

Just Transition

BSC Roadmap 2024



Why are we sharing this?

The concept of a **Just Transition - referring to a transition to a world of net zero carbon that is inclusive and beneficial to society** – has gained momentum over the last 10 years, becoming a priority for Governments, social organisations, businesses and investors.

Better Society Capital and our partners have already engaged extensively in the 'Just Transition to net zero', and we want to build on this platform.

By sharing our working views on the role for social investment in the transition to net zero, and the emerging challenges and opportunities for investment, we hope we can move more quickly towards mobilising more capital and developing financing models that can work at scale.

We are keen for this to be a starting point for:



Feedback and constructive challenge



Knowledge sharing



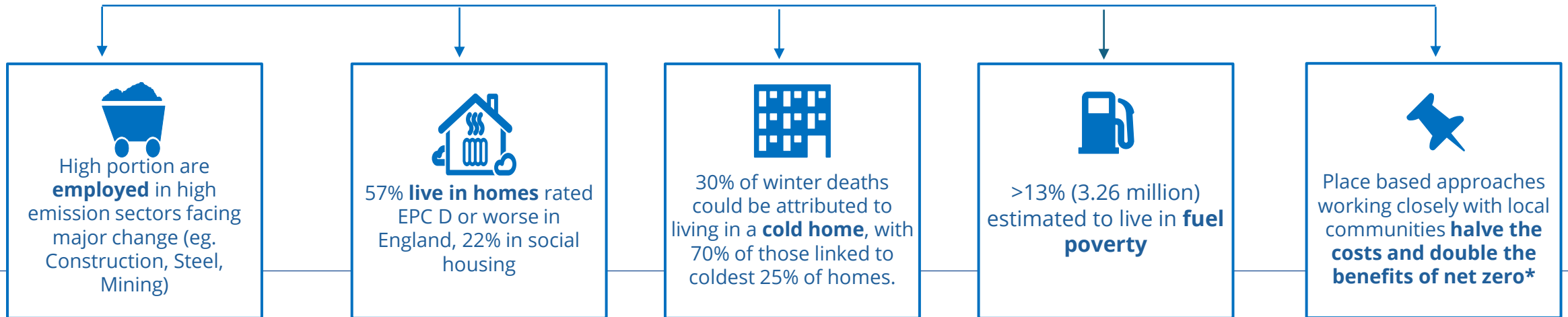
New partnerships and investment proposals in 2024.

The Net Zero Transition and Social Investment

The transition to **net zero emissions is a social issue.**

Low-income and vulnerable communities are disproportionately exposed to climate change and to the impacts of transitioning to a net zero economy.

Investment focused on supporting these communities to drive change is vital to achieving net zero rapidly and in a way that works for society.

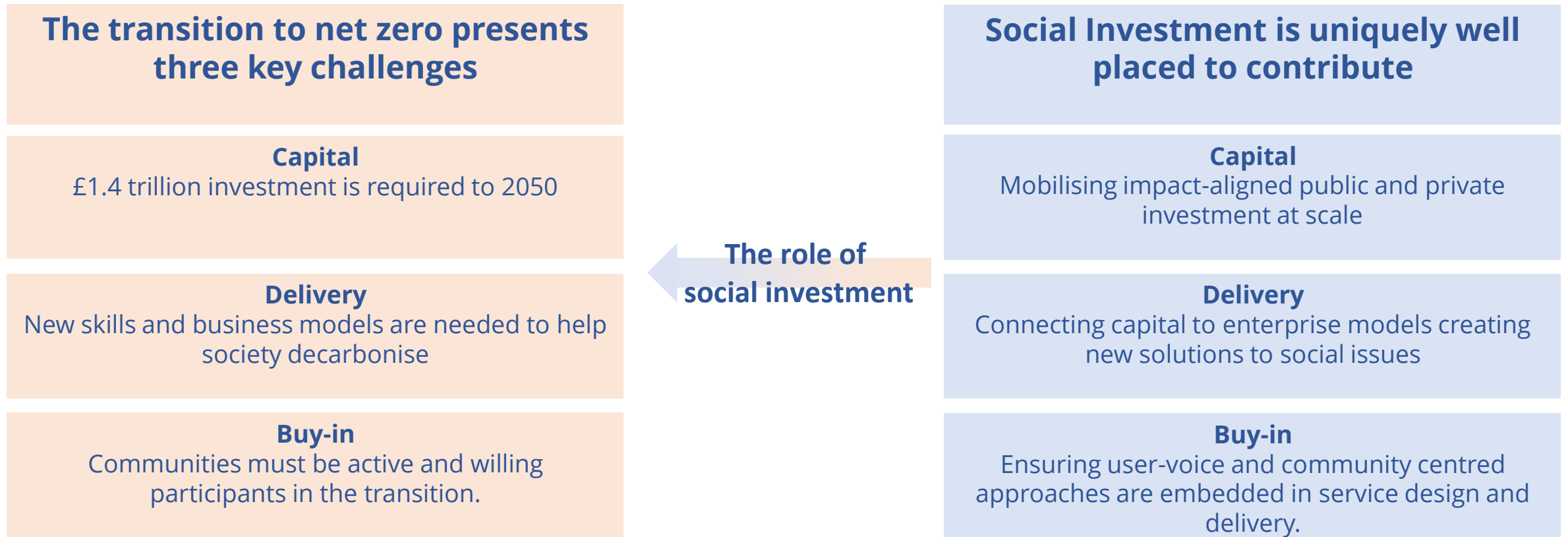


*UKRI and PwC, Accelerating Net Zero Delivery, 2022

The Net Zero Transition and Social Investment

The UK's social investment sector has grown rapidly over the last decade to play a crucial role in connecting government, private capital, enterprises and communities to tackle entrenched social issues.

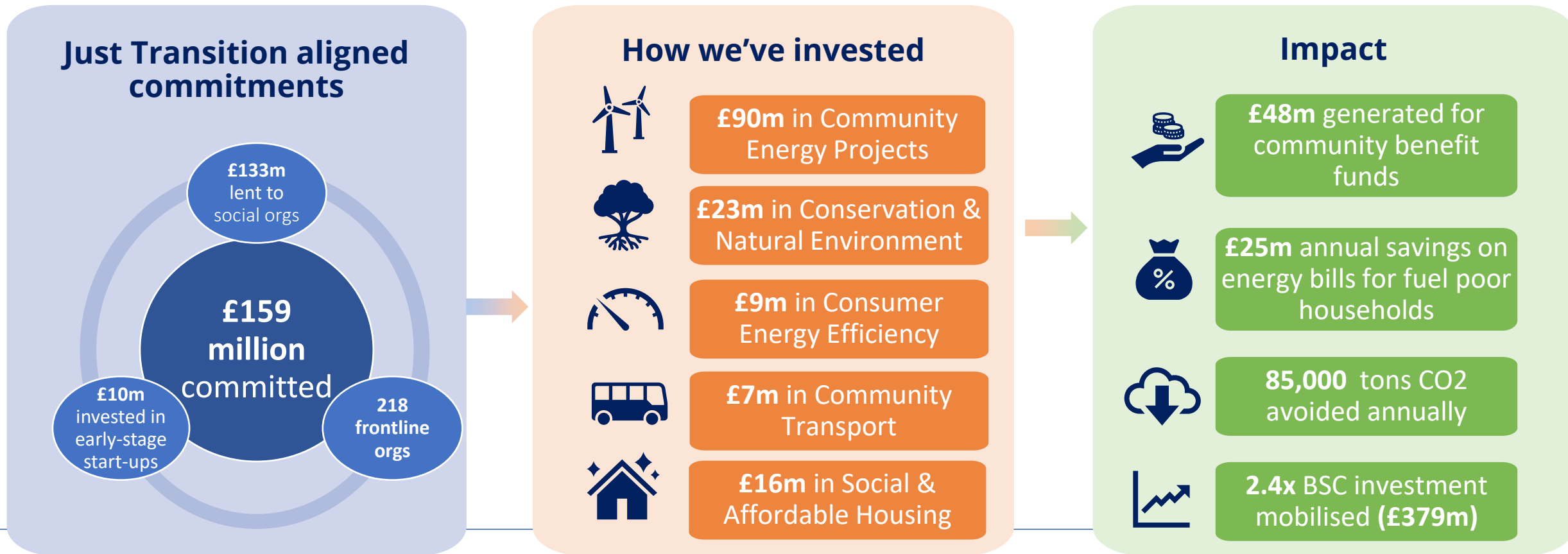
This role is critical to the three key challenges the UK faces in transitioning to net zero emissions.



BSC has a strong foundation of just transition investments

A quarter (25%) of BSC's portfolio has high alignment to the just transition (combining positive social and environmental impacts, and community led approaches).

This offers a strong platform for growth, and an indication of potential future impacts of further just transition investment.



BSC's working vision: social investment for a just transition

<p>System Change Vision</p>	<p>Social investment helps deliver a net zero transition that works for everyone</p>					
<p>Systems Change Goals</p>	<p>Capital: Public and private investment is allocated at scale to sustainable, inclusive net zero business models</p>		<p>Delivery and Buy-in: Social sector organisations have capacity to deliver net zero transition services with and for at risk communities at scale</p>		<p>Market alignment: Environmental and social impact management norms aligned to net zero are the standard for UK market investments</p>	
<p>Systems Change Conditions (Broader than Activities & Portfolio)</p>	<p>Proven models for just transition financing are replicated and attract more capital (Resources)</p>		<p>Government funding and regulations enable social investment and social sector leadership in net zero delivery (Policies)</p>	<p>Social investment networks bring together communities, delivery partners and investors (Relationships and connections)</p>	<p>Just transition impact widely recognised as a source of value (Mental models)</p>	<p>Impact management practices are adapted and applied across social investment and sustainable investment asset classes (Practices)</p>
<p>Systems Change Strategies , 2024-2025 (BSC Activities & Portfolio)</p>	<p>Co-development & Origination</p> <ul style="list-style-type: none"> • 3 catalytic funds seeded, in turn seeding new funds, pioneering targeted solutions for the most vulnerable • 2-3 scalable funds developed with institutional investors • Potentially, seeding new dedicated just transition financial institution. 		<p>Engagement, Public affairs and Market Partnerships</p> <ul style="list-style-type: none"> • Social Investment Manifesto and engagement with policymakers • BSC Just Transition thesis and forward guidance • Market systems/thematic working groups identify key policy recommendations and investment models to pilot, focussing on Housing Retrofit, Environmental and Social Outcomes, Place Based net zero (social lending). • Partnerships developed with Impact Investing Institute's Just Transition Financing Challenge, Grantham Institute Just Transition Lab 			<p>Portfolio management and learning</p> <ul style="list-style-type: none"> • Just Transition Finance criteria aligned impact management practices established with specialist asset owners/managers • Aligned impact management practice embedded across BSC • Learnings distilled and shared across portfolio.

Key areas for origination and engagement

We have identified four emerging **Themes** and **Investment Models** that are strongly aligned to **BSC's high-level criteria for investment**

- a clear need for capital and BSC support
- a pathway towards attracting funding from other sources
- addressing entrenched social issues
- emerging, investable business models that can reach disadvantaged and underserved communities
- credible delivery partners and intermediaries

Just Transition Themes



Investment Models



The issue: 57% of England’s population live in 15m homes rated EPC D or worse, resulting in fuel poverty for over 3 million households. Housing associations are a crucial part of the solution, but struggle with funding, recovering invested capital and a complex supply chain. Public funding of up to £6bn available but private capital must step in to meet the £104bn required to upgrade 2.7m social and affordable homes to EPC C.

The opportunity: Exploring new retrofit finance models to enable lower income households to benefit from home decarbonisation measures include retrofitting, heat pumps and electric boilers to improve energy efficiency, alongside energy savings advice and services delivered by social organisations.

Impacts targeted	<ul style="list-style-type: none"> • Reduced fuel poverty • Improved health outcomes from warm homes • Efficient household energy demand and reduced emissions • Improved asset quality and financial viability for social housing providers • Local job creation and capacity building for net zero services
Investment models with potential to accelerate decarbonisation of UK homes	<ul style="list-style-type: none"> • General funding of housing providers to complement accessible grant funds for housing retrofit capital expenditure • Project financing of match funding by housing providers as required under the Social Housing Decarbonisation Fund grants • Financing within a consortium comprising energy supplier, supply chain, housing provider, public and private capital providers • General or project financing of all-in-one retrofit coordinator within a Place-based approach (Net Zero Neighbourhoods) • Venture capital into supply chain, data analytics and skills training solutions
Key areas for development and partnership	<p>Additionality in funding housing providers</p> <ul style="list-style-type: none"> • BSC currently provides general funding, which housing providers can use to upgrade housing stock • WIP: Scoping appetite for retrofit project-financing and feasibility of repayment models funded by energy bill savings, energy generation income, additional rent or retrofit carbon credits <p>Consortium participation</p> <ul style="list-style-type: none"> • Investment structures that bridge complex interdependencies between housing organisations, capital providers and supply chain businesses to streamline retrofit execution • WIP: Monitoring and participating in sector development of consortium models – Pineapple Homes in pilot with Places for People to retrofit 500 homes in Hounslow; Net Zero Neighbourhoods (3CI) at Early Investor Involvement workshop stage. <p>Venture investments to build up supply chain</p> <ul style="list-style-type: none"> • BSC’s venture capital funds have some exposure to companies with direct or adjacent retrofit solutions via Fair by Design (Switchee; Minibems), Bethnal Green Ventures (Resilience Energy Technology), Bridges Evergreen (AgilityEco), Ada Soc II (Glowb).

Portfolio Examples




The issue: Community energy schemes generate 12 times the local economic value of commercial energy and have funded fuel poverty work yielding at a 9:1 social return on investment. However, community energy generates only 0.5% of the UK's electricity. Greater support for community engagement and ownership in net zero infrastructure, including energy generation, storage, distribution, efficiency and EV charging, can help accelerate decarbonisation and incentivise the behaviour change that is essential for reaching net zero emissions.

The opportunity: There is clear near-term demand for more social investment in community renewables, and potential to grow community energy ten to twentyfold with supportive government policies. We are exploring investment opportunities that build on BSC's work financing close to half of the community energy sector to date and lay the foundation in 2024 for major growth under a more supportive policy framework from 2025.

	<i>Environmental area</i>	<i>Potential environmental outcomes</i>	<i>Potential social outcomes</i>
Outcomes targeted	Energy (renewable energy, energy efficiency, home decarbonisation)	Renewable energy generated, emissions avoided	Fuel poverty reduction, community ownership/benefit funds
	Green skilling (training)	Skilled workforce for the green economy, climate smart practices	Employment
Market Opportunity	<ul style="list-style-type: none"> Community energy schemes offer opportunity to increase renewable energy generation capacity, drive community participation in the transition, and build local economic value through revenues generated by assets or via asset ownership (or both). Growing political support for local and community energy solutions UK Infrastructure Act enables government to set a shared ownership obligation for renewable projects 		
Investment models	<ul style="list-style-type: none"> Project finance for community development and acquisition of solar and wind farms, and EV charging infrastructure. Bonds and underwriting for community raises Investment in large scale projects accessing Contracts for Difference with community ownership carve out Investment with aligned asset developers and owners with a commitment to enhanced community engagement and allocation of profits towards just transition initiatives 		
Key areas for development and partnership	<ul style="list-style-type: none"> New project investment: Bridge financing is needed to graduate projects funded by government grant from development to construction Project refinancing: projects require refinancing to repay bridge funding and upgrade projects, lowering financing costs and risks for communities Community/shared ownership: supporting communities to exercise shared ownership options for renewable projects creates a need for financing Supporting regulations that enable new community owned projects to connect to the grid 		

Portfolio Examples





The issue: In the last year, in the UK, £2.5bn of loan requests to fund commercial solar and batteries were not completed or rejected, while social organisations also struggle to access capital despite being well-placed to deliver net zero services and generate new revenue streams. Funding is most constrained in areas with lower income and vulnerable communities.

The opportunity: We are exploring finance solutions for retrofitting community buildings, installing solar generation and energy storage, and energy saving advice and services for SMEs. We are also exploring growth financing for SME and social organisations to scale up local net zero service provision to address the local delivery challenge and create new jobs.

<p>Impacts targeted</p>	<ul style="list-style-type: none"> • Savings and incomes generated for social organisations and disadvantaged communities • Local job creation and capacity building for net zero services • Reduced emissions
<p>Investment model examples</p>	<ul style="list-style-type: none"> • CDFIs • Energy Resilience Fund • Triodos loan book with integrated net zero planning and/or targeted bonds • Place based funds providing growth capital (debt and equity) to SME net zero service providers. • Granyt platform for secured lending to SMEs (Zinc backed venture)
<p>Key areas for development and partnership</p>	<ul style="list-style-type: none"> • Delivery: Rapid expansion in capacity of social enterprises providing retrofit and energy advice services. • Developing new payment models incorporating multiple buyers: • Capital: Models for simplifying fragmented public funding • Identifying places with suitable Local Authority leads, aligned local investors, clear data on energy usage and efficiency opportunities.

Portfolio Examples

Triodos Bank Net Zero Target and Strategy

The issue: The UK is one of the most nature depleted countries in the world and has lost more wildlife than any other G7 country. The funding gap for nature recovery is estimated to be up to £97bn over the next decade.

The opportunity: Natural Capital is an emerging asset class gaining interest from impact and sustainability aligned investors globally. In the UK, Government has set a target of raising an extra £500m private investment annually by 2027. The introduction of Biodiversity Net Gains (BNG) has also created a new market for delivering improved environmental outcomes as service. Social sector organisations are well-placed to help manager our land and water more sustainably to capture carbon emissions, improve water safety and reverse biodiversity loss, all of which are vital to supporting the long-term health and wellbeing of people in the UK.

	<i>Environmental area</i>	<i>Potential environmental outcomes</i>	<i>Potential social outcomes</i>
Outcomes targeted	Nature-based solutions (carbon offsetting, biodiversity and conservation)	Carbon sequestration, biodiversity net gain, reduced water pollution, energy use reduced, increased recycling	Local jobs, education, health improvements, resilient cities, reduced flood risk
	Green skilling (training)	Skilled workforce for the green economy, climate smart practices	Employment
	Agriculture	Increased biodiversity, carbon sequestration, energy use reduction	Affordable healthy food, employment, fair wages, local community involvement
Market Opportunity	<ul style="list-style-type: none"> Natural capital potentially highly compatible with the Social and Environmental Outcomes Contract asset class BNG markets offer a growing and potentially long term stable revenue stream for social sector organisations Standardised measurement and reporting frameworks for natural capital are increasing the availability of data and ease of reporting, increasing opportunities to bring institutional investors into natural capital markets 		
Investment models	<ul style="list-style-type: none"> Blended environmental and social outcomes fund Natural Capital Funds (e.g. UK Government backed UK Nature Impact Fund) Junior lending to environmental charities to prove new BNG based business models Real estate investment with enhanced on-site biodiversity management. 		
Key areas for development and partnership	<ul style="list-style-type: none"> Mapping out multiple environmental and social outcomes buyers including government, and corporate buyers (e.g. through carbon and biodiversity credits) Assessing scope for environmental and social outcomes contracts to be integrated into generalist funds. Assessing finance need from social sector organisations in dialogue with existing finance providers (e.g. Triodos, Finance Earth) 		