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# Investing in a just transition

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## Why investors need to add a social dimension to their climate strategies – and where to start?

At last, the investment tanker is turning. Trillions of dollars in investment funds are now backing a rapid shift to a zero-carbon economy. The reason is simple: climate change wrecks the ability of institutional investors to deliver long-term returns for the world's savers and pensioners. Yet the road ahead got bumpier this year with President Trump's decision to pull the US out of the Paris Agreement. Among the many reasons given by Trump was his claim that compliance would cost the US millions of jobs, including in the coal industry: "I happen to love the coal miners", the President explained. According to a fact-check conducted by Germany's Environment Ministry, President Trump's assertions on job losses are "doubtful and misleading", relying on research generated by anti-climate organisations<sup>[1]</sup>. The international evidence

collected by the OECD in a recent paper shows that green policies “do not need to harm overall employment if they are well implemented”. In the USA, solar energy alone employs more people than oil, coal and gas combined. And by 2050, a global economy based on renewables and energy efficiency would create 24 million more permanent, full time jobs, according to research from Professor Marc Jacobsen at Stanford University.

## Stranded labour

Yet, the net positive prospect of our zero-carbon future does not mean the employment implications of the transition can be brushed aside, least of all by investors. The macro-economic consequences of the transition are unprecedented in breadth and depth. There will be social dislocations. If these are poorly managed, then the transition itself will be dented, economic performance knocked and investment returns undermined. Investors are increasingly conscious of the risk of stranded assets in their portfolios. But they have yet to appreciate the potentially negative implications for workers and communities dependent on high-carbon industries: in effect, the risk of stranded employees and stranded communities. Key issues cover the location and quality of the new ‘green jobs’, as well as how the pace and process of change in declining sectors are negotiated. This is not just about a few retraining programmes, but the economic fate of regions. For return-hungry investors, the case for adding a social dimension to their climate strategies is increasingly compelling and multi-dimensional.

## Remember Paris

The first catalyst for action lies in the Paris Agreement itself, which as well as calling for policies to deliver decarbonisation and resilience also stated that this should take into account “the imperatives of a just transition of the workforce”. Long championed by the international trade union movement, the ‘just transition’ has become the rallying cry for those recognising that decarbonisation will only be successful if it respects those working in fossil fuel industries and channels investment into the renewal of regions dependent on high carbon sectors.<sup>[2]</sup> Indeed, a new Just Transition Centre has been established by the International Trade Union Congress (ITUC).<sup>[3]</sup> We know that the history of deindustrialisation over the past 40 years has led to lasting economic and social scars in many parts of the world, contributing to both wasted opportunities and economic stagnation. Many of these costs also have specific gender and racial dimensions. Political backlash inevitably follows if these persistent problems are not addressed. So, if investors want a smooth transition, then understanding the social consequences is essential.

## The rise of the populists

The risk for investors is the arrival of anti-climate populists who use the structural decline of carbon intensive sectors to block further action to build the clean economy. Protests of this kind undermine the political case for reallocating capital to cleaner, more efficient industrial models, many of which offer potential for job creation (such as wind, solar and energy efficiency). Added to this is the realisation that inequality caused by poorly managed transitions can depress the long-term economic potential of countries. According to the IMF, inequality “tends to reduce the pace and durability of growth” on which investor returns are derived.<sup>[4]</sup> In essence, a transition that tries to cut emissions without cutting inequality is likely to hit long-term investment performance.

## Join the dots

A final prompt for investor action to join the dots between jobs and climate lies in the Sustainable Development Goals, the overarching UN framework for planetary progress through to 2030. Stepping back, the SDGS can be seen, in effect, as a roadmap for a 'just transition', particularly with goals for poverty eradication (goal 1), gender equality (goal 5), clean energy (goal 7), decent work (goal 8) and climate action (goal 13). Too often, however, these goals are looked at individually, with the social and environmental goals separated into silos. Furthermore, the importance of a just transition is not limited to post-industrial economies. Emerging and developing countries are not just among the largest producers of fossil fuels, but often more reliant on high carbon sectors for economic development. They also have the weakest safety nets and the bulk of people whose livelihoods are being damaged by intensifying climate impacts. This points to the need for a truly global perspective.

## Start with G

The practical task is for investors to develop climate strategies that link the E and the S of ESG. The G of governance is a good place to start. Shareholder engagement is a key tool for investors to ensure that their capital is aligned with a 2-degree pathway. Some investors have started to integrate the implications for workers and communities into their climate engagement. CalPERS, for example, has done this in its work with US utility companies. Furthermore, unions, through the Committee on Workers Capital, have developed Shareholder Resolution Principles that require companies to deliver plans for decarbonisation along with social dialogue.<sup>[5]</sup> With resolutions calling on US corporations to publish climate scenarios winning 62% support at Exxon and 67% at Occidental this year, the next step is to incorporate the social implications of the transition more explicitly into proactive shareholder engagement strategies, for example, around scenario analysis and corporate strategy (including the design and implementation of employment plans).

## A place-based approach

Capital allocation is another critical place to act. Here, the prize is to connect the growing interest in both impact investing and green assets. The question is how is to help channel investment towards key regions already left behind by deindustrialisation as well as those likely to be impacted by decarbonisation. In the USA, pension funds have long had strategies for 'economically targeted investment' (ETI) to support their local economies to provide the prosperity that enables future pension promises to be paid. One of the downsides of globalisation is an erosion of the importance of place in economic and financial decision-making. Now, there's a chance for a place-based approach to climate investing. This would identify and build pipelines of green assets that could be accessed by real estate, infrastructure, private equity and fixed income investors. Community renewable projects offer attractive ways of combining decarbonisation, place-based investment and community empowerment, which some UK pension funds are pursuing. The launch of local 'social stock exchanges' could also help to raise public equity finance. Promising, bottom-up initiatives are underway, such as the Just Transition Fund in Appalachia. But these have yet to connect with the core portfolios of institutional investors.<sup>[6]</sup> One way forward would be to develop pilot 'sustainable finance zones', which would focus attention on areas of high need and vulnerability, identifying practical actions that can then be taken to scale.

## Capital raising

These place-based strategies will often only work with the right policies in place, pointing to the wider need for investors to incorporate the just transition in their dialogue with governments. Growing investor willingness to press for ambitious climate policies has been one of the success stories of recent years. Nearly 400 investors managing more than US\$22 trillion in assets are urging governments to drive the swift implementation of the Paris Agreement.

As we now turn to putting in place the 'capital raising plans' that will make a reality of climate goals, investors need to work with policymakers and other stakeholders to ensure that specific public funds and incentives are developed both to respond to the employment risks facing vulnerable sectors and communities – and the opportunities for renewal that exist. It is critical for investors to reach out to labour unions, community groups as well as regional authorities to understand how their investment strategies on climate change could actually help boost economic regeneration more broadly. In the end, the transition will need to be many things: effective in delivering climate goals, smooth in terms of minimising disruption and positive in terms of generating both opportunity and returns. It will also need to be just. Investor action will be critical in delivering this essential component.

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[1] <http://www.bmub.bund.de/en/topics/climate-energy/climate/international-climate-policy/paris-agreement/fact-check/>

[2] <http://www.oecd.org/environment/cc/g20-climate/collapsecontents/Just-Transition-Centre-report-just-transition.pdf>

[3] <https://www.ituc-csi.org/just-transition-centre>

[4] <https://iri.hks.harvard.edu/blog/why-and-how-might-investors-respond-economic-inequality>

[5] [https://www.ituc-csi.org/IMG/pdf/shareholder\\_resolution\\_principles.pdf](https://www.ituc-csi.org/IMG/pdf/shareholder_resolution_principles.pdf)

[6] Interesting examples include Denmark's Green Jobs initiative (<http://groennejob.dk/documents>) and Canada's Clean Growth Century initiative

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