as a series of considerations for catalytic capital providers at each stage of the design and implementation of a fund, to help identify opportunities for embedding and furthering just transition considerations.

3.1 Ambition

3.2 Investment strategy

3.3 Outcomes framework

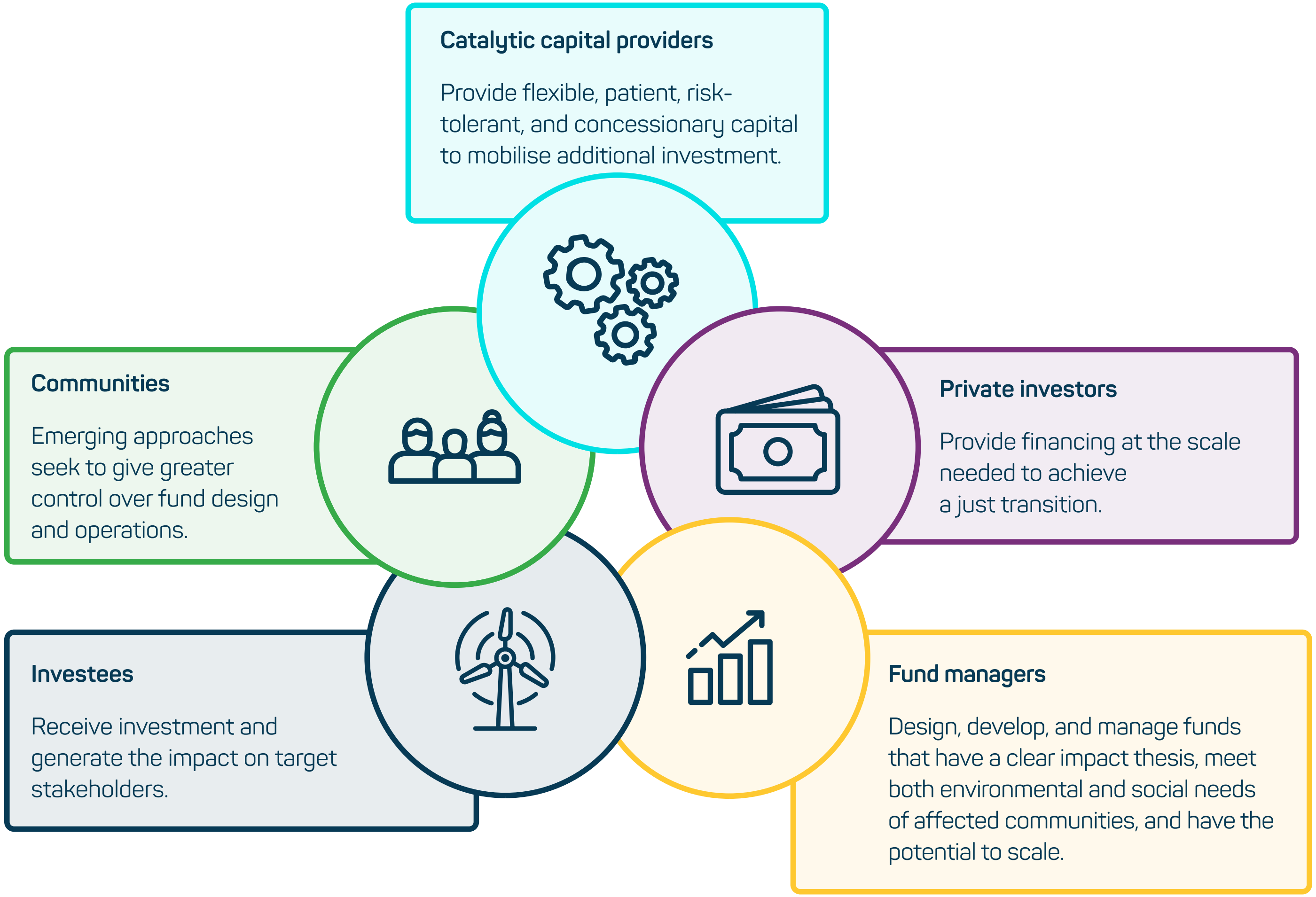
3.4 Structure

3.5 Governance

3.6 Operations

Opportunities to apply a just transition lens apply in the majority of asset classes, and they are therefore presented as universal considerations. There are also specific considerations in applying a just transition perspective in different asset classes, which are summarised in **section 3.7.**

Figure 6: Roles and responsibilities in a just transition vehicle



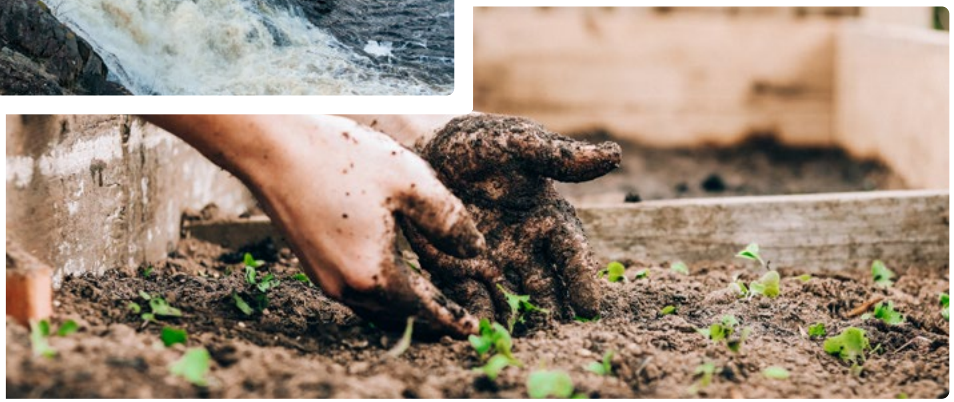
3.1 Ambition

Context

A vehicle's ambition, or impact thesis, is a high-level description of what the vehicle sets out to achieve through its investments. Ambition can be expressed as a statement or through a theory of change.[38]

A just transition-aligned ambition describes:

- **how** the three elements of a just transition are being addressed, based on clear and concise parameters;
- **who** will be affected, including the geographic scope, environmental scope, and socio-economic scope; and
- **what** the fund will contribute to, while understanding that each vehicle will focus on distinct opportunities and challenges and be part of a set of solutions. The 'magnitude' of the ambition will depend on fund size and depth of impact sought. A clear ambition or purpose makes it easier to define target just transition outcomes 'ex ante' (before investment) at both an individual investment and portfolio level.



Example of just transition ambition statement

Just transition ambition

The fund aims to achieve profit with purpose by combining market rate financial returns with intentional positive environmental, social and community impact. It does this by offering appropriate, affordable, high quality clean energy to households, businesses, and the grid in low-income regions. The fund places a specific focus on identifying companies that seek to engage and benefit local communities in their activities.

Statement

The fund aims to achieve the above ambition through the following activities in relation to the three just transition elements:

1. **Climate and environmental action:** financing the expansion and adoption of clean energy sources through providing affordable and accessible clean energy products to a range of consumers.
2. **Socio-economic distribution and equity:** improving accessibility to essential energy services of underserved and vulnerable consumers who would otherwise struggle to access reliable equivalent services due to identified market failures, while prioritising a local supply chain and living wage employment or local equivalent.
3. **Community voice:** supporting customer-centric companies that design products and services around the essential needs of the targeted underserved and vulnerable customer segments, incorporating customer feedback and engaging with local communities to identify needs and opportunities related to their activities.

Catalytic capital provider opportunity

The fund's ambition is a powerful entry point for catalytic capital providers. They can play the following key roles:

- **Support the integration of the three elements of a just transition**. Where private investors take a climate-first approach, catalytic capital providers can act to incorporate social considerations and community voice. Conversely, in geographies where funding needs are most acute for socio-economic development, catalytic capital providers can help position a fund to benefit from more climate-focused international investment.
- **Ground the ambition of the vehicle in the needs of the specified geographies**. Catalytic capital providers can support local needs analysis or community surveys, particularly through seeking to work with local fund managers, who can bring in local knowledge, expertise, and networks to help ensure the ambition of the fund meets local requirements.

Case study: Grounding the ambition in the needs of people and places

The Climate Gender Equity Fund (CGEF) is a public-private partnership designed to leverage funding to scale climate finance that advances gender equitable climate action. Launched with an initial commitment of $6 million between the U.S. Agency for International Development (USAID) and Amazon, CGEF seeks to leverage at least $60 million in capital from corporations, foundations, bilateral and multilateral development finance institutions, and other funders. In September 2023, Reckitt and Visa Foundation joined USAID and Amazon as founding members of CGEF, committing an additional $6 million to the fund.

CGEF aims to increase access to finance for the investment vehicles, businesses, and community-based organisations developing and scaling women-led and women-benefiting climate solutions in emerging markets where USAID operates. Its initial funding round focuses on grants to climate- and gender-smart fund managers and incubators, accelerators, and other supporting entities aiming to unlock capital for long-term and systemic change at the nexus of gender and climate. Multiple grants will be made to entities strengthening these ecosystems, such as emerging impact investment funds and vehicles, network organisations, accelerators, and other intermediaries supporting women entrepreneurs working in climate action.

3.2 Investment strategy

Context

An investment strategy refers to the principles guiding the fund manager's investments based on risk, return, and contribution to the stated ambition. The investment strategy and the investment process describe how the stated just transition ambition and target outcomes are achieved.

Just transition investment strategies

While recognising that some sectors, such as renewable energy generation, energy efficiency, and sustainable infrastructure, are traditionally associated with just transition investments, the just transition is a whole of the economy imperative with applications across all sectors. Therefore, many strategies can have just transition alignment – for example, financial inclusion strategies targeting microfinance investments, fintech, and climate adaptation insurance; healthcare strategies that include energy efficiency improvements; green built environment strategies that target educational and other social infrastructure; and strategies that target the growing pool of nature-based solutions.

To help investors navigate the range of investment strategies, the G7 Impact Taskforce provided an indicative list of investment strategies that can contribute to the delivery to the just transition and are likely to be most investable and familiar to private investors.

1. Climate and environmental action

- Greenhouse gas emission mitigation, reduction, and removal
- Adaptation and resilience
- Biodiversity and natural capital – climate and environmental effects
- Reduction of pollution or degradation of natural environments

2. Socio-economic distribution and equity

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

3. Community voice

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

Catalytic capital provider opportunity

Catalytic capital providers can play a powerful role in ensuring the investment strategy fully delivers on potential just transition outcomes by:

- **Identifying and responding to the key barriers to entry for private investors**, based on analysis of the risk/return profile of underlying investments, factors relating to the target market(s), diversification, and portfolio composition.[39]
- **Assisting fund managers with the design** of the investment strategy and investment processes, including alignment with explicit just transition strategies and best practice in terms of investment selection, monitoring, and divestment; for example, by using the Just Transition Criteria as a framework.
- **Assisting fund managers with expertise and capacity** in conducting engagement with investees on just transition matters.
- **Supporting an ongoing feedback loop** that ensures community voice continues to inform the fund's operations throughout its lifecycle.

Case study: Deepening impact while responding to local needs

KawiSafi Ventures (backed by the Green Climate Fund and AXA Investment Managers) manages a $67 million fund that tackles energy poverty while helping to avert the long-term climate crisis, by investing in off-grid clean energy enterprises to accelerate access for underserved, off grid populations. It aims to deliver clean, affordable energy to more than 10 million people in East Africa, at least half of whom are low-income, and displace more than a million tons of carbon. KawiSafi has also worked with **60 Decibels**, an impact measurement organisation with expertise in bringing the voice of the end-beneficiary. Findings from 60 Decibels' surveys has informed KawiSafi's approach to impact measurement, management, and reporting.

In addition to its investments, in 2020, the KawiSafi Ventures Technical Assistance Facility (TAF) was launched to further their social and environmental impact by addressing targeted market failures or potential negative externalities in the off-grid energy ecosystem. The five-year programme was seeded with a $5 million grant from the Green Climate Fund.

The TAF has two specific focus areas: (1) consumer protection to reduce negative impacts on consumers of off-grid renewable energy products in the case of financial distress, significant disruption in supply, obsolescence, or defunct products, and (2) specific projects that positively impact women and girls. The use of the TAF has included supporting consumers with low-repayment rates on renewable energy products directly attributable to the COVID-19 crisis and providing specific training in solar PV to low-income women in Kenya.

3.3 **Outcomes framework**

Context

A fund's outcomes framework reflects its just transition ambition and strategy. A just transition outcomes framework comprises clear targets and metrics across all three elements of the just transition. It will be applied at both the individual investment and portfolio level. At the individual investment level, a more detailed strategy or sector-specific metrics may also apply. It will be appropriate for the nature of the fund's asset class and may use, or be based upon, a framework and reporting methodology already used by the fund manager – which may be proprietary or widely recognised, such as the International Finance Corporation (IFC) Operating Principles, the Impact Management Project (IMP), the Global Impact Investing Network's (GIIN) IRIS+, and the SDG Impact Standards.

Fund managers can refer to the appendices of the Just Transition Criteria for an extensive list of common disclosures and key performance indicators that can be used for a just transition outcomes framework.

It is important that just transition funds investing in emerging markets are aware of, and sensitive to, the limited capacity of fund managers and investees to provide data on desired metrics and comply with reporting expectations, particularly the standards increasingly applied by global investors.

Example of outcomes framework for a real estate fund

- Environmental considerations: e.g. energy efficiency up to recent standards
- Specific focus on a targeted demographic group: e.g. tenants, workers, and consumers, including underserved or marginalised clients or consumers
- Community engagement with respect to needs assessment, procurement, and supply-chain considerations: e.g. local procurement

Catalytic capital provider opportunity

Catalytic capital providers can help a just transition fund's outcomes reporting, particularly through the use of technical assistance, by:

- **Supporting the capacity of fund managers and investees with reporting requirements**. This includes helping fund managers navigate reporting frameworks and standards and enhancing their practices where needed.
- **Supporting integrity, accountability, and transparency**, by covering the costs of third-party verification and amplifying published reports.

Case study: Measuring just transition outcomes

ResponsAbility's **Access to Clean Power Fund** seeks to achieve and deepen the measurement, management, and reporting on several just transition-related outcomes across its portfolio and in different geographies. These include the number of people with access to clean energy, number of products sold, number of jobs created by gender, number of management jobs and board seats by gender, increased economic activity, cost reduction for small businesses, and increased opportunities for women. It also has a commitment to include and act on feedback from affected communities.

The achievement of these outcomes is supported by the fund's strong local market presence, enabling a close assessment of needs and opportunities. This includes on-site due diligence visits and interviews and engaging internal and external experts to identify needs. The fund also leverages data from initiatives such as the Global Off-Grid Lighting Association (GOGLA) to understand and monitor the impact of the fund in relation to the full range of potential benefits of improved energy access and reliable electricity supply.

3.4 **Structure**

Context

A just transition vehicle's structure, choice of asset class, and terms are designed to enable the strategy and target outcomes and allow for the participation of investors by addressing their needs and any barriers.[40]

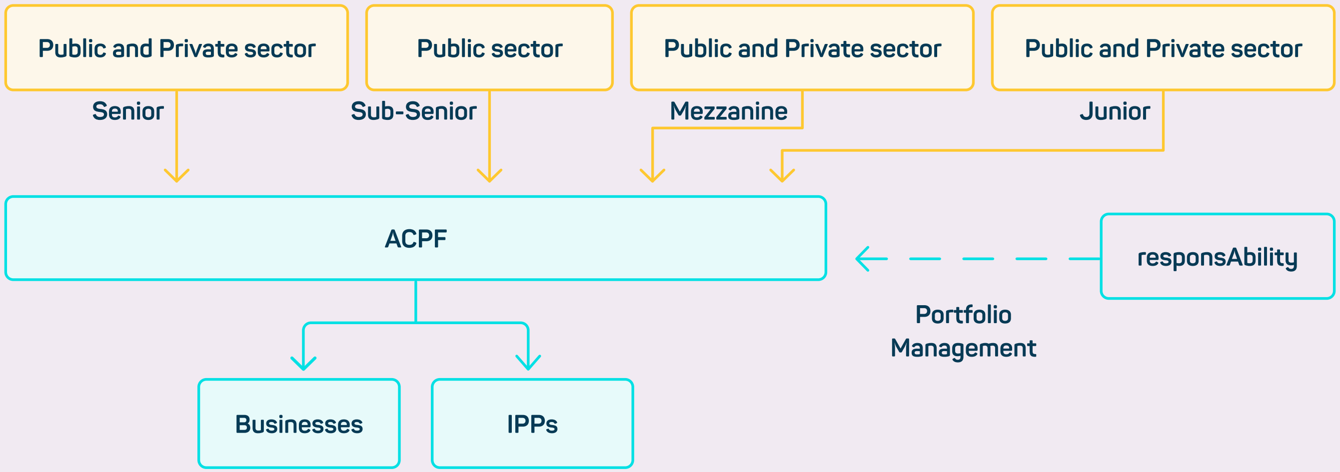
One of the benefits of a fund structure is that it enables the use of a range of instruments to attract private capital. Different types of structures play different roles from a mobilisation perspective. For example, a fund of funds can serve to reduce risk across a portfolio, while a multilayer capital structure can bring in investors with different risk profiles, including catalytic capital providers and private investors.

Case study: Innovative structures for mobilisation

The **Ci-Gaba Fund** is a West Africa-focused blended finance fund of funds that is sponsored by Impact Investing Ghana and managed by Savannah Impact Advisory, a local fund manager. The GHS845 million (~$75 million) local currency vehicle is designed to address the lack of investment in early-stage funds that are providing equity investments in SMEs. The fund aims to address the massive SME financing gap in Africa (~$331bn according to the International Finance Corporation). To do so, it aims to crowd in local pension fund investment through a catalytic de-risking portion of 30%-40% in philanthropic funding. It will also prioritise investment through experienced and emerging fund managers across the West African Sub-region with a gender-lens.

ResponsAbility's **Access to Clean Power Fund**, backed by several catalytic capital providers, offers senior and mezzanine debt to companies that provide access to energy solutions for households and SMEs, and it also actively looks to the solar potential for the commercial and industrial sector. The fund adopts a four-layer blended capital structure, enabling different investors to invest depending on their willingness to take on risk. The fund also features a technical assistance facility for companies needing targeted support.

Figure 7: Structure of responsAbility's Access to Clean Power Fund



Catalytic capital provider opportunity

Structures that can attract private capital at scale can be complex to develop, particularly when they seek to involve catalytic, private, and local investors. A common challenge is the mismatch between the investments needed for a just transition in emerging and frontier markets, which tend to be riskier and smaller-scale, and the requirements of private investors.

Catalytic capital providers can:

- **Act as a bridge between private investors and investments**, using the instruments listed in section 2.1. Catalytic capital providers can have a strong signalling effect by supporting and investing in unfamiliar structures and facilitating engagement between different parties.
- **Facilitate innovation**. By focusing on the target outcomes in sectors and geographies that mainstream capital would not otherwise reach, catalytic capital providers create scope for the creation of innovative fund structures.
- **Connect with specialised support**. Catalytic capital providers can connect managers with specialist services, such as insurance providers, that can develop solutions to facilitate the targeted private investment[41].

Case study: Combining different catalytic instruments to attract private capital and achieve outcomes

The **BlueOrchard InsuResilience Investment Fund (IIF)** is structured in an attractive way for private investors while reaching underserved and vulnerable populations in emerging and frontier markets. The IIF is an umbrella fund combining a private debt sub-fund and a private equity sub-fund with a first loss tranche from KfW (on behalf of the German Federal Ministry for Economic Cooperation and Development).

The fund has a strong just transition focus as it seeks to build out an insurance ecosystem that protects vulnerable people and microentrepreneurs in emerging and frontier markets from the effects of climate change. The strategy is implemented through the provision of growth capital (equity) and debt investments focused on seeding and scaling local insurance providers

The fund reflects the needs of end beneficiaries. A BMZ-funded grant facility, which provides funding for technical assistance and premium support projects, is made available to investees. The fund organises education workshops for prospect investees to improve understanding of climate insurance and enable communication between stakeholders. This helps to accelerate investment and scale up climate insurance. The grant-funded facility supported surveys of users of insurance products to ensure these are meeting needs.

GAWA Capital's Kuali Fund is a €300 million private debt and private equity fund supporting climate change resilience in Latin America and Asia. Kuali invests in financial institutions and climate solution providers to increase climate solutions suitable for smallholder farmers and small businesses. The fund aims to mitigate 7 million tons of CO2 (through mitigation and carbon sequestration derived from nature-based solutions) and build resilience for 600,000 smallholders and small businesses. The fund targets an IRR of 10% per annum (in euros).

The fund employs catalytic capital provided by Cofides (Spain's DFI) and AECID (the Spanish Development Agency). An additional contribution from the Green Climate Fund is undergoing due diligence. Private investors include family offices, pension funds and insurers. First-loss tranches safeguard private investors' contribution, requiring losses to exceed €50 million before they incur a loss. Subsidised junior debt recoups on an equal footing with private investors, although at a lower rate 1-3% of return per annum. Any excess returns go to the private investors.

The fund includes a technical assistance facility to amplify environmental and social impact in vulnerable communities. The fund engages with communities to identify challenges in accessing climate solutions, tailor technical assistance projects to needs and monitor impact. The fund features a gender-sensitive approach, with gender analysis, women's representation targets, and training programs to promote diversity and inclusion. Kuali works locally with EU and AECID delegations and local organisations to implement technical assistance projects.

3.5 **Governance**

Context

A just transition fund embeds just transition considerations throughout its governance structure – the board, investment committee, advisory committee, or other applicable formalised bodies – grounded in the policies for each body. Accountability is sought internally and publicly: information about the composition of a fund's governance bodies is publicly available.

Importantly, the governance structure of a just transition fund incorporates and represents different voices, particularly the voices of communities. Across the governance bodies, there is, ideally, representation from at least one community member from among the communities the fund is targeting or a person representing the communities.

For global or multi-regional funds, it may be that a relevant NGO or community expert provides this representation.

The governance structure of a just transition fund vehicle invites intentional dialogue across stakeholders, including investors as well as local stakeholders and communities. This interaction sparks feedback and dialogue throughout the life of the fund.

Catalytic capital provider opportunity

As before, catalytic capital providers can play a particularly powerful role in supporting the incorporation of community voice and an ongoing feedback loop.

Case study: Incorporating community voice in governance

The participation of community members in the governance of financing vehicles targeting emerging markets is still a nascent practice, however, there are examples of good practice in other contexts. One is the **Oakland Fund**, a place-based investment fund managed by Pacific Community Ventures. The fund provides accessible loans to communities of colour in the Californian city, with support from various catalytic capital providers including the University of San Francisco. Members of the community were actively involved in the design and operation of the fund, through community workshops and feedback sessions.[42]

3.6 **Operations**

Context

A just transition fund integrates just transition considerations across its whole investment lifecycle, from sourcing, to investment, to monitoring – seeking to take a long-term view that extends beyond the fund's investment life.

It is good practice that all relevant staff have sufficient training and capacity to implement just transition considerations. This includes investment professionals and others, including ESG, impact, and risk management specialists so that, together, staff can deliver a just transition from pipeline building through to due diligence and monitoring. It follows that staff performance reviews and bonus or incentive schemes include both financial performance metrics and performance metrics that can be tied to the delivery of just transition targets.

Catalytic capital provider opportunity

Catalytic capital providers can:

- **Advocate for the benefits of greater diversity in a fund**, from the range of expertise in a diverse team to the inclusion of people with local market knowledge.
- **Support training and technical upskilling on just transition aspects**.
- **Encourage incentive structures** linked to the achievement of just transition outcomes.

3.7 Asset class catalytic considerations

In addition to the catalytic considerations listed above, which apply across asset classes, each fund will have specific opportunities to enhance just transition alignment. For catalytic capital providers who wish to go deeper in supporting the achievement of a just transition, the asset-class specific catalytic considerations below provide a starting point.[43]

Asset class	Example catalytic considerations
Fixed income	• Clarity on green and social objectives, providing allocation expectations for both • Prioritisation of bonds that align with all three just transition elements • Social and environmental assessment of the issuer, including its engagement with local communities
Infrastructure	• Identification of who will be affected by infrastructure projects in the short term (in particular the construction phase) and in the long term (operational phase); those who benefit from infrastructure can change over the long time horizons of infrastructure projects • Consideration of positive and negative externalities of each investment project across different stakeholders and affected communities and population segments. Positive and negative externalities are considered and addressed from the outset and tracked over time • Clear positioning on the inclusion of local community considerations, including local quality employment opportunities and health and safety considerations, as well as community engagement throughout lifecycle of projects • Social considerations to supply chains • Specificity of green outcomes, including, for example, materials used, water usage or energy efficiency, including also the supply chain, where possible • Debt service terms, including interest rate, amortisation and maturity, or return expectations, as applicable, are fair and not overly burdensome, leading to availability, access, and affordability of funding for local investees • Opportunity to sustain just transition alignment post investment exit
Private equity	• Accessibility and affordability of equity terms, including fair investment valuations • Opportunity to sustain just transition alignment post investment exit
Private debt	• Debt service, including interest rate and repayment structure (e.g., bullet, amortising, flexible, seasonal), is fair and not overly burdensome, leading to availability, access and affordability of credit for local investees • Debt terms offered are appropriate with a view to local market building, aiming to attract other investors, in particular local ones

Asset class	Example catalytic considerations
Real estate	• Identification of the local market gaps and needs (for example, housing) and how the targeted real estate investments support the closing of a gap, including engagement with local communities • Clarity on who will be affected by the real estate projects in the short term (in particular, the construction phase) and in the long term (operational phase). The targeted clientele is specified based on price and affordability, location / catchment area, size and finish, among others • Consideration of positive and negative externalities of each investment project across different stakeholders, affected communities, and population segments. Positive and negative externalities are considered and addressed from the outset and tracked over time • Clear positioning on the inclusion of local community considerations, including (short- and long-term) local quality employment opportunities and health and safety aspects, as well as community engagement throughout lifecycle of projects • Specificity of green outcomes, including, for example, materials used, water usage or energy efficiency, including also the supply chain, where possible • Social considerations to supply chains • Debt service terms at the investee level, including interest rates, amortisation and maturity, or return expectations, as applicable, are fair and not overly burdensome, leading to availability, access, and affordability of funding for local investees • Opportunity to sustain just transition alignment post investment exit

Appendix

Just transition fund checklist

The below checklist summarises practical considerations for catalytic capital providers who seek to support a global just transition through funds.

1. Ambition	2. Strategy	3. Outcomes framework
Clarify or increase the ambition of the fund across each of the three elements of the just transition – climate and environmental action; socio-economic distribution and equity; and community voice. Help ground the ambition of the fund in the local context of the specified geographies, including environmental and socioeconomic needs.	Identify and respond to the key barriers to entry for private investors. Assist fund managers with the design of the investment strategy and investment processes, including help building expertise and capacity for investee engagement. Support an ongoing feedback loop that ensures community voice continues to inform the fund's operations throughout its lifecycle.	Support the capacity of fund managers and investees with reporting requirements. Support integrity, accountability, and transparency, by covering the costs of third-party verification and amplifying published reports.
4. Structure	**5. Governance**	**6. Operations**
Act as a bridge between private investors and investments. Facilitate innovation. Connect with specialised support.	Support the incorporation of community voice and an ongoing feedback loop.	Advocate for the benefits of greater diversity in the fund. Support training and technical upskilling on just transition aspects. Encourage incentive structures linked to the achievement of just transition outcomes.

Endnotes

[1] The Rockefeller Foundation and Boston Consulting Group (2022): What Gets Measured Gets Financed: Climate Finance Funding Flows and Opportunities

[2] Ministry of International Cooperation, Arab Republic of Egypt (2022): Sharm El Sheikh Guidebook for Just Financing; G7 Impact Taskforce (2021): Mobilising Institutional capital towards the SDGs and a Just Transition

[3] Impact Investing Institute: Case studies

[4] The International Labour Organisation: Frequently Asked Questions on Just Transition

[5] World Bank (2021): World Bank Country and Lending Groups

[6] Reflecting the state of funding need, current market practice and the expertise of stakeholders engaged, this guide paid particular attention to investments in Sub-Saharan Africa and South and Southeast Asia. Learnings are nevertheless applicable, with due consideration to the local context, to other geographies.

[7] Tideline (2019): Catalytic Capital: Unlocking More Investment and Impact

[8] For an example of a private investor providing catalytic capital, see Convergence (2019): WaterCredit Investment Fund 3 Case Study. Bank of America provided a $5 million zero-interest facility within this blended structure investing in financial institutions and enterprises that increase access to safe water and sanitation services in emerging and frontier markets.

[9] Good Governance Institute: Defining communities

[10] UNFCCC (2022): Sharm el-Sheikh Implementation Plan

[11] UNDP (2022): How Just Transition Can Help Deliver the Paris Agreement

[12] See We Mean Business Coalition (2023): Business in the just transition: Why, what and how? for an overview.

[13] IHRB (2021): What is just transitions? ; see also Van Deventer and Schultz (2023): Framing the concept of "transitioning in" and "transitioning out".

[14] See ILO (2022): Just transition finance tool for banking and investing activities for a further exploration of just transition actions at the company-, subnational/regional-, national and global level.

[15] See MDB Just Transition High-Level Principles; EBRD: Just Transition Initiative; PIDG strategy 2023-2030

[16] Ceniarth (2023): 2022 annual report

[17] See OECD (2022): Green, social, sustainability and sustainability-linked bonds in developing countries: how can donors support public sector issuances? for an exploration of causes.

[18] See Climate Action Network (2023): Briefing: Can the new global financing pact summit deliver on climate justice? and Daniel Gerszon Mahler, Philip Randolph Wollburg and Stéphane Hallegatte (2023): The climate implications of ending global poverty for a summary of these discussions and the links between climate action and broader socioeconomic development.

[19] The African Climate Foundation: Energy access and transitions

[20] See Intellidex (2023): Funding Social Justice in the Energy Transition

[21] See for example the Donor Statement on Supporting Locally Led Development backed by 36 leading development funders and foundations.

[22] See OECD (2022): Global Outlook on Financing for Sustainable Development 2023

[23] IPCC (2018): Summary for Policymakers. In: Global Warming of 1.5°C. PC

[24] See OECD (2022): Global Outlook on Financing for Sustainable Development 2023. and Climate Policy Initiative (2022): Global Landscape of Climate Finance: A Decade of Data. Responsible investment practices seek to integrate environmental and social factors in investment decisions, while impact investing seeks to contribute to delivering positive social and environmental outcomes alongside a financial return.

[25] See Convergence (2023): Blended Finance & Leveraging Concessionality

[26] Boston Consulting Group (2023): Global Asset Management Industry Must Transform to Thrive Amidst Changing Macroeconomics

[27] For example, a survey of 120 financial institutions conducted by Fidelity International showed an overwhelming majority (91%) believed that investing with a just transition approach would have an overall positive impact on risk and return profiles in the long term. Despite this recognition, only 42% of investors were familiar with the term of just transition itself, suggesting significant further opportunities for awareness raising. See Investment Week (2023): Investors lack understanding and conviction for 'just transition' economy ambitions. See also African Development Bank (2022). Financing a Just transition in Africa: Challenges and Opportunities and United Nations Development Programme (2023): From Fragmentation to Integration: Embedding Social Issues in Sustainable Finance for further perspectives on the recognition of social factors by private investors.

[28] UNPRI: Statement of Investor Commitment to Support a Just Transition on Climate Change and Impact Investing Institute: Just Transition Finance Challenge.

[29] Church of England (2022): Emerging Markets Just Transition Investment Initiative: Guiding Principles

[30] OECD (2022): Pension Markets in Focus

[31] Sovereign Wealth Fund Institute: Rankings by total assets

[32] For example, recent regulatory changes in South Africa expanded the range and allocation limits for investments in asset classes such as infrastructure and private equity for South African pension funds, and other similar efforts are underway in other emerging and frontier markets. See South African Government (2022). Treasury Publishes Final Amendments to Regulation 28 of the Pensions Fund Act.

[33] See Tideline (2019): Catalytic Capital: Unlocking More Investment and Impact and the three Guidance Notes on the seeding, scaling and sustaining roles of catalytic capital published by the Catalytic Capital Consortium.

[34] While definitions of catalytic capital traditionally did not include instruments such as grants, as they do not constitute investment capital, their widespread use alongside catalytic capital has led to their inclusion in evolving definitions. In addition, certain catalytic instruments, such as grants deployed as capital into transactions, can blur lines between these definitions and might be considered as falling under the broad umbrella term of catalytic capital. For a further exploration, see Catalytic Capital Consortium (2022): Frequently Asked Questions about Catalytic Capital.

[35] For example, research by the United Nations Conference on Trade and Development (UNCTAD) and the World Bank suggests that projects that engage local communities are more likely to be successful in the long term. See UNCTAD-World Bank (2018): Community Engagement Strategies in RAI Knowledge Into Action Notes and Impact Investing Institute (2023): Fostering impact: An investor guide for engaging communities in place-based impact investing for an overview of evidence on community engagement.

[36] Mobilising institutional capital towards the SDGs and a Just Transition, section 3

[37] Impact Investing Institute (2023): Just Transition Criteria

[38] A theory of change is a conceptual model used to describe and map how specific inputs and activities lead to positive change, measured in terms of 'outputs' and 'outcomes'. This includes a comprehensive description and illustration of how and why a desired change is expected to occur in a particular context.

[39] For a complete list see G7 Impact Taskforce (2021): Mobilising Institutional capital towards the SDGs and a Just Transition

[40] General advice on how to reflect these imperatives in the structuring of a vehicle can be found in the Guidance Notes on the seeding, scaling and sustaining roles of catalytic capital published by the Catalytic Capital Consortium.

[41] See for example Matrix Global (2023): Achieving carbon neutrality: the dilemma of blended finance vs. Commercial profit and the role of the insurer to help effect a just transition. Matrix Global designs proprietary insurance solutions for banks, funds, investors and private equity clients with the purpose of adjusting and reducing risks to enable investors to access finance, re-risk investments, and enhance the security of their transactions and investments.

[42] Readers looking for more information on community engagement in a financial context can refer to Impact Investing Institute (2023): Fostering impact: An investor guide for engaging communities in place-based impact investing, which provides a step-by-step guide to community engagement and examples of funds doing community engagement in practice.

[43] Further details on asset class considerations in the development of just transition finance vehicles are available in the G7 Impact Taskforce (2021): Mobilising Institutional capital towards the SDGs and a Just Transition

Acknowledgements

We would like to thank the Catalytic Capital Consortium and in particular Urmi Sengupta and Stacy Xiao for their funding and support for this project and the catalytic capital agenda more broadly. We would also like to extend our deep gratitude for the valuable contributions from various stakeholders across the investing ecosystem, especially to those people who have been particularly generous with their time by contributing to the case studies as well as sharing their experience and insights at various workshops and events, through one-on-one interviews, and written responses.

These include Africa Investor, Aspen Network of Development Entrepreneurs (ANDE), BlueOrchard, Chemonics UK, Children's Investment Fund Foundation (CIFF), Climate Action Investment Fund (CAIF), Collaborative for Frontier Finance (CFF), Courageous Capital Advisors, the European Bank for Reconstruction and Development (EBRD), Financial Sector Deepening (FSD) Africa, GAWA Capital, the Global Steering Group for impact investment (GSG), Grameen Capital, The Green Outcomes Fund, ILX Fund, Impact Investing Ghana, Impact Investing South Africa, Inspired Evolution, KawiSafi Ventures, Matrix Global, NABII, P4G, Pacific Capital Ventures, Private Infrastructure Development Group (PIDG), RBN Fund Managers, ResponsAbility, Social Finance NL and the Taskforce on Sustainable International Development.

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Feedback

The production of this guide has been an iterative and collaborative endeavour. We welcome feedback on the guide and further cases studies of best practice of deployment of catalytic capital for a just transition. Feedback can be submitted to **justtransition@impactinvest.org**.

How to cite

Impact Investing Institute (2023): Bridging divides: A guide on using catalytic capital for a global just transition.

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