

Financing climate action with positive social impact: How banking can support a just transition in the UK

High-level summary, July 2020

LSE's Grantham Research Institute on the Environment and Climate Change and UK Finance have collaborated on a report entitled *Financing climate action with positive social impact: How banking can support a just transition in the UK*. The report sets out how the Government and the banking and financial sector can work together to mobilise the capital needed for an inclusive and sustainable economic recovery, one that drives the just transition to a thriving net zero economy. The report will be published on 14 July and this note provides a high-level summary of the key findings ahead of launch.

What is the just transition?

At its core, the just transition is about delivering climate action that delivers a positive social impact. The Paris Agreement on Climate Change included it as a way of ensuring that the interests of workers are upheld in the shift to a resilient, net zero economy. Our research and dialogue across the country has shown that climate success is contingent on the transition being fair and seen to be fair: in the UK context, this means joining up the net zero and levelling up agendas. In practical terms, the transition needs to be inclusive – generating benefits for workers, consumers and SMEs – as well as be place-based and sector specific. To rebuild the economy through investment in green opportunities that start to put the just transition into practice requires concerted action by both industry and the Government.

Harnessing the banking and finance sector: actions by UK Finance

The banking and finance sector demonstrated throughout the lockdown that it can play a powerful role in supporting the real economy at times of profound change. It is committed to continuing to do so during the process of economic recovery, and the move towards a just transition. Recognising this, UK Finance has taken a number of proactive steps. UK Finance has founded a Sustainability Committee, which acts as a focal point for UK Finance's discussion on climate risk, green finance and sustainability. We have helped ensure almost 500 financial institutions – and over 1,000 corporates in all – committed to working with the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD). UK Finance is also one of the signatories of the UN Principles for Responsible Banking. However, there is more to do. That's why the report marks an important step forward by connecting the, often separate, worlds of climate action, inclusive economic development and finance.

Placing the just transition at the heart of banking and financial practice: key recommendations

The report sets out a number of steps the financial industry should now take to support the just transition:

- **Leadership:** Board-level commitment to ensuring that the just transition is incorporated into institutional strategies and culture.
- **Purpose:** Ensure the just transition is central to the industry's core purpose and business model, and that it is embedded in its strategic objectives.
- **Strategy:** Create a clear institutional action plan for how banks can operationalise the just transition.
- **Customers:** Serve customers by developing a core portfolio of financial products and services that help them achieve net zero in a socially inclusive manner. *The report focuses in particular on the needs of SMEs and also the housing sector.*
- **Place:** Continue to work with key stakeholders in different parts of the country to respond to the diverse needs throughout the just transition.
- **Policy:** Engage actively with policymakers to encourage the right environment for the just transition and system-wide innovation.
- **Partnership:** Engage in dialogue with government, business, trade unions and civil society to integrate emerging needs and develop breakthrough partnerships.
- **Accountability:** Report on progress towards our just transition goals in each firm's Strategic Report in the Annual Report and Accounts.

Creating the enabling policy framework: key recommendations for Government

The alignment of government and banking efforts behind a just transition to net zero, levelling up the UK economy, and achieving a sustainable economic recovery would create the conditions for lasting progress. The report outlines policy actions that could be taken at a local, regional and national level to support these aims.

1. Make a strategic commitment to a just transition. This could be characterised by a just transition policy statement and the creation of a UK-level multi-stakeholder 'Just Transition Task Force' to advise on implementation, the establishment of just transition sectoral plans, and the identification of just transition standards to be applied by government, business and finance.

2. Kick-start the just transition through the UK's COVID recovery plans. This could involve aligning recovery plans with the Paris Agreement, and targeting a sizeable proportion of stimulus spending on sustainable growth opportunities with strong economic multipliers in terms of job creation and productivity enhancements via investments in skills, innovation and infrastructure.

- 3. Align public finance with the just transition.** This could include extending the mandates of institutions like the British Business Bank to support the SMEs through the just transition, the establishment of a UK National Investment Bank with an explicit sustainability mandate focusing on infrastructure (including buildings) and issuing sovereign green bonds to finance a just and sustainable recovery.
- 4. Integrate the just transition into financial regulation of climate risk,** including exploring how the social dimension of the transition can be incorporated into the reporting framework of the TCFD, and using the results of the forthcoming climate stress test to identify transition hot spots across the country.
- 5. Commit to supporting place-based action to deliver a just transition.** This could include applying the just transition policy to the Shared Prosperity Fund, adapting the Social Value framework as a tool for local procurement, extending Climate Emergency declarations to include the just transition and expanding the UK impact investment and community finance market to deliver the just transition at the local level.
- 6. Make the just transition a key part of international climate action.** This could involve promoting the just transition as a key approach to achieving ambitious climate outcomes during the UK's presidency of the G7 and at the COP26 summit in 2021, mobilising the international financial community in partnership with UK banks and investors to help deliver the just transition, and setting the standard through leadership on the just transition from the UK's international financial institutions such as CDC and UK Export Finance.

Contact details

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