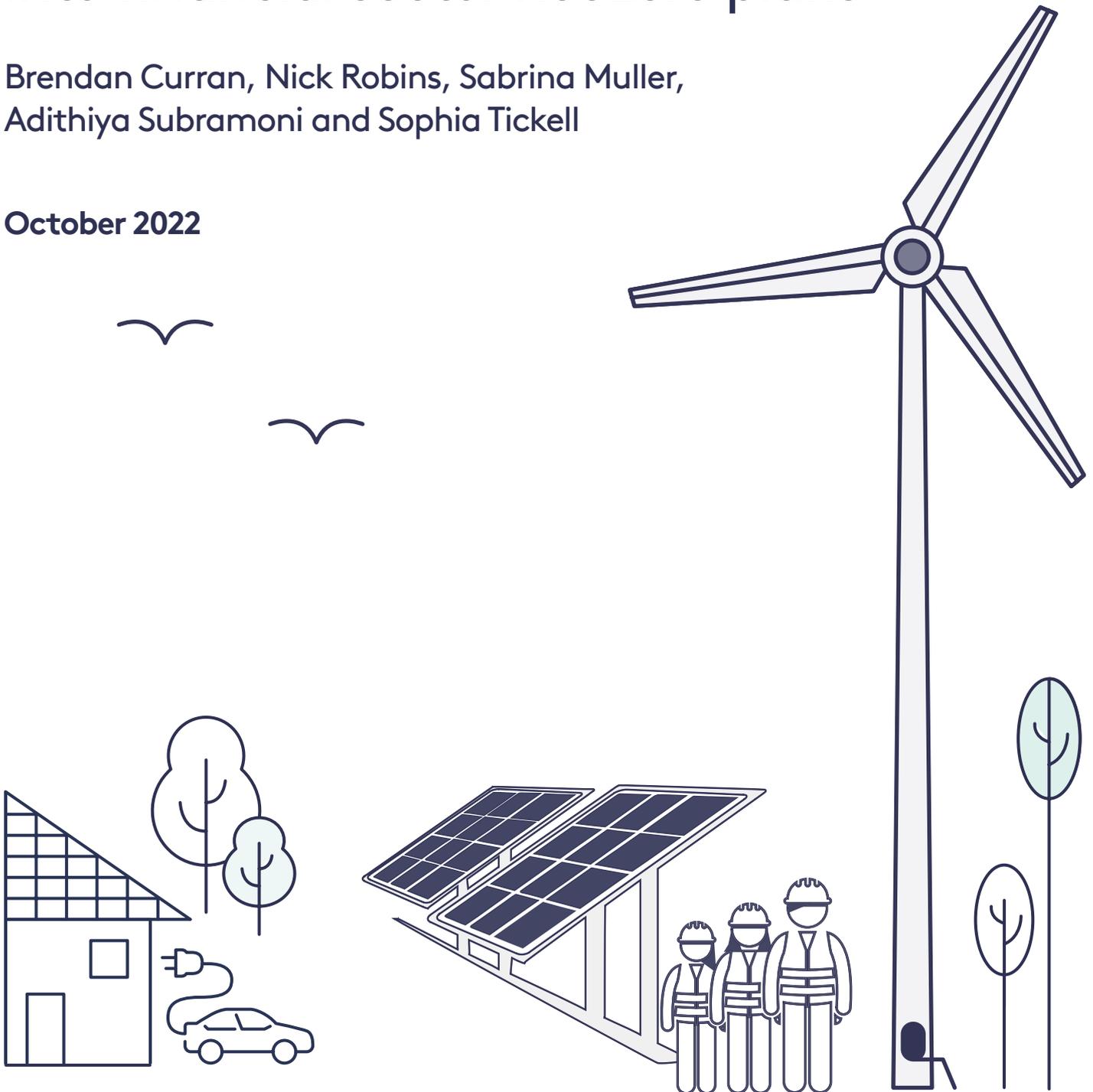


Making transition plans just

How to embed the just transition into financial sector net zero plans

Brendan Curran, Nick Robins, Sabrina Muller, Adithiya Subramoni and Sophia Tickell

October 2022



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Purpose of this report

This report is designed to provide guidance to financial institutions on how they can incorporate consideration of the social dimension of climate action – in other words a just transition – within their net zero transition plans. It was written in consultation with more than 50 financial institutions and other stakeholders to ensure that it is both ambitious and achievable.

The report first outlines the compelling rationale for financial institutions to deliver their net zero commitments through a just transition for workers, communities and consumers. It highlights the need for financial institutions to anchor their net zero plans in well-established human rights, labour standards and sustainable development goals. It then identifies three key just transition factors that financial institutions should incorporate in the design and delivery of their plans. To ease the process, we have aligned our recommendations with the emerging net zero transition planning framework of the Glasgow Financial Alliance for Net Zero (GFANZ), showing how the just transition can be included in each of its five core themes: foundations, implementation strategy, engagement strategy, metrics and targets, and governance. Consistent approaches are vital to achieving broad-based, efficient and accountable adoption.

The intention of this report is to make it as straightforward as possible for financial institutions to translate their recognition of the importance of just transition into clear actions within their net zero plans. To do this, the report makes 11 recommendations for banks and investors. The recommendations can be applied by financial institutions across the world, tailored to specific country priorities and needs. They are accompanied by 12 examples of emerging practice to show that a first generation of work is underway.

The recommendations draw on the experience of the UK-based Financing a Just Transition Alliance (FJTA), which is coordinated by the Grantham Research Institute. The Alliance was launched in November 2020 with more than 50 banks, investors and other financial institutions, as well as trade union, civil society and academic representatives.

The guidance in this report represents a first iteration of what ‘good’ could look like for financing the just transition through net zero plans. Based on experience and feedback we will revisit and deepen the guidance in the future.

Summary

Accelerating the just transition to net zero

A just transition for workers, communities and consumers is essential to enable the shift to a net zero economy. Commitment to the just transition has been made in global climate agreements and by governments in national policy frameworks. There are growing efforts by business, trade unions, civil society and financial institutions to translate this imperative into practical implementation. These efforts need to intensify to accelerate climate action and this means embedding the just transition into the emerging generation of net zero transition plans (or simply, net zero plans).

A net zero transition plan is both a strategic planning tool and a practical action plan to set out how an institution will play its part in realising a net zero economy by 2050. These plans need to identify how they will take account of the implications for people. A number of initiatives are supporting business and finance to produce credible net zero plans, including the Glasgow Financial Alliance for Net Zero (GFANZ) and the UK's Transition Plan Taskforce (TPT). Both these initiatives recognise that the just transition is an important consideration for financial sector net zero plans.

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.

International Labour Organization, 2015

Key just transition factors for financial sector plans

The just transition means making sure that the 'social' pillar of ESG (environmental, social and governance) is incorporated in the climate activities of financiers and businesses. For financial institutions, such as banks and investors, a first step is to anchor their net zero plans in the existing just transition principles from the International Labour Organization (ILO). This means applying and respecting well-established social, labour and human rights standards and goals throughout a net zero plan. These include the ILO core labour standards, the OECD's Guidelines for Multinational Enterprises, the UN Guiding Principles on Business and Human Rights and the Sustainable Development Goals. Based on these, we have identified three key factors for financial institutions to consider in the design and delivery of their plans.

- 1. Anticipate, assess and address the social risks of the transition.** The just transition is about understanding and acting on the distributional implications of net zero for people. Net zero plans should be designed to ensure costs and benefits are allocated fairly, particularly so that vulnerable and marginalised communities do not bear the burden of change. Therefore, the potential social risks of transition finance needed to be assessed and addressed so that no one is left behind.
- 2. Identify and enable the social opportunities of the transition.** The transition can also be shaped to deliver positive social impacts for workers, communities and consumers. Transition plans should explore how financial institutions can seize the social opportunities of net zero, for example, to create green jobs with decent work, to eradicate energy and fuel poverty and reduce longstanding inequalities (for example, around income, gender and race).
- 3. Ensure meaningful dialogue and participation in net zero planning.** The just transition is a process as well as an outcome, with a focus on procedural justice that means that financial sector net zero plans should support social dialogue with workers and the participation of other affected stakeholders. This should include proactive efforts to empower excluded groups. Financial institutions must also ensure they are lending to and investing in companies that are pursuing an inclusive approach.

These three factors need to be considered within the specific financing conditions of different sectors and regions. Net zero is a whole-economy imperative, but how a just transition is achieved will vary across sectors, from agriculture to buildings, energy, industry and transport. Financial institutions need to respond to the differing social realities in the net zero sectoral pathways, both when moving out of high-carbon assets such as fossil fuels and moving into net zero assets such as renewables. In addition, the shift to net zero will impact countries and regions in different ways, requiring the just transition to be shaped by specific geographical needs and priorities. Net zero plans should consider how they can support the just transition across industrialised as well as emerging and developing economies, and also foster national-level action along with local, place-based efforts.

Integrating the just transition into each part of the plan

Financial institutions need to make sure that these just transition factors are part of their net zero transition plans. We have aligned our guidance and recommendations with the five critical themes that GFANZ has identified for a credible net zero transition plan by financial institutions: foundations; implementation strategy; engagement strategy; metrics and targets; and governance. For each of these themes, we have made specific recommendations:

- I. **Foundations** – show how the just transition can be incorporated into the overall approach to net zero and across each of the financing strategies – for climate solutions, for activities that are already aligned with 1.5 degrees, those that are aligning, and those assets that require a managed phase-out.

Recommendation:

- **Financial institutions** should commit to embedding just transition factors as part of the overarching goals, ambitions and foundations of their net zero transition plans. This means considering the just transition as part of disclosing net zero objectives, targets and timelines.

- II. **Implementation strategy** – show how the just transition can be integrated in the alignment of business activities, products, services and policies with net zero objectives: for example, across key client groups within the banking sector, and by investors across asset classes.

Recommendations:

- **Financial institutions** should assess the social implications of their net zero plans for stakeholders and draw up a just transition response that is focused on sectoral and geographical priorities. This should include a just transition response for high priority sectors and activities, such as coal, oil and gas, and deforestation.
- **Banks** should review their existing customer groups (retail, corporate, SMEs and capital markets) to assess how they (i) embed consideration of the just transition within existing product offerings; and (ii) explore new product innovations that enable them to support customers to achieve a just transition.
- **Investors** should embed consideration of the just transition through the investment process (screening, due diligence, risk assessment and investment allocation) across all asset classes and seek out opportunities for supporting assets that have a dedicated focus on a just transition.

- III. **Engagement strategy** – show how the just transition is integrated in dialogue and advocacy with companies and policymakers, within financial sector initiatives and with stakeholders and civil society.

Recommendations:

- **Financial institutions** should engage with corporate clients and investee companies so that they include just transition factors within their own net zero transition plans and deliver these with clear objectives, resourcing and disclosure.
- **Financial institutions** should engage with international, national and local policymakers to advocate for a suitable policy and regulatory framework that supports a just transition to net zero, notably to scale up necessary investment.
- **Financial institutions** should engage with net zero and climate initiatives in the finance sector so that they all include a commitment to support the just transition as part of their frameworks and as conditions for membership.
- **Financial institutions** should engage with stakeholders (including trade unions and civil society) as part of the preparation and implementation of their net zero plans to ensure effectiveness and credibility. As part of their engagement with companies, they should also encourage development of net zero transition plans through social dialogue with trade unions and participation of other civil society actors.

- IV. **Metrics and targets** – show how just transition factors are included in their suite of monitored metrics and targets to evidence how they are supporting the just transition in the real-economy.

Recommendation:

- **Financial institutions** should develop and disclose metrics to measure progress on just transition goals and activities, and produce evidence of the just outcomes of their net zero plans.

- V. **Governance** – show how the just transition can be included within financial institutions' structures to oversee, incentivise and support the implementation of the plan, as well as the skills and culture change required for its delivery.

Recommendations:

- **Financial institutions** should ensure that the just transition dimension of their net zero plans is overseen by the board (or equivalent senior decision-makers) and that decision-making processes are inclusive of staff across the organisation.
- **Financial institutions** should build the skills and capabilities needed to support a just transition to net zero and foster open communication across the institution to embed the spirit of the just transition into their operations and culture.

It is critically important that financial institutions get net zero plans right from the start by incorporating support for the just transition, and then take an iterative and learning approach to further improvement. Looking ahead, we will be focusing on reviewing how financial institutions embed just transition in their plans, identifying ways to allocate capital for a just transition in the real economy, strengthening policy frameworks for the just transition, encouraging social innovation and dialogue, and examining how the just transition can be taken up across the financial system (including within insurance and capital markets).

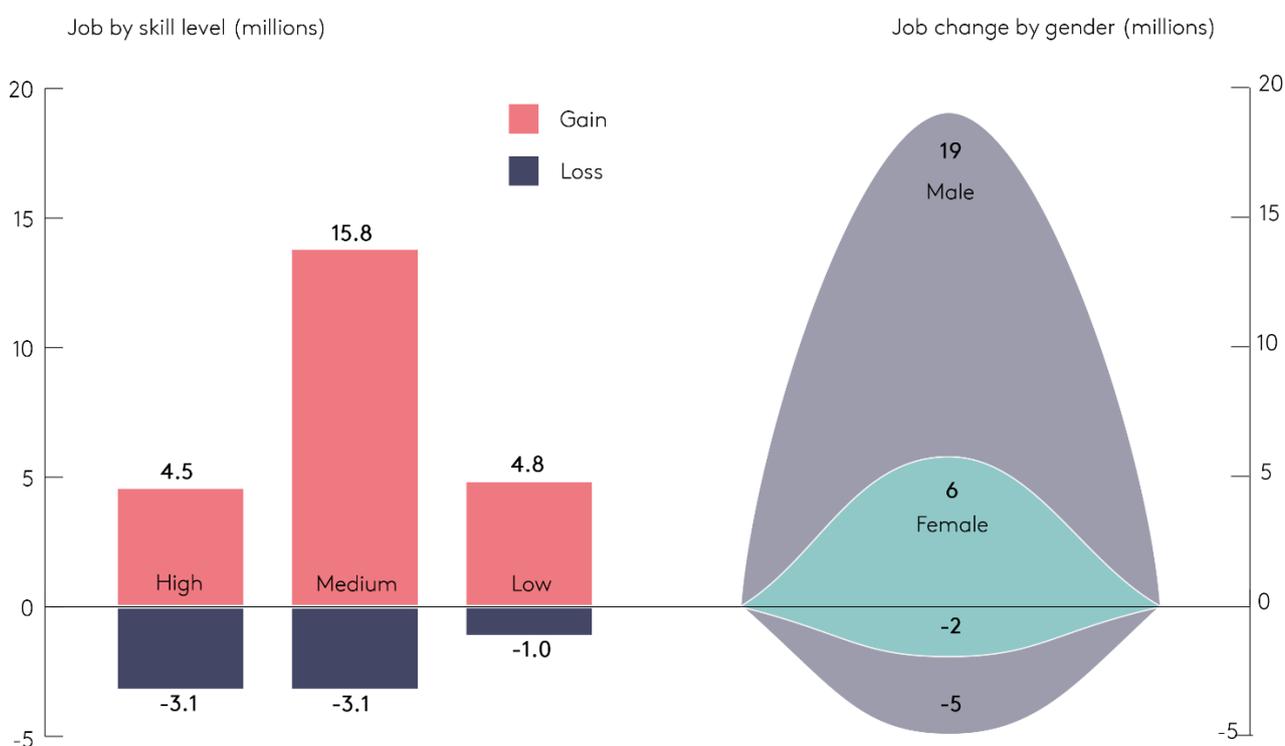
1. The task: financing net zero through a just transition

The just transition: an essential enabling condition for net zero

Net zero is a goal that is designed *for* people and has to be realised *by* people. The fundamental purpose of building a net zero economy is to protect people from the harm, loss and damage caused by uncontrolled climate change. People need to be at the heart of the transition to a resilient, net zero economy, and contribute to the process. If the transition is managed well, significant socioeconomic benefits will flow, such as more and better quality jobs, an end to energy poverty and regional revitalisation. For example, the International Energy Agency's *Net Zero by 2050* roadmap for the global energy sector estimates that while the transition could cause around five million job losses, 30 million jobs could be created across the energy system, while providing clean energy to 785 million people currently without electricity and to 2.6 billion people without clean cooking solutions (IEA, 2021). Analysis by the International Labour Organization (ILO) also points to the mix of skill levels that the shift to sustainable energy could create (See Figure 1.1 below). How these benefits are distributed is a crucial question for individuals, different sectors, regions and nations.

Managed poorly, however, the transition could result not only in stranded assets in the financial system, but also stranded workers and communities and even stranded countries, particularly those that are currently dependent on fossil fuels for growth, trade and employment. The just transition is the strategy to tackle these and other social impacts of the net zero transition for workers, communities and increasingly for consumers. Since 2015, the just transition has been rising up the global policy agenda (Box 1.1).

Figure 1.1. Jobs created and lost in a sustainable energy scenario to 2030



Source: Recreated from ILO, 2019

The strategic rationale for action: right, necessary and smart

The strategic rationale for financial institutions to support the just transition is three-fold. First, it is the right thing to do from the perspective of social justice. The just transition applies established social, labour and human rights standards to the transition to a net zero and resilient economy. It points to the critical importance of fairness in the design and delivery of net zero by governments, business and finance. The just transition seeks to overcome the longstanding marginalisation of social factors in climate policy and climate action.

The second driver for the just transition is that it is necessary to address the fundamental political economy of net zero and build public trust in how the transition will be delivered. Without conscious strategies to address potential social implications, backlash from the public could follow, which could risk slowing down the process of decarbonisation. By contrast, active anticipation of change and shaping net zero pathways to include social factors will accelerate the delivery of environmental targets. Climate change is a systemic risk but so is inequality and the road to net zero should not increase these social risks. The just transition is thus a way of reducing systemic risks to financial institutions.

The third and final strategic reason for the just transition is that this is the smart way of building a strong and resilient net zero economy: developing essential skills, capabilities and social institutions. In the business world, the just transition addresses the 'human capital' and 'social capital' required for net zero. But it goes further by taking a people-centred approach. At the heart of the just transition is the core principle that those affected by change need to be involved in shaping it, whether in the workplace, in communities or in national policy.

Box 1.1. Policy foundations for the just transition

- The 2015 Paris Agreement on climate change incorporates the just transition into its goals by requiring governments to take into account "the imperatives of a just transition of the workforce and creation of decent work and quality jobs".
- The ILO published *Guidelines for a Just Transition*, also in 2015. These guidelines identify key principles and policy areas to produce "decent work for all, social inclusion and the eradication of poverty". The guidelines stress that the just transition needs to be part of macroeconomic and fiscal strategy, industrial, sectoral and regional policies, employment and skills development, labour rights and social dialogue. Building a strong social consensus on the goal and pathway to sustainability is fundamental. (See Appendix 2 for the full set of principles.)
- In 2018 at COP24, heads of state adopted the Solidarity and Just Transition Silesia Declaration, which was aimed at operationalising the just transition concept in both national policies and the UN climate convention sphere.
- In 2021 at COP26, the Glasgow Climate Pact agreed on the need "to ensure just transitions that promote sustainable development and eradication of poverty, decent work and quality jobs, through making financial flows consistent with a pathway toward low greenhouse gas emission and climate-resilient development". This was accompanied by the Just Transition Declaration from 14 OECD governments, a set of high-level principles from multilateral development banks (MDBs) and a Just Energy Transition Partnership with South Africa.
- In June 2022, the G7 agreed to step up global cooperation, including through working towards establishing new Just Energy Transition Partnerships with Indonesia, India, Senegal and Vietnam.
- Overall, nearly 50 governments (around a quarter of all the signatories to the Paris Agreement) refer to the just transition in their Nationally Determined Contributions for 2030.

A shared responsibility

Governments have the primary responsibility for delivering a just transition as part of their policies for climate action. Business and trade unions along with civil society also will need to take action to make the just transition a key feature of their work to deliver net zero. Financial institutions too have a responsibility to ensure that their net zero plans reflect just transition principles and effectively understand and respond to the social risks and opportunities of net zero. Financial institutions, by assessing social risks and opportunities, can identify and recognise material issues for their investment and lending portfolios. This makes supporting a just transition part of a financial institution's fiduciary duty. This is already explicitly acknowledged by some. For example, a report by the UK's All-Party Parliamentary Group on Local Authority Pension Funds (2021) found that a pension fund's fiduciary duty means considering the financial implications of climate change and "with it the need for a just transition". Further examples that show recognition is growing are provided below.

The just transition is therefore not a 'nice to have' afterthought, but rather a critical enabling factor for the successful shift to net zero. We should not think of a net zero transition and then a separate just transition. There can only be one transition and it needs to be just.

Growing financial sector recognition

A first collective response to the just transition in the financial sector came with the launch of an investor guide to the just transition in 2018 (Robins et al., 2018). Since then, the just transition has become part of a range of collective and individual efforts.

For example:

- The investor-led Climate Action 100+ initiative has developed a Net Zero Company Benchmark to assess the performance of the world's 170 most carbon polluting companies and inform shareholder engagement. The Benchmark includes a 'beta' indicator covering company acknowledgement, commitment, engagement and action on just transition.
- The World Benchmarking Alliance (WBA) has developed a just transition assessment methodology that can be used by investors. This includes six indicators for evaluating companies: social dialogue; respecting human rights in just transition planning; supporting access to green and decent jobs; retaining and reskilling workers; social protection; and advocating for just transition policies. This framework is now being used to engage with oil and gas companies.
- At a country level, Australian superannuation funds (ACSI), with over AU\$1 trillion assets under management, have incorporated the just transition into their shared climate policy, with a focus on engagement with policymakers to "ensure a managed transition including credible integration of climate change and energy policy and a strategy to ensure an orderly, just and equitable transition" and also with companies so that they "plan for just and equitable transitions" and "incorporate impacts on employees, communities and other stakeholders into transition strategy and planning" (ACSI, 2021).
- In the banking sector, Clifford Chance, the Institute for Human Rights and Business and British International Investment (formerly CDC) have published *Just Transactions: A White Paper on Just Transition and the Banking Sector* (Clifford Chance et al., 2021). The paper finds that banks recognise the importance of achieving an equitable, inclusive and sustainable transition and some commercial banks are starting to consider how to incorporate just transition factors into their businesses as the transition represents both an opportunity and a risk.
- The G7 Impact Taskforce (2021) has also published a framework for applying the just transition to capital allocation decisions by fund managers in its report *Mobilising private capital at scale for people and planet*.

- Individual banks and investors are acknowledging the importance of the just transition and starting to commit to action. A range of 22 examples of financial sector statements are included in Appendix 1.

Translating recognition into results

These commitments are promising. But there remains a long way to go to make the just transition a core part of business and financial practices. On the corporate front, the initial results of the Climate Action 100+ assessment in 2021 suggested that “a majority of the largest global emitters are not sufficiently prepared to deliver a just transition”. In its latest assessment, Climate Action 100+ noted the numbers of its focus companies with a ‘partial’ response to the just transition had risen to 33%, but, in its view, still no company had a fully developed approach (Climate Action 100+, 2022). The World Benchmarking Alliance has drawn similar conclusions, finding that across 180 energy sector companies there was a “systemic lack of action by companies to identify, prepare for and mitigate the social impacts of their low-carbon strategies” (WBA, 2021).

Furthermore, the urgency of a just transition that combines climate action with efforts to tackle poverty and inequality has been deepened by COVID-19 and by the 2022 global energy crisis triggered by the war in Ukraine. The heightened need for a just transition also comes at a time of growing pressure on labour standards. The 2021 ITUC Global Rights Index evaluation found that governments and employers were using the pandemic to roll back workers’ rights, with workplaces becoming less safe, surveillance increasing, and rights being dismantled (ITUC, 2021).

Urgent action is therefore needed across the economic and financial system to make the just transition a reality. Incorporating and addressing the social impacts within climate transition plans must be a key priority. Including the social will ensure that financial sector activities support the real economy and avoid accusations of greenwashing.

Key just transition factors for financial sector net zero plans

The just transition focuses on making sure that the ‘social’ pillar of environmental, social and governance (ESG) is incorporated into the climate activities of businesses and financial institutions. For financial institutions, such as banks and investors, a first step is to anchor their net zero plans in the existing just transition principles from the International Labour Organization (ILO). This means applying and respecting well-established social, labour and human rights standards and goals throughout a net zero plan. These include the ILO core labour standards, the OECD’s Guidelines for Multinational Enterprises, the UN Guiding Principles on Business and Human Rights and the Sustainable Development Goals. The just transition is also a way of connecting the environmental and social dimensions of the Sustainable Development Goals (SDGs) – for example, SDG13 on climate with SDG1 on poverty eradication, and SDG8 on decent work with SDG10 on reduced inequalities. If net zero needs to be science-based, the just transition needs to be rights-based.

Based on these fundamental international commitments, we have identified three key factors for financial institutions to consider in the design and delivery of their plans. These respond to the frequently used distributive justice, procedural justice and restorative justice dimensions of the just transition (see Box 1.2).

- 1. Anticipate, assess and address the social risks of the transition.** The just transition is about understanding and acting on the distributional implications of net zero for people. Net zero transition plans should be designed to ensure costs and benefits are allocated fairly, particularly so that vulnerable and marginalised communities do not bear the burden of change. Therefore, the potential negative social risks of transition finance need to be assessed and addressed so that no one is left behind. This focus on social risks is consistent with the

principle of “do no significant harm”, one of the cornerstones of the EU’s sustainable finance framework. It is critically important that the transition does not make social conditions worse and does not undermine core human rights and labour standards. Where problems arise, these need to be remedied.

- 2. Identify and enable the social opportunities of the transition.** The transition can also be shaped to deliver positive social impacts for workers, communities and consumers. Transition plans should explore how financial institutions can seize the social opportunities of net zero, for example, to create green jobs with decent work, to eradicate energy and fuel poverty and reduce longstanding inequalities, for example, around income, gender and race. This focus on social opportunities points to the transformational potential of the just transition, and the ways in which financial institutions can contribute to resolving systemic social challenges in ways that contribute to long-term returns and financial stability as well as meeting priority socioeconomic goals.
- 3. Ensure meaningful dialogue and participation in net zero planning.** The just transition is a process as well as an outcome, which means that those impacted by change should be included in the decision-making that affects them. This focus on procedural justice necessitates meaningful social dialogue between financial institutions and workers and unions, along with wider engagement with other affected stakeholders. This can often require proactive efforts to empower excluded groups that traditionally have been under-represented, for example in terms of income, gender or race. Their participation can provide the basis for the partnerships that will be critical to delivering the just transition to net zero at the local, sectoral, national and global levels.

These three factors need to be considered within the specific financing conditions of different sectors and regions. Net zero is a whole-economy imperative, but how a just transition is achieved will vary across sectors, from agriculture to buildings, energy, industry and transport. Just transition considerations and analysis will need to be included in the sectoral pathways that financial institutions are developing across the economy. Financial institutions need to respond to the differing social realities in these net zero sectoral pathways, both when moving out of high-carbon assets such as fossil fuels and when moving into net zero assets such as renewables. In their net zero plans, investors and banks will need to include analysis and responses of the social risks and impacts from these sectoral pathways. The UK Transition Plan Taskforce will be developing sector-specific guidance for net zero plans and these should include consideration of the just transition. Appendix 4 sets out some of the key emerging features of the just transition in the energy sector, and for agriculture and nature.

In addition, the shift to net zero will impact countries and regions in different ways, requiring the just transition to be shaped by specific geographical needs and priorities. Net zero plans should

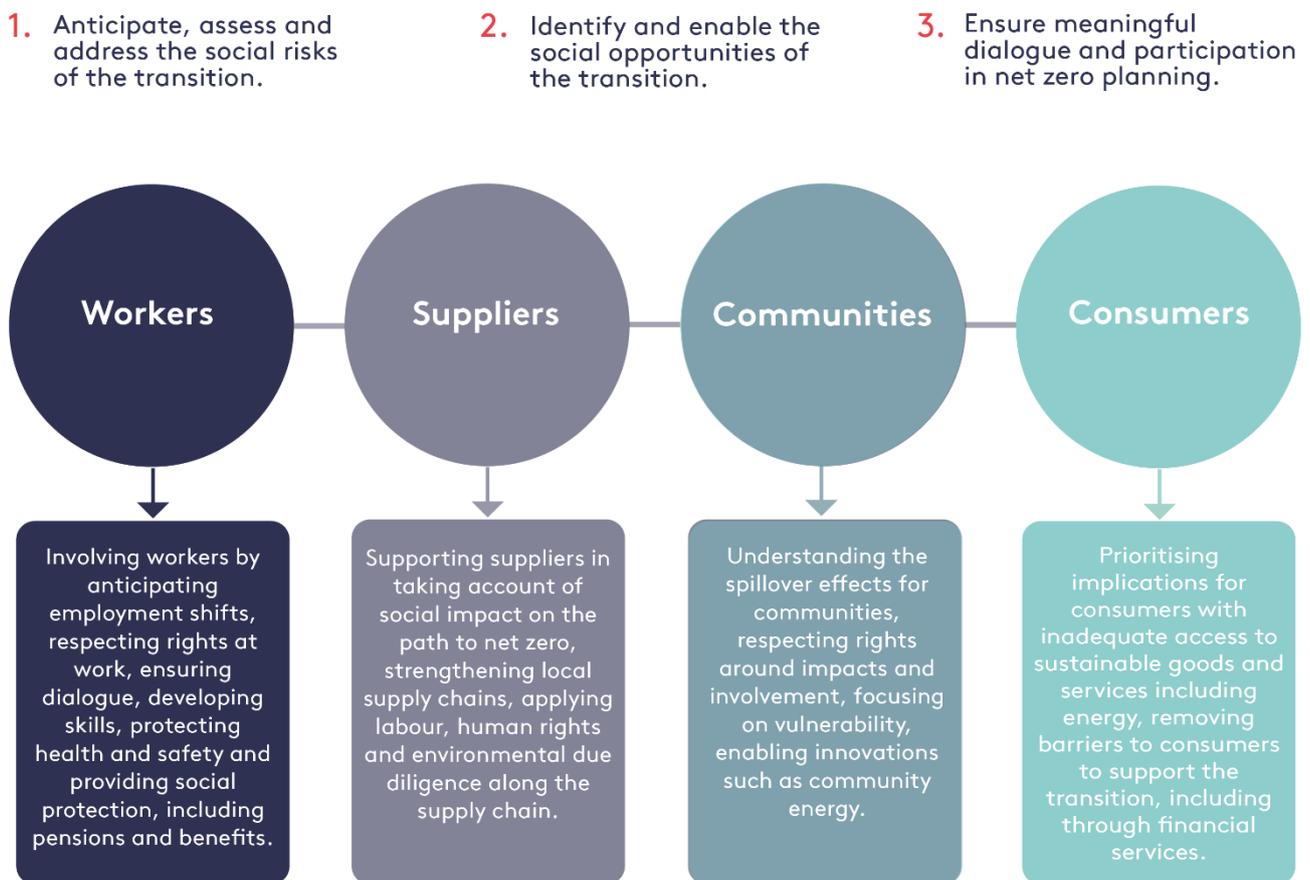
Box 1.2. Definitions of distributive, procedural and restorative justice in this context

- **Distributive justice** is designed to ensure that the benefits and risks from the climate transition are distributed fairly across geographical regions, income groups and social groups.
- **Procedural justice** is designed to ensure that the processes for making decisions about the impacts of and responses to climate change are fair, accountable and transparent.
- **Restorative justice** is about respect, and meaningful contrition, on the part of those responsible for climate change and those who have disparaged, displaced or destroyed traditional cultures and technologies that have not caused climate change, and that could help mitigate or combat its impacts, or boost resilience to it.

consider how they can support the just transition across industrialised as well as emerging and developing economies, and also foster national-level action along with local, place-based efforts. Appendix 3 provides more detailed research on the variation in what constitutes a just transition across different geographical regions, with the examples of the EU, UK, South Africa and India.

Finally, these three just transition factors need to be applied by financial institutions across the stakeholder groups affected by the net zero transition, which we identify as **workers, suppliers, communities** and **consumers** (see Figure 1.2 below). These factors apply to a company’s own workers and those in the supply chain. The ILO guidelines for a just transition point to the implications of net zero for communities, regions and consumers. Consumers should be a particular focus of net zero transition plans as they are very tangibly impacted by reliance on volatile prices from fossil fuel power generation.

Figure 1.2. Key just transition factors and stakeholders to be considered in net zero plans



Source: Authors

2. Incorporating the just transition into net zero plans

To deliver net zero, governments, businesses and financial institutions need to design and implement plans that show *how* their short-, medium- and long-term targets for net zero will be achieved. For business and finance, these net zero transition plans should be seen within the wider context of their response to climate change. The Task Force on Climate-related Financial Disclosures (TCFD) has set out a widely accepted framework for addressing climate risks and opportunities. Net zero transition plans are a crucial mechanism for implementing the strategy element of the TCFD framework in terms of aligning business and financial practice with a 1.5°C pathway by 2050. These net zero plans are fundamentally about changing internal practices and behaviour, as well as providing transparency to stakeholders on how business and financial institutions will decarbonise their operations, value chains and portfolios. Net zero planning is not a one-off exercise and needs to be reviewed and updated regularly. Annual disclosure by business and financial institutions on their progress against their plans alongside their climate disclosures is a core expectation.

Frameworks are now emerging to promote credible net zero transition plans, notably from GFANZ and the UK Transition Plan Taskforce (TPT). In this section, we outline their emerging frameworks, then recommend how the core just transition factors described in Section 1 can be included in each of the five elements for credible transition planning themes set out by GFANZ (2022a). By aligning our approach with the GFANZ framework, we aim to produce guidance that can be adopted widely.

Emerging frameworks: GFANZ and the UK's Transition Plan Taskforce

A growing number of businesses and financial institutions have committed to producing net zero transition plans. Several initiatives are now developing guidance to support the development of credible plans and, increasingly, these will become a mandatory requirement.

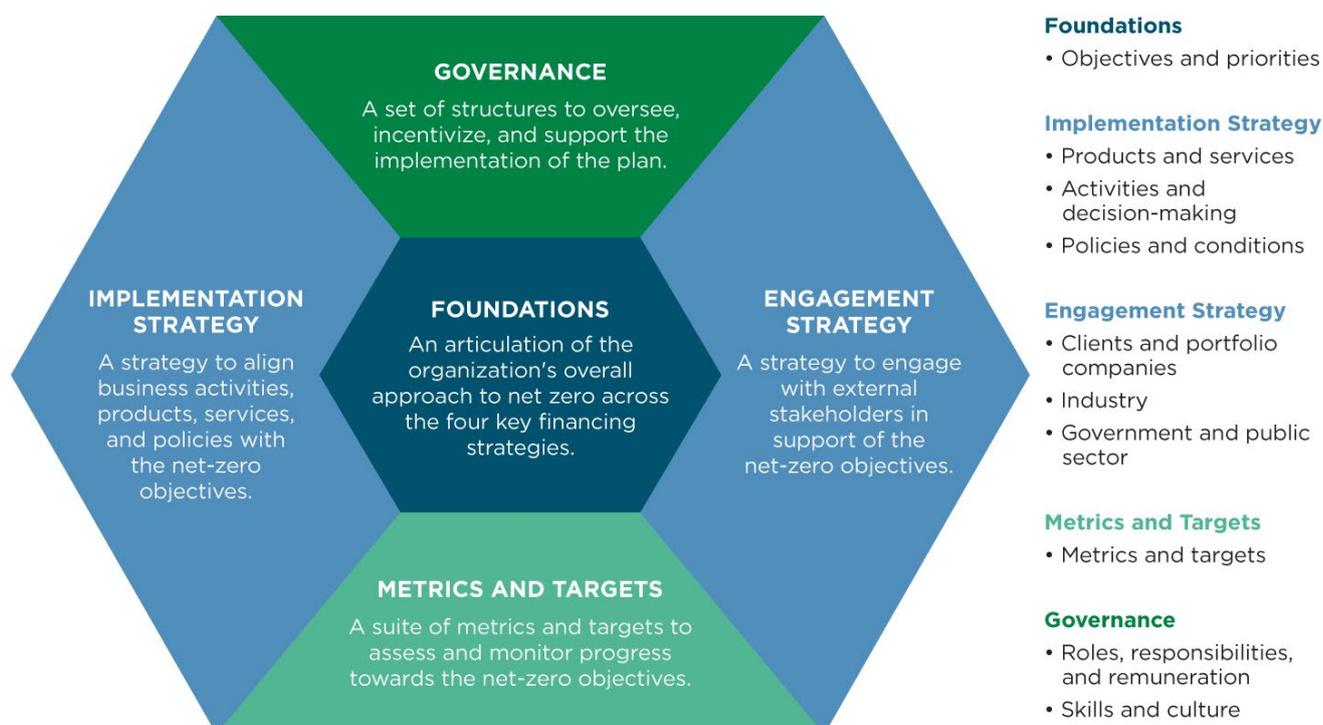
Leading the field are the voluntary Glasgow Financial Alliance for Net Zero (GFANZ). The just transition guidance we provide in this report is intended to complement the emerging GFANZ framework. GFANZ has recognised from the beginning the need for financial sector actors to “integrate the principles of a ‘Just Transition’ and UN SDGs [Sustainable Development Goals]” (GFANZ, 2021). Its report *Recommendations and Guidance on Net Zero Transition Plans* sets out a globally applicable, pan-sector, voluntary framework (GFANZ, 2022a). The guidance encourages financial institutions to show how they are delivering net zero through a just transition in the opening ‘objectives and priorities’ component of their plans. GFANZ also highlights the just transition as an area for future refinements and ongoing considerations to enhance a global, pan-sector approach to transition planning and recognises that institutions should “consider how to proactively engage with excluded populations, including women, through transition related activities” (ibid.). It also proposes initial considerations for financial institutions on the just transition (see Box 2.1).

As a country-level example, the UK has formed the Transition Plan Taskforce (TPT), which will produce recommendations for business and financial institutions as part of the proposed mandatory disclosure of transition plans; the Financial Conduct Authority in the UK would oversee these disclosures. Taking an approach consistent with GFANZ’s, the TPT highlights national priorities for the UK in net zero transition planning. One of the cross-cutting issues that the TPT has considered – alongside nature and adaptation – is the just transition. The TPT will release a Sector Neutral Framework for consultation in November 2022.

Embedding the just transition into each part of a plan: recommendations

Following extensive interactions with its members and others, GFANZ has adopted a framework for net zero transition plans that can be used by real economy firms as well as financial institutions. It contains five main themes, with 10 components, as set out in Figure 2.1.

Figure 2.1. GFANZ's framework for the net zero transition plans of financial institutions



Source: GFANZ (2022c; reproduced with permission)

For the financial sector, institutions need to develop actions and commitments across the four financing strategies that are needed to deliver net zero (GFANZ, 2022c):

1. **Climate solutions:** Financing for entities and activities that develop and scale up climate solutions.
2. **Aligned:** Financing for entities that are already aligned to a 1.5°C.
3. **Aligning:** Financing for entities committed to transitioning in line with 1.5°C- aligned pathways.
4. **Managed phase-out:** Financing the accelerated managed phase-out of high-emitting physical assets.

The just transition is relevant for each of these financing strategies, to address both the social risks (for example, in a managed phase-out scenario) and the social opportunities (for example, in the scaling-up of climate solutions).

Box 2.1. Just transition considerations identified by GFANZ

- Investors can engage with portfolio companies to raise the profile of just transition risks and opportunities. Consensus documents, such as the ILO guidelines, can be used to press for improvements from real-economy companies in the social dimension of their transition plans. Investors can actively seek to finance companies that are committed to a positive social impact for workers, communities and consumers.
- Financial institutions can integrate just transition principles into their purpose and culture, for example through staff training and awareness-raising.
- Financial institutions can outline an action plan that identifies financial targets tied to a just transition. For customers, they can develop financial products that contribute to achieving net zero in a socially inclusive manner.
- Insurance companies can align their underwriting strategies at the individual, firm and sector levels to support a responsible transition away from greenhouse gas emissions-intensive activities, and insurance products, such as pensions, critical illness, and other life and health protection products can play a part in the evolution of social protection systems to support a just transition.
- Financial institutions can carefully consider how the managed phase-out of specific high-emitting assets may impact communities, and work with clients and portfolio companies to ensure phase-out plans account for and minimise economic hardship or job losses for workers and communities, while simultaneously taking precautions to ensure just transition concerns are not used as an excuse for slow or reduced action.
- Financial institutions can advocate for policies regionally, nationally and globally that support a just transition, including identifying and supporting social policies that put in place protections against transition risks for vulnerable populations.
- When reviewing and setting internal climate strategy, financial institutions could also assess the social (e.g. employment) impacts of the transition and pursue dialogue with workers or key intermediaries to integrate just transition factors into policies. This could include regular engagement with civil and social sector organisations and representatives.

Source: GFANZ (2022d)

In the rest of this section, we provide recommendations and guidance on how to incorporate just transition factors into each of the five GFANZ themes.

I. Foundations

Recommendation 1: Financial institutions should commit to embedding just transition factors as part of the overarching goals, ambitions and foundations of their net zero transition plans. This means considering the just transition as part of disclosing net zero objectives, targets and timelines.

This element is critical if financial institutions are going to support people in the real economy through the transition. The importance of respecting and integrating core human rights, labour and social standards applies here. Banks and investors need to link their approach to these standards and show how they are doing this in their net zero plans, joining up across sustainable finance and ESG commitments.

In more detail, financial institutions should:

- **Purpose** – Show how the net zero transition plan is aligned with the financial institution’s purpose and its commitments to respecting human rights and labour standards and implementing the Sustainable Development Goals (SDGs).
- **Standards** – Include standards and policies on the just transition by referencing social, labour and human right standards and then indicating how these will be pursued at a strategic level in the plan.
- **Targets** – Include social aspects when setting net zero targets that aim to meet the ambition of limiting temperature rise to 1.5°C. Transition planning will involve short-, medium- and long-term planning and targets for decarbonisation. Financial institutions, as part of their strategic risk management and analysis and prudent planning, should be assessing the social risks by sector and geography as well as social opportunities from their transitioning portfolios. These risks should be disclosed within strategic plans, e.g. the risk of creating mortgage prisoners from the rapid decarbonisation of mortgage books.

II. Implementation strategy

Recommendation 2: Financial institutions should assess the social implications of their net zero plans for stakeholders and draw up a just transition response that is focused on sectoral and geographical priorities. This should include a just transition response for high priority sectors and activities, such as coal, oil and gas, and deforestation.

Within the implementation section of their net zero plans, the overall ambition to support the just transition must influence the ways that financial institutions allocate capital to assets and businesses, clients and customers, in the real economy. Our just transition factors related to social risks and opportunities are critical here. Financial institutions should assess the social impacts and sensitivities of their net zero transition plans through both sectoral and geographical specifics. Such assessment should also be made as part of institutional sensitivity analysis in business planning, and when considering material dependencies and impacts on workers, suppliers, communities and consumers.

GFANZ (2022a) suggests there are three sub-elements within an institution’s implementation strategy: products and services; activities and decision-making; and policies and conditions. This is useful framing for thinking about where a financial institution should be applying just transition factors within the design of current products and product innovation, how the institution embeds the just transition within its core evaluation and decision-making tools and processes, and ensuring internal net zero policies and conditions give due consideration to social and labour standards.

To illustrate how to apply this approach, below we assess banks and investors separately.

Banks

Recommendation 3: Banks should review their existing customer groups (retail, corporate, SMEs and capital markets) to (i) embed consideration of the just transition within existing product offerings and (ii) explore new product innovations that enable them to support customers to achieve a just transition.

The main way that banks can play a role in helping to deliver a just transition in the real economy is by supporting their customers and clients. Banks should look to serve customers by reviewing their core portfolio of financing products and services to ensure that they contribute to achieving net zero in a socially inclusive manner. Furthermore, they should encourage product development and innovation that supports all client groups through a just transition.

Banks can serve customers by developing sector-specific and customer-specific expertise as well as harnessing their national and global client relationship networks to support clients in the transition. This would enable them to become a trusted partner in the net zero future to retail customers and households, small businesses, corporations, investors and the public sector. As the *Just Transactions* report from Clifford Chance (2021) identifies, to embed the just transition within their climate strategies, banks will need to identify “what they will finance, what they will not finance, and what conditions they will impose on clients in different sectors who are transitioning out of or transitioning in different sectors”.

Example 1. NatWest – Considering the risks from an unjust transition

“There is a risk that shareholders, campaign groups, customers and special interest groups could seek to take legal action against NatWest Group for financing or contributing to climate change and environmental degradation and for not supporting the principles of ‘just transition’ (i.e. maximising the social benefits of the transition, mitigating the social risks of the transition, empowering those affected by the change, anticipating future shifts to address issues up front and mobilising investments from the public and private sectors).”

Source: *NatWest Annual Report, 2021*

Example 2. Standard Chartered’s approach to emerging markets

Standard Chartered is one of the leading banks supporting a just transition – which it considers includes a transition where emerging markets can reach net zero without sacrificing growth and prosperity. In a recent report, *Just in Time*, the bank estimates that by 2050 emerging markets will require an additional US\$94.8 trillion from developed countries to deliver net zero. Of this \$83 trillion could be contributed by the private sector if the right policy frameworks were in place. In addition, the developed world public sector would need to provide around \$300 billion annually – a total of \$11.8 trillion between 2021 and 2060 – in grants and concessional finance. Banks and other financial institutions will need to keep developing and increasing offerings like sustainable deposit products, ESG derivatives, repurchase agreement transactions (repos) based on ESG principles, and sustainable trade products. Financial institutions can play a significant role, providing incentives for performance against sustainability targets and helping direct capital to where it is needed most.

Source: *Standard Chartered, 2021*

Example 3. BBVA's sustainable credit facility (just transition-aligned)

Banking product innovations on the just transition are starting to emerge. In April 2019, for example, Spanish bank BBVA coordinated for Iberdrola the first sustainable credit facility aligned with the ILO just transition principles, totalling €1.5 billion (BBVA, 2019). The credit facility linked criteria related to the promotion of universal access to energy. There has also been a notable growth in sustainable supply chain financing (e.g. Walmart's Sustainable Supply Chain Finance programme, supported by HSBC). If designed with a consideration of just transition principles, such products could provide incentives across supply chains that support workers and communities who are susceptible to transition impacts.

Source: BBVA, 2019

Corporate clients

To deliver a just transition with corporate clients, banks can use their client relationships as well their product design to support business action. A crucial element here will be to signal the importance of just transition as a key business expectation to corporate clients. This would be followed up by working with clients so that they adopt good practice commitments to the just transition as part of their own net zero transition plans. These can be adjusted by sector, for example applying the Just Energy Transition Framework developed by the Council for Inclusive Capitalism (see Appendix 4). As well as signalling expectations on desired just transition outcomes, banks should also indicate the importance of dialogue and engagement, for example with a real-economy client's own workers, communities and consumers. New financial products could help to support this process, for example through sustainability-linked loans and bonds that tie key performance indicators to both climate and social metrics.

Retail customers

A significant challenge for banks will be the decarbonisation of their mortgage books in a just manner. Green mortgages and green retail savings and investment products have emerged in recent years. Banks should be overlaying these products with consideration of the social implications and consideration of affordability.

There remains a risk that low-income households will be unable to afford home retrofits necessary to reducing their carbon footprint, further exacerbated by the cost-of-living crisis, and could end up with housing assets becoming unable to attract [re-]financing. Banks will face the challenge of designing products and approaches that ensure low-income groups are not excluded. Where this is not possible, banks should be exploring how they can partner with concessional and public finance (e.g. impact investing) or advocate for more policy support. A model showing how this could be done is presented in Figure 2.2.

Figure 2.2. High-level process to decarbonise mortgage books in a just and inclusive way



Source: Authors

SMEs

Small and medium-sized enterprises (SMEs) have a role to play in deploying green innovation, providing employment and contributing to social cohesion, and they are especially important in economically deprived areas. Banks should be considering, firstly, how to support SMEs that are providing climate solutions and/or are already 1.5°C-aligned (GFANZ financing strategies 1 and 2 [GFANZ, 2022a]) and secondly, how to support SMEs on their own net zero transition in a way that ensures decent work standards are maintained and enhanced and underserved communities are supported.

To support SMEs on their own net zero transition, banks could use their client relationship networks, products and partnerships. The first challenge for SMEs is to raise awareness of what needs to be done. Through their extensive client relationship networks, banks can work with different SMEs across different regions. Banks can use these relationship teams to provide advice via training programmes. This will enable support that embeds the realities of each specific place but also includes suitable expertise on the wider climate transition. Banks can provide specialised financing products so that SMEs and businesses can access financing lines that support the transition. However, banks should be considering how they can create partnerships that enable them to support SMEs to get access to suitable finance and support. This could be in partnership with public banks and development finance institutions, and, in countries including the USA and UK, with more locally rooted Community Development Finance Institutions (CDFIs).

In supporting those SMEs that develop or deploy climate solutions or are otherwise already 1.5°C-aligned, when developing green SME financing products, such as sustainability-linked loans, banks should include provisions for decent work. Therefore, the just transition will be a core part of new product development as they increasingly make up the bank's core product portfolio (for all client groups).

Capital markets

Banks should incorporate just transition principles as part of ensuring that their capital market operations are accelerating the shift to net zero, particularly in terms of raising debt and equity for clients. This should encompass regular capital raising operations for companies and sectors exposed to just transition risks and opportunities as well the issuance of dedicated sustainable finance offerings.

The issuance of green, social, sustainability and sustainability-linked bonds has grown significantly in recent years. Many of these bonds are designed to support the transition and some have just transition impacts, even if that terminology is not used. The ICMA Climate Transition Finance Handbook and the Sustainability Bond Guidelines provide guidance on use-of-proceeds for social and green bonds but there is not yet any specific just transition bond guidance. Nonetheless, there are opportunities now for banks to allocate funding into capital market solutions that support the just transition. For example, in the UK, L&Q earlier this year issued a £300 million sustainability-linked bond using a Sustainability Finance Framework combining affordable housing and energy efficiency measures. Banks can work with corporate and sovereign issuers to include social KPIs in green, sustainability and transition bonds (Muller and Robins, 2022a).

Investors

Recommendation 4: Investors should embed consideration of the just transition through the investment process (screening, due diligence, risk assessment and investment allocation) across all asset classes and seek out opportunities for supporting assets that have a dedicated focus on a just transition.

Across asset classes, investors should actively seek to finance companies and assets committed to positive social impact for workers, communities and consumers on the road to net zero. Investors

should also indicate to potential investees that these factors will be included in the firm's appraisal and due diligence policies for investment.

Listed equities

Investment decisions on listed equities have been the focus of considerable attention from a just transition perspective, notably around the social ramifications of divestment from high-carbon assets such as fossil fuels. Divestment can be part of the net zero investment toolkit as one possible result of a robust net-zero planning and assessment process and may be particularly needed where companies have refused to set out a credible net zero plan or where the threat of the transition to a company business model risks asset-stranding and financial loss. Even where divestment is undertaken, this does not absolve investors from considering the just transition implications, not least that the sale of shares in a company might transfer ownership rights to shareholders who are less committed to achieving net zero through a just transition. GFANZ has highlighted that the withdrawal of investment can encourage decarbonisation but also can "potentially have unintended consequences" (GFANZ, 2022a). These consequences could certainly be social and have impacts on workers, communities and consumers. Where divestment takes place, this could be accompanied by dialogue with policymakers to ensure that these implications are addressed.

In addition, investors need to ensure that where companies are divesting high-carbon assets or undertaking a 'managed phase-out' financing strategy as part of their net zero plans that this is accompanied by a 'responsible restructuring' policy so that workers and communities are not left behind. This points to the need for a just transition approach to the significant corporate restructuring that will take place as part of the drive to net zero.

In addition, investors should try to identify equities with a strong social consideration of the transition and consistently apply a just transition lens to their screening and due diligence approaches to equity investment.

Example 4. EdenTree Investment Management – global sustainable equities for a just transition strategy

This product aims to identify and invest in companies that enable a more sustainable future, while placing social and environmental factors on an equal footing. The investment philosophy involves appraising a company's transitional qualities using a framework of willingness and ability:

- *Willingness* is indicated by management identifying a transition need and by how that has been included in the strategy, e.g. through approval of science-based targets and links to remuneration.
- *Ability* assesses the feasibility of the company transition away from existing carbon-intensive activities within an investment window of five years.

There remain data challenges with the investee companies but EdenTree is engaging with the companies to improve data production, harnessing initiatives such as the Workforce Disclosure Initiative (WDI) and the World Benchmarking Alliance's Just Transition Benchmark.

Source: EdenTree Investment Management (unpublished correspondence with authors)

Fixed income

Fixed income investors can take a targeted approach, financing companies that are making demonstrable progress towards their transition in a way that is fair and inclusive. Pricing can also be linked to the achievement of environmental and social outcomes.

In the primary market, investors can use their say in the structure and covenants of bonds to ensure that the just transition dimension is incorporated, especially for instruments such as green bonds.

Just transition assessments can provide a useful basis of information for investors looking to incorporate environmental and social factors into their capital allocation. Early efforts are emerging on integrating the environmental and social dimensions in fixed income products and instruments (see Example 5).

Screening and due diligence can also be a helpful approach in this context. Just transition screening can be applied both as a positive screen (i.e. channelling investments towards companies that perform well), and as a negative screen (i.e. channelling investments away from companies exhibiting violations of just transition). The basis for these should be established human rights standards such as the UN Guiding Principles but also just transition-specific criteria (see also 'metrics and targets' below). After the investment decision has been made, the findings from screening and due diligence can flow into ongoing risk analysis. Post-investment, the just transition performance of the holdings should also be continuously monitored.

Example 5. EBRD investment in Poland and the UK's sovereign green bond

Supporting the just transition in Poland

In 2020, the European Bank for Reconstruction and Development (EBRD) invested €56 million in a bond to support Polish energy company Tauron in its decarbonisation. Tauron has committed to a reduction in its emissions through decommissioning coal-fired units and expanding renewable energy, aiming to generate more than 65% of its energy from low-carbon sources by 2030. The proceeds of the bond are being used to expand Tauron's solar photovoltaic and onshore wind capacity, and to improve the distribution grid. Tauron has committed to developing a programme to address the social impacts of closing its coal-powered plants in Silesia, one of Poland's more carbon-dependent regions. This aligns with EBRD's Just Transition Initiative, which aims to link its previously separate policies to support green and inclusive transitions.

Source: EBRD, 2020

Social impact measurement of green sovereign bond financing in the UK

On a sovereign level, the UK Government's Green Financing Framework acknowledges "the UK is committed to honouring its commitments within the Paris Agreement to recognise the imperatives of a just transition of the workforce and the creation of decent work and quality jobs in accordance with nationally defined development priorities" (HM Treasury and UK DMO, 2021). As part of this, the UK committed to report on the social co-benefits of the green spending through the bond.

Additional source: Grantham Research Institute et al., 2020

Private equity

Just transition factors should form part of investment decision-making for private equity. For screening and monitoring, equity investors can follow a similar approach to fixed income investors. Outcomes from screening and due diligence can be used to flow into ongoing risk analysis and shareholder engagement. Going beyond due diligence, the just transition could inform the asset holding period for private equity and venture capital investors and be incorporated into the investment exit criteria. An emerging priority is to ensure that private equity firms that acquire high-carbon assets (such as coal, oil and gas) apply high environmental and social standards and manage the phase-out of these assets in line with just transition principles.

Example 6. Amundi Asset Management – Just Transition for Climate fund

In terms of finance sector application of just transition approaches, Amundi is the first asset management company to develop a just transition fund. Its Just Transition for Climate fund was launched in April 2021 and seeks to contribute to supporting and financing a transition to a 2°C economy that is accomplished in a socially inclusive manner. Assessment is based on carbon emissions, ESG scores and a novel 'Just Transition score', which incorporates impacts on workers, consumers, local communities and societies at large. Amundi will also use the Fund as an opportunity to incorporate the just transition into its company engagement and to encourage businesses to define and certify just transition objectives and policies.

Source: Amundi Asset Management, 2021

Real assets

Real assets, including infrastructure, property and farmland, are where the transition to net zero will come to life. As sources of job creation and local economic activity (both directly and indirectly), they also have substantial social relevance. Financing the fair and inclusive phase-out and transformation of high-carbon real assets and the transition into net zero real assets will be of particular importance for investors.

Benefits or harm for workers, communities and consumers should be taken into account when making decisions on capital allocation to real assets and monitored over time. It is particularly crucial to ensure that real asset projects are developed through a process of local community engagement and respond to local needs.

III. Engagement strategy

Alongside the ways that banks and investors allocate capital, harnessing a financial institution's abilities to engage with others is a significant lever of influence for the just transition. Activities under this pillar are particularly aligned with our third factor which emphasises the need for social dialogue with workers and engagement with other affected stakeholders.

Below we highlight four areas of engagement where the just transition can be advanced as part of a net zero plan. Institutions should disclose summaries of how they have engaged with these different sets of external stakeholders on the just transition.

Corporate engagement

Recommendation 5: Financial institutions should engage with corporate clients and investee companies so that they include just transition factors within their own net zero transition plans and deliver these factors with clear objectives, resourcing and disclosure.

For banks, a starting point is to require corporate clients to deliver their own credible net zero plans, incorporating relevant just transition provisions within those plans (e.g. reskilling programmes). A critical component of these corporate transition plans should be just transition programmes for workers, communities and supply chains (see Appendix 5).

Example 7. Impact Investing Institute and Deloitte – Just Transition Challenge

The Impact Investing Institute, in partnership with Deloitte, is working with more than 18 global public and private financial institutions to develop just transition finance criteria. Building on the work of the G7 Impact Taskforce and drawing heavily from existing reporting frameworks, these criteria will constitute a framework by which financial products and strategies can assess, measure and report on the extent to which their investments contribute towards a just transition. Those that meet a certain threshold will be eligible for a Just Transition Finance label.

The criteria were open to public consultation during September 2022, with the first beta version due to be published alongside the first financial products and strategies announced for testing the criteria later in the year.

Source: Impact Investing Institute, 2022

Institutional investors are increasingly including just transition criteria in their debt and equity engagement with companies. The Climate Action 100+ initiative has included a just transition indicator in its corporate net zero framework to inform investor engagement and recognises the need for increasingly active investor stewardship to meet the need for more robust just transition planning. The assessment framework developed by the World Benchmarking Alliance (WBA) has been used as a basis by two investors, Ninety-One and Newton, to write to 100 of the world's most influential oil and gas companies, urging them to consider and plan for the needs of their employees and the communities who will be impacted by an industry-wide transition to a low-carbon economy. Investors are also including the just transition in shareholder resolutions. A 2022 just transition disclosure resolution at Marathon Petroleum filed by the International Brotherhood of Teamsters, for example, resulted in 16.5% support from shareholders.

There is growing evidence that the investor voice can be influential in encouraging companies to adopt just transition strategies.

Example 8. RLAM and FPF – engagement for a just transition

Royal London Asset Management (RLAM) and the Friends Provident Foundation (FPF) have been engaging with energy utilities to encourage greater consideration of sustainability in their strategies and actions. On the basis of a set of just transition expectations for utilities, they engaged with several European companies, which resulted in several utilities (SEE, E.ON, EDF, Scottish Power and Centrica) publishing just transition strategies in 2021. They have continued this active stewardship, requesting further details from these utilities on how these just transition strategies have been implemented and are being measured. RLAM and FPF have now expanded to other sectors to use this engagement lever to encourage banks to give greater consideration to the just transition within their climate transition plans.

Source: Robins et al., 2021

Government engagement

Recommendation 6: Financial institutions should engage with international, national and local policymakers to advocate for a suitable policy and regulatory framework that supports a just transition to net zero, notably to scale up necessary investment.

Delivering the just transition requires a transformation across the economy, and governments have the primary responsibility for delivering this, through macroeconomic and fiscal strategy, regional and sector policies, skills and education strategies, as well as mechanisms for wide consultation and participation. Government policies are essential to provide investments in

public goods and set the regulatory framework that will scale up private investment in the just transition.

Policymakers have the primary responsibility for building the conditions the private sector needs to scale up action on the just transition and to drive systemic change. Through policy dialogue, financial institutions can encourage governments to provide the incentives, rules and blended finance to scale up investment in net zero activities that will have positive social impacts for workers, communities and consumers. The ILO Guidelines for a Just Transition, which set out how the just transition can be incorporated into policy instruments (ILO, 2015), should serve as the anchor point for decision-makers (see Appendix 2).

As the Financing a Just Transition Alliance identified in its *Just Zero* report in 2021, the just transition will need to be integrated into two sets of policies: firstly, a set that place the just transition at the heart of real-economy net zero policies; and secondly, a set that address financial policy design for a just transition (Robins et al., 2021b).

Example 9. Aviva Climate Transition Plan – engagement with governments

Aviva was one of the first financial institutions to release a climate transition plan. In it, there is a just transition focus within the fifth part, under ‘Using our influence’, where it highlights the importance of bringing “our customers along with us, and [making] sure that our actions reflect their interests and values so that we have a just transition to Net Zero”.

Aviva then names specific priorities it will advocate to government, including:

“Set phase-out goals for fossil fuel subsidies... and ensure these subsidies are redistributed to support the Just Transition for all.”

“Reinvest proceeds from direct carbon pricing regimes into a just and green transition through, for example, clean energy research and development, worker retraining and dividends to lower-income households.”

“Ensure solutions are affordable, accessible, and well understood – consistent with the principles for a just transition and gender equality – in relation to purchases and services such as buying a car, saving for retirement, buying and/or retrofitting a home, and choosing an energy provider.”

“Develop a plan to help retrain people in industries that need to transition, and equip new entrants to the workforce with skills required in a sustainable and economically just economy.”

Source: Aviva, 2021

Real economy policies

Illustrations of how the ‘just transition lens’ can be applied by financial institutions to assess the robustness of country policy have been developed as part of the Inevitable Policy Response (IPR), set out Table 3.1 below. In particular, the just transition will need to feature prominently in the design of carbon pricing, the phase-out of fossil fuels and in the increase in clean energy and electric vehicles. It will also need to become a core part of international climate cooperation, not least to provide critical financial resources for winding down major fossil fuel industries in emerging markets. To date, the focus of just transition efforts has been almost exclusively on the energy system. Efforts to develop just transition strategies for agriculture and land use should intensify, as these sectors are potentially more socially sensitive than energy, with more people dependent on them (particularly in emerging countries) and often with weak social indicators. Appendix 4, based on Muller and Robins (2022b), highlights some recommendations for financial institutions to deepened and broaden their support for the ‘just nature’ agenda.

Table 3.1. How financial institutions can apply a just transition lens to climate policies in the Inevitable Policy Response (IPR)

IPR levers	Just transition lens	Examples
1. Net-zero targets	<ul style="list-style-type: none"> - Include just transition in NDCs - Establish just transition stakeholder dialogue - Introduce just transition policies and financial packages for sectors and regions 	<ul style="list-style-type: none"> - South Africa’s 2030 NDC - Scotland’s Just Transition Commission - EU Just Transition Mechanism - Canada’s Just Transition Consultation
2. Carbon pricing and fossil fuel subsidy reform	<ul style="list-style-type: none"> - Assess distributional implications (income, sector, region) - Allocate funding to vulnerable social groups 	<ul style="list-style-type: none"> - EU’s proposed Social Climate Fund - Peru’s Social Inclusion Fund
3. Fossil fuel phase-out	<ul style="list-style-type: none"> - Design sector and place-based plans for workers and communities - Finance reskilling, social protection and regional development 	<ul style="list-style-type: none"> - Denmark’s Oil & Gas Phase Out Plan - Spain’s Just Transition Agreements for Coal
4. Clean power	<ul style="list-style-type: none"> - Design expansion of renewable energy to provide decent work, expand skills and positive community benefits 	<ul style="list-style-type: none"> - India’s Skills Council for Green Jobs - UK Green Jobs Task Force
5. Internal combustion engine (ICE) phase-outs	<ul style="list-style-type: none"> - Assess social risks of ICE phase-out - Introduce bridging policies for workers and communities - Maximise jobs and community benefits of sustainable transport (including public transport) 	<ul style="list-style-type: none"> - France: fund to retrain foundry workers for electric vehicles
6. Low-carbon buildings	<ul style="list-style-type: none"> - Build the skilled workforce with decent working conditions for renewables and energy efficiency - Focus on low-income households to end energy poverty 	
7. Industry decarbonisation	<ul style="list-style-type: none"> - Ensure workers and communities are included in plans for steel, cement and chemicals 	
8. Low-emission agriculture	<ul style="list-style-type: none"> - Shape net zero plans to help eliminate poverty and reduce inequality in food and agriculture 	
9. Land use and forestry	<ul style="list-style-type: none"> - Shape net zero plans for land use and forestry to help eliminate poverty and reduce inequality 	
10. Additional Public finance	<ul style="list-style-type: none"> - Deliver public finance to support a just transition (including for skills, social protection, regions, sectors) - Mobilise development banks to enable economies to deliver 	<ul style="list-style-type: none"> - ADB Energy Transition Mechanism - CIF Accelerating Coal Transition programme

Note: The Inevitable Policy Response (IPR) is a climate transition forecasting consortium commissioned by the PRI which aims to prepare institutional investors for portfolio risks and opportunities associated with an acceleration of policy responses to climate change.

Source: Robins, 2022

As well as identifying relevant policies, financial institutions need to advocate for a supportive and enabling policy environment for the just transition. As part of the Inevitable Policy Response

quarterly update of key climate policies, Chan et al. (2022) developed a framework for assessing just transition alignment and applied it to 30 major policy developments globally. The framework covers core just transition elements including: just transition framing; impact on vulnerable groups; participatory processes and actor engagement; forms of justice (distributive, procedural, restorative); policy areas and sectors; policy instruments; implementation level; and duration. The assessment shows that in many countries there is a growing awareness of the fact that to have the best chance of effective and lasting implementation, policies need to take the just transition into account. Still, the just transition elements of many recent policies could be considerably stronger, and in many cases they are absent (Chan et al., 2022). One reason for this may be that at present many of the policies tracked are relatively high level. We would expect more detail on the incorporation of just transition elements to become evident as we get further into the implementation phase. There is also significant regional variation, with policies reviewed in Europe, North America and South Africa exhibiting the strongest just transition elements. Canada’s 2030 Emissions Reduction Plan builds a best-in-class example, as described in Table 3.2.

Table 3.2. Canada’s 2030 Emissions Reduction Plan

Sector	Policy development	Commentary	Assessment
Multiple areas	<ul style="list-style-type: none"> Provides a roadmap that outlines a sector-by-sector path for Canada to reach its emissions reduction target of 40% by 2030, to ultimately achieve net zero by 2050. Sectors covered include buildings, electricity, heavy industry, oil and gas, transportation, agriculture, waste, nature-based solutions, clean technology and sustainable finance. 	<ul style="list-style-type: none"> Uses explicit just transition framing. Assessment of impacts on women; racialised communities [experiencing racial inequality]; Indigenous communities; low-income groups. Strong participatory mechanisms at all levels of government. Broad range of beneficiaries, including households, workers, businesses, provinces and territories, municipalities, society as a whole, and future generations. Conceptions of justice are manifold; include recognition and environmental justice, and distributive and procedural elements. 	<p>Strong just transition elements</p> <ul style="list-style-type: none"> Broad conception of justice. Includes both transformative and managerial elements.

Source: Chan et al., 2022

Financial policies

Public finance is important for delivering the policy goal of a just transition. Multilateral development banks (MDBs) and development finance institutions (DFIs) more broadly have often been at the forefront of financial sector activity to support a just transition to net zero, not least because it brings together their role as policy-driven institutions, providing advice to policymakers as well as access to capital for the public and private sectors. MDBs and DFIs have historically also

played an important role in developing innovative instruments that could be leveraged to address the potential social risks and opportunities of the low-carbon transition. Financial institutions should explore how they can collaborate or co-invest with public and development finance institutions. This could unlock blended finance solutions, which are important to de-risking parts of the just transition.

Sovereign bonds are a useful focus for investor and wider financial sector engagement. The Assessing Sovereign Climate-related Opportunities and Risks (ASCOR) project is developing a tool for investors to gain a common understanding of sovereign exposure to climate risk and of how governments plan to transition to a low-carbon economy. The just transition will form one part of the tool. Since ASCOR is evaluating sovereigns as a whole, it takes into account how the just transition is supported across a jurisdiction's suite of policies.

Financial standards and regulations are crucial for driving business and finance to manage environmental risks, seize sustainability opportunities, improve positive impacts and reduce negative impacts. The just transition should be incorporated into financial standards and regulation, including in terms of disclosure.

Industry engagement

Recommendation 7: Financial institutions should engage with net zero and climate initiatives in the finance sector so that they all include a commitment to support the just transition as part of their frameworks and as conditions for membership.

Financial institutions should consider how they can engage to support the just transition as part of net zero and climate initiatives across their own sectors. As a global, pan-financial sector coalition, GFANZ is supporting the just transition across its different work programmes. GFANZ is made up of sector-specific alliances focused on asset owners and asset managers, banks, insurers and others. Each of these sector-specific alliances should include a requirement for signatories or members to commit to embedding the just transition within their strategies, climate plans and operations. For example, the Net-Zero Banking Alliance commitment statement encourages banks to “give consideration to associated social impacts” when engaging with corporates and industry on net zero (NZBA, 2021). In future iterations, this statement could be strengthened to give more explicit support for the just transition.

Example 10. The Financing a Just Transition Alliance (FJTA), UK

In November 2020 more than 50 banks, investors and other financial institutions joined forces with universities, civil society and trade unions to launch the Financing a Just Transition Alliance (FJTA), the first grouping of its kind in the UK. The objective of the Alliance is to translate this commitment into real-world impact. Doing this will help to accelerate progress towards the UK's climate goals, generate social co-benefits and contribute to long-term financial success. The FJTA is coordinated by the Grantham Research Institute on Climate Change and the Environment at LSE.

Through its collaborative format, the Alliance provides:

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

Source: www.lse.ac.uk/granthaminstitute/financing-a-just-transition/

Stakeholder engagement

Recommendation 8: Financial institutions should engage with stakeholders (including trade unions and civil society) as part of the preparation and implementation of their net zero plans to ensure effectiveness and credibility. As part of their engagement with companies, they should also encourage development of net zero transition plans through social dialogue with trade unions and participation of other civil society actors.

Financial institutions should engage civil society to identify opportunities for their participation and partnership in the delivery of their net zero plans (see Example 11). Dialogue with trade unions and community representatives is crucial to delivering a just and inclusive transition. There may also be the ability to partner with universities to harness their research in mutually beneficial processes that allow the application of research and support institutions in their own transition to more sustainable practices.

While financial institutions can engage with trade unions, it may be more suitable for the institution to encourage clients to engage with trade unions on development of their own transition plans. Trade unions can help with the design of both financial institution plans and/or client transition plans. SSE, for example, received trade union feedback and input into its just transition strategy published in 2021.

Example 11. Restoring ocean ecosystems – partnering with civil society actors

Rabobank recently provided a green loan to Agrosuper, one of the world's largest salmon producers, to finance acquisitions in its Chilean salmon supply chain. The structure of the instrument includes objective and measurable environmental and social conditions that were developed in partnership with WWF, including elements of the NGO's social policy guidelines and social criteria in the Aquaculture Stewardship Council (ASC) standard for sustainable salmon farming.

Agrosuper is targeting 100% ASC certification of its salmon production centres. The certification contributes to transparency on how a farm performs on sustainability issues such as impacts on biodiversity and nearby ecosystems, including supply chain components such as responsible sourcing of feed. On the social side, ASC certification requirements are based on the core principles of the ILO, such as prohibitions of child and forced labour. Among the social criteria are also payment of decent wages, regulated working hours, development of a policy ensuring social compliance of suppliers and contractors, and consultation with Indigenous and broader local communities.

Sources: Rabobank, 2019 and ASC, 2019

IV. Metrics and targets

Recommendation 9: Financial institutions should develop and disclose metrics to measure progress on just transition goals and activities, and produce evidence of the just outcomes of their net zero plans.

As financial institutions implement their net zero transition plans, they should put in place agreed metrics to report progress and benchmark against their just transition objectives. These should measure progress in delivering the just transition in their strategy ('process targets') as well as accounting for just transition outcomes in the form of financing impacts and results from engagement ('outcome targets'):

- **Process targets:** These could focus on how the investor is progressing the just transition: for example, the percentage of climate engagement activities that include the just transition.

- **Outcome targets:** These could focus on what result is being achieved: for example, the percentage of corporates with credible just transition strategies and the amount of investment in dedicated just transition financing initiatives.

These metrics could draw on emerging approaches such as those of Climate Action 100+ and the World Benchmarking Alliance, and the ILO, which has published elements to be considered when tracking progress on the just transition from an institutional point of view (provided in Table 3.3 below). This is also an iterative process and can be refined over time with metrics and evidence informing future strategy development and supporting the identification of other measures and proxies of progress.

Just transition disclosure examples to include in transition plans:

- **Process targets – metric examples:**
 - Number of engagements with clients on the just transition
 - How remuneration and performance take account of a wider variety of sustainability measures including the just transition
 - Internal staff training on the just transition
 - Number of clients with published just transition plans
 - Percentage of workers or workers’ representatives participating in dialogue regarding the just transition
 - Percentage of at-risk workers being offered retraining or redeployment
 - Number of sustainable jobs created as a result of actions undertaken via a transition plan
 - Number of dialogue sessions held with communities within a year
 - Number of job losses within a company due to transition plan actions, such as closure of a facility
- **Outcome targets – evidence examples:**
 - Number of jobs in green industries with decent work
 - Feedback from impacted communities, workers (via trade unions) and consumers
 - Evidence of social dialogue in clients’ transition plans
 - Case studies within different sectors and regions
 - Evidence of just transition-aligned public policies adopted

Further suggestions of examples for financial sector disclosure are included in Appendix 6.

Table 3.3. The ILO’s elements to be considered to track progress on just transition in terms of institutional arrangements and action

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| <ul style="list-style-type: none"> - Mechanisms for social dialogue (which provide the basis for all other actions) - Arrangements for stakeholder engagement processes (to inform other actions) - Just transition plans based on social dialogue and taking into account various impacts of the transition, including gendered ones - Measures to ensure full respect of labour and human rights - Retraining schemes and their coverage - Retention and redeployment schemes and their coverage - Early retirement schemes and their coverage - Support to displaced workers in terms of skills upgrading or retraining, business development services, finance for business start-ups | <ul style="list-style-type: none"> - Coverage and level of social protection and contribution to social protection by enterprises - Conversion of assets - Job-rich economic diversification measures, including place-based investment plans for hard-hit regions - Measures in green investments that support local hiring, and link with local suppliers/ service providers - Use of revenues from environmental taxes or of fiscal space from fossil fuel subsidy reforms for social transfers to alleviate negative impacts and support human-centred investments (social protection, skills development, career guidance) and incentives for low-carbon activities and decarbonisation strategies (for national/regional-level transitions) |
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Source: ILO, 2022

V. Governance

Recommendation 10: Financial institutions should ensure that the just transition dimension of their net zero transition plans is overseen by the board (or equivalent senior decision-makers) and that decision-making processes are inclusive of staff across the organisation.

Board-level governance

Board and senior executive leadership should commit to ensuring that the just transition is incorporated into institutional strategy and culture, identifying roles for the Chair, Non-Executive Directors and the operation of board sub-committees. There should also be a consideration of impacted workers and communities (internally and externally to the company) within decision-making frameworks. *The Chair's Guide to Realizing Value from a Just Transition* from Deloitte provides first guidance and key questions for board members to ask CEOs and executives (Deloitte, 2022). For UK business and finance, the incorporation of just transition factors and priorities into their net zero plans is consistent with and implicitly required by existing corporate governance policy and regulation (see Example Box 12).

Governance processes should consider the following:

Approval, oversight and review:

- Net zero transition plans, including just transition commitments, should be approved at board level.
- Board oversight should be given to execution of the net zero strategy, including consideration of the just transition and regular assessments on progress made.

Social and stakeholder dialogue:

- Dialogue is needed between management and employees from across the financial institution in the design and delivery of the plan.

- Dialogue is needed too between the company and external representatives such as business and trade unions and other stakeholders on the design of the just transition dimension.

Skills and culture

Recommendation 11: Financial institutions should build the skills and capabilities needed to support a just transition to net zero and foster open communication across the institution to embed the spirit of the just transition into their operations and culture.

Providing employees at all levels with the skills to approach climate action in their respective roles through a just transition lens and incorporating the consideration for a just transition into company culture is vital in ensuring the successful implementation of transition plans. This has also been recognised by GFANZ in the recommendations in its report *Financial Institution Net-zero Transition Plans (2022)*. It also ensures that the implementation of transition plans can survive changes in the Board and Senior Management.

Example 12. UK Corporate Governance Code and Companies Act – harnessing existing regulation to embed a just transition

The provisions of the Companies Act, which focus on director duties to promote the success of a company, provide clear foundations for taking forward the just transition: they contain the requirement to take action with regard to “the interests of the company’s employees, the need to foster the company’s business relationships with suppliers, customers and others, and the impact of the company’s operations on the community and the environment”.

In addition, the 2018 Corporate Governance Code signals the need for boards to “ensure effective engagement with, and encourage participation” from stakeholders as well as shareholders. The 2018 Code highlights three options for achieving this workforce engagement: a director appointed from the workforce, a designated non-executive director, or an advisory panel. These could all be mobilised as tools to ensure meaningful dialogue and engagement with workers in the design and delivery of net zero plans (Financial Reporting Council, 2021).

UK companies should make sure that their net zero plans are fully aligned with these provisions so that transition plans best reflect the interests of stakeholders as well as effectively involving them in their preparation and implementation as a key factor in delivering successful achievement of net zero goals.

Incorporating the just transition into workplace culture would require interacting regularly with identified communities, consumers and suppliers that are predicted to be affected by the financial institution’s action on climate, and inviting a wide range of employees to participate in or observe those interactions. Having frequent dialogue and building meaningful relationships with these external stakeholders will give employees a first-hand understanding of the transition challenges and encourage discussion about the just transition. This can be further supplemented by building communication lines within and between financial companies to open up dialogue on the just transition.

Skilling-up employees to include just transition considerations in day-to-day business can be achieved by mapping how their clients/investees interact with climate action and then collaborating across service lines with thought leadership, sustainability, and human rights teams, to understand team responsibilities on the just transition. This can be further complemented through interactive educational material that addresses the challenges and opportunities of a just transition specifically for the operating company’s sector, to give employees a better understanding of a just transition.

3. Next steps

It is critically important that financial institutions get net zero plans right from the start by incorporating support for the just transition, and then taking an iterative and learning approach to further improvement. This report offers a first set of guidance and recommendations for embedding the just transition into net zero plans in a practical way. It has been developed in consultation with investors, banks, representatives from GFANZ and the UK Transition Plan Taskforce (TPT), trade unions and civil society.

Looking ahead, as part of the Financing a Just Transition Alliance, we will be focusing on a number of priorities that have emerged as part of the discussions that produced this report. These include:

- **Reviewing how financial institutions embed just transition in their plans:** Over the next year, a growing number of financial institutions will produce net zero transition plans, and we intend to review the degree to which just transition factors have been incorporated, and identify some of the positive examples as well as the challenges that are emerging. We expect metrics to be one of these, pointing to the need for the just transition to be effectively included within the TCFD, the Task Force for Nature-related Financial Disclosures (TNFD), the work of the International Sustainability Standards Board, and key regional reporting regimes (for companies in the EU, for example).
- **Identifying ways to allocate capital for a just transition in the real economy:** A key role for financial institutions is ensuring that the capital they allocate supports a just transition to net zero. To date, engagement on the just transition has outstripped decisions surrounding the allocation of capital. We will focus on financial innovations that help to crystallise just transition finance, for example through sustainability-linked loans and bonds (see Northern Ireland example, Box 3.1). A place-based focus will be a particular priority.

Box 3.1. A Just Transition Bond for Northern Ireland Housing Executive (Proposal)

The Grantham Research Institute developed a proposal for a just transition financing instrument as part of the Northern Ireland Housing Executive's investment programme to revitalise communities. In summary:

- This investment would be spent on large-scale retrofitting to deliver energy-efficient homes with decarbonised heating, supporting green growth and improving residents' health and wellbeing.
- The proceeds of the bond would be put towards ensuring a just transition and would draw on existing green and social measurement frameworks (e.g. the UK Sovereign Bond Green Financing Framework and Social Value Framework) as well as the policy direction set by the Northern Ireland Executive (e.g. NI Climate Change Bill) and the UK Government's net zero commitments.
- The Northern Ireland Housing Executive as a leading housing institution with over 80,000 housing units could become an international market leader through the design and delivery of a Just Transition Bond, which could catalyse wider action across the buildings sector and the economy.
- There would be a role for the UK Infrastructure Bank as a development finance institution to provide concessional financing and technical assistance to leverage the quantum of private finance needed to deliver on the NIHE net zero revitalisation plans.

Source: Curran, 2022

- **Strengthening policy frameworks for the just transition:** Governments have primary responsibility for the just transition, and financial sector dialogue with policymakers and public financial institutions will be vital to putting in place the system-wide incentives and rules that mobilise private capital. We will explore high leverage areas for supporting financial sector advocacy and dialogue. Equally, it will be important that the financial sector's net zero plans are aligned with national commitments and policies, respecting country ownership of the just transition.
- **Encouraging social innovation and social dialogue:** The just transition is ultimately a process of social innovation that complements the science-based focus of net zero planning. There needs to be better understanding of social innovations that work, and how to ensure that the process is inclusive through social dialogue and stakeholder participation. We will seek to take stock of existing practice and identify where the financial sector can learn from promising social innovations.
- **Examining how the just transition can be taken up across the financial system:** As the Intergovernmental Panel on Climate Change has highlighted, supporting the just transition is a critical priority for the global financial system. This report has largely focused on banks and investors, but we will explore extending this to other parts of the financial system, including insurance firms, capital markets, data providers and consultants. We will also examine how central banks and prudential supervisors can best support the just transition as part of their mandates for financial stability.

Appendix 1. Financial sector statements on the just transition

Institution	Selected statements
abrdn	<p><i>Climate change – our approach for investments</i></p> <p>“We strongly encourage companies to consider the social dimension of the energy transition to ensure it is inclusive and ‘just’. This means worker and community needs are considered on the path to a low-carbon economy so they are not left stranded. Other social aspects, such as affordability and reliability of energy supply are also important.”</p>
ABN Amro	<p><i>Guiding a Bank’s Portfolio to Paris</i></p> <p>“With a focus on climate change, circular economy and social impact, we are making sustainability an integral part of our business by supporting our clients in making their own transition to sustainability.”</p>
Amundi	<p><i>2021 Integrated Annual Report</i></p> <p>“Achieving a fair transition, together: Without social acceptance, there can be no transition to a low-carbon and environmentally friendly economy. Therefore, sustainable finance must also strive to take into account the social consequences of such a transformation.”</p>
Aviva	<p><i>Aviva’s Climate Transition Plan: First Release</i></p> <p>“We also need to bring our customers along with us, and make sure that our actions reflect their interests and values so that we have a just transition to Net Zero.”</p>
ACSI	<p><i>Climate Change Policy 2021</i></p> <p>Where companies face material climate-related risks, ACSI expects companies to “plan for just and equitable transitions: incorporate impacts on employees, communities and other stakeholders into transition strategy and planning”.</p>
Barclays	<p><i>Barclays Annual Report 2021</i></p> <p>“Barclays recognises the need to sustain and support livelihoods and communities in the UK and around the world as we support our clients to transition to a low-carbon economy. A Just Transition is essential for achieving the goals of the Paris Agreement ... Financial institutions have a role to play in integrating social considerations into their supply chains, policies, and decision-making as part of their participation in the transition towards a low-carbon economy.”</p>
BNP Paribas	<p><i>Supporting transitions</i></p> <p>“Fostering a just transition: As the European Union’s leading bank, BNP Paribas holds the strong conviction that its expertise must directly support a more sustainable and inclusive economy. By making the expertise of its different business lines available to support the numerous transitions currently underway, the Group is taking action for finance that is more just and sustainable.”</p>
Brunel Pension Fund	<p><i>Climate Change Policy</i></p> <p>“[W]e need to ensure that policy interventions take account of the impacts on society, including the impacts on employment, on access to energy and on the affordability of energy, in particular for vulnerable groups. We are committed to supporting a Just Transition. We recognise that changing or influencing public</p>

	policy requires us to work with our Clients and others. We therefore expect to deliver our objectives through direct communication with policy makers."
Candriam	<i>A Just Energy Transition: Impacts on European Power Producers</i> "We see it as part of our role as asset owners and responsible stewards to assess the progress achieved and the needs which still need to be met for a Just Transition. We engage in ongoing dialogues with the largest European power producers on their efforts, along with other stakeholders."
Citibank	<i>Net Zero Transition Principles</i> "Social Responsibility: Strive to ensure that our net zero transition is consistent with other sustainable development objectives. We will also assess how our financing decisions could affect lower-income communities, developing countries and communities dependent on carbon-intensive sectors, balancing the need for carbon reduction with the potential negative impacts on access to energy and economic dislocation."
EdenTree	<i>EdenTree RI Expert Briefing: Just Transition</i> "Across our range of equity and fixed income Funds, a Just Transition is integrated across our screening and engagements on climate change. In practice this means ensuring the involvement of, and support for, those potentially impacted in company's decarbonisation plans – particularly in high impact sectors."
Federated Hermes	<i>Climate-related Financial Disclosures Report 2020</i> "The social dimension for climate change remains important and we therefore joined the Financing the Just Transition Alliance, which was established with the goal of translating the growing commitment across the financial sector into real world impact. We co-chair the UN Positive Impact Initiative, which seeks to co-create commercially viable, impact-based solutions to the Sustainable Development Goals (SDGs)."
HSBC	<i>HSBC Holdings plc Annual report and Accounts 2021:</i> "We support the drive for a 'just transition' to net zero, harnessing political momentum for action with policies and finance to support disadvantaged sectors and communities."
ING	<i>2021 Climate Report</i> "As we decarbonise, guidance on what a 'Just transition' is and how to incentivise it is also being developed. This could lead financial institutions to prioritise sectors for both opportunities and enhanced due diligence when considering the transition and human rights risks or opportunities for human progress. Attention to the Just Transition will also help ING clients better understand risks, which in turn means that entire value chains take responsible action in the transition."
LGIM	<i>Inaction is not an option. Legal & General Group Plc 2021 Climate Report</i> "We will, of course, continue to use our influence as a large global investor to promote a 'just transition' to a low carbon economy. A 'just transition' must be an inclusive transition."
NatWest	<i>Annual Report 2021</i> "There is also growing attention on the need for a 'just transition' and 'energy justice' – in recognition that the transition to a net zero economy should not disproportionately affect the most disadvantaged members of society. The increased focus on these issues may create reputational and other risks for financial institutions, including NatWest."

Rathbone	<p><i>Financing a Just Transition report</i></p> <p>“As investors, we must translate these just transition ambitions into action. Through collective action, we have a unique role to play in securing a more sustainable future for people and planet.”</p>
Royal London Asset Management (RLAM)	<p><i>Just Transition engagement report 2021</i></p> <p>“The social risk of climate action could be a significant barrier to achieving net zero, and therefore must be addressed. Financial and social inclusion are also important drivers to RLAM’s purpose – we believe that by ensuring a Just Transition we can support in parallel our decarbonisation and social inclusion aims.”</p>
Scottish Widows	<p><i>The Just Way – The case for a Just Climate Transition</i></p> <p>“It is imperative this transition is a just one and the pensions industry has a lot of power and influence to ensure that’s the case. A changing climate presents major risks to society, investments and the financial future of pension savers – achieving a Just Transition will successfully mitigate those risks. Action to combat climate change while valuing social needs also offers many opportunities.”</p>
Skandinaviska Enskilda Banken AB (SEB)	<p><i>Social and Human Rights Policy for the SEB Group</i></p> <p>7.8 Just Transition</p> <p>“Reduce the impact of job losses and industry phase-out on workers and communities when transitioning out of a technology/industry/site. When transitioning in to new technologies SEB encourages its clients to take measures to produce new, green and decent jobs, supporting healthy communities.”</p>
Standard Chartered	<p><i>Standard Chartered Net Zero Approach</i></p> <p>“Providing our clients with transition and green financing: Supporting our clients on their decarbonisation journey through the provision of transition finance and expert advice is, and will continue to be, at the heart of our approach. This is essential in emerging markets to ensure continued economic and social development and to help drive a just transition. Without such support companies will struggle to scale-up transition technologies at the required rate.”</p>
Triodos	<p><i>Triodos Bank sets target to reach net zero by 2035</i></p> <p>“In formulating our target, we have adopted a holistic approach which supports our mission to create positive impact on people and nature. We want to reduce emissions, whilst also considering biodiversity and social inclusion of all people. We will do this by collaborating with clients, customers and other stakeholders to help ensure the transition is fair and inclusive.”</p>

Appendix 2. The ILO's just transition principles

The International Labour Organization's *Just Transition Guidelines* outline the following principles to guide the transition to environmentally sustainable economies and societies:

- (a) Social consensus and dialogue:** "Strong social consensus on the goal and pathways to sustainability is fundamental. Social dialogue has to be an integral part of the institutional framework for policy-making and implementation at all levels. Adequate, informed and ongoing consultation should take place with all relevant stakeholders."
- (b) Rights at Work:** "Policies must respect, promote and realize fundamental principles and rights at work."
- (c) Gender:** "Policies and programmes need to take into account the strong gender dimension of many environmental challenges and opportunities. Specific gender policies should be considered in order to promote equitable outcomes."
- (d) Policy:** "Coherent policies across the economic, environmental, social, education/training and labour portfolios need to provide an enabling environment for enterprises, workers, investors and consumers to embrace and drive the transition towards environmentally sustainable and inclusive economies and societies."
- (e) Creation of more decent jobs:** "These coherent policies also need to provide a just transition framework for all to promote the creation of more decent jobs, including as appropriate: anticipating impacts on employment, adequate and sustainable social protection for job losses and displacement, skills development and social dialogue, including the effective exercise of the right to organize and bargain collectively."
- (f) Context:** "There is no 'one size fits all'. Policies and programmes need to be designed in line with the specific conditions of countries, including their stage of development, economic sectors and types and sizes of enterprises."
- (g) International cooperation:** "In implementing sustainable development strategies, it is important to foster international cooperation among countries. In this context, we recall the outcome document of the United Nations Conference on Sustainable Development (Rio +20), including section VI on means of implementation."

Source: ILO (2015): 5–6

Appendix 3. Tailoring action to different geographical contexts

For financial institutions to influence the real economy to decarbonise in a just and inclusive manner, they will need to tailor its application for different geographical contexts. The Paris Agreement makes clear that the just transition should be realised “in accordance with nationally defined development priorities.” In their net zero plans, investors could set how they are prioritising place-based action at the local, national and international levels and how it aligns with geographical policy and strategy to decarbonise economies. This level of geographical granularity and detail within plans will demonstrate best-in-class approaches to net zero transition plans. The International Renewable Energy Agency (IRENA) and the ILO have highlighted that from a just transition perspective, “socio-economic impacts will be felt most strongly at subnational level”.¹ While the onus is on national and local government policymakers to provide an appropriate enabling environment and regulation, financial institutions can leverage this policy and use their links in different regions and localities to adapt their plans to local transition requirements.

In the rest of this appendix, we provide examples of the evolution of just transition strategies from the EU, UK, South Africa and India and suggest in places how action can be strengthened.

Industrialised nations

European Union

The EU is a leader in translating the just transition into action, not least through its inclusion at the heart of the Green Deal plan. As the European Commission President von der Leyen has said: “The transformation ahead of us is unprecedented. And it will only work if it is just – and if it works for all. We will support our people and our regions that need to make bigger efforts in this transformation, to make sure that we leave no one behind. The Green Deal comes with important investment needs, which we will turn into investment opportunities” (European Commission, 2020).

The Just Transition Mechanism (JTM), including investment by the European Investment Bank, is part of the delivery of this plan. However, public finance will not be enough and therefore the EU is seeking to crowd-in private capital, particularly through its Invest EU scheme. The European Green Deal also addresses the critical geographical dimension to mobilising finance for the transition, not least through requiring regions to develop Territorial Just Transition Plans which could serve as roadmaps for connecting with investors.

Across Europe, investors and other financial institutions are starting to take action to support the just transition. In France, Finance for Tomorrow has launched its Investors for a Just Transition Coalition. Activity is also underway in Italy and Poland. There has been particular progress made on shareholder engagement. In our *From the Grand to the Granular* report we found that investors have managed to achieve real impact with European utility companies through engaging with them to develop just transition plans (Robins et al., 2021a).

United Kingdom

At COP26, the UK Government championed the just transition by promoting the declaration for ‘Supporting the Conditions for a Just Transition Internationally’, which the UK signed alongside 15 other industrialised nations and the EU. Domestically, public support for a just transition has not been explicit in net zero policies. The issuance of the UK’s first sovereign green bonds referenced

¹ <https://irena.org/publications/2022/Mar/World-Energy-Transitions-Outlook-2022/digitalreport>

the just transition and there remains an unrealised potential to connect net zero goals with policy ambitions to reduce regional inequality (supporting the Government's 'levelling up' agenda).

The need for a place-based approach to net zero has emerged strongly in the UK. A recent PwC report with Otley Energy and Leeds University modelled a place-specific approach to the net zero transition against a national approach. The place-specific approach resulted in £57 billion of energy savings as well as £444 billion of wider social benefits in comparison with a national approach. This research provides further impetus to support local climate action. The Government should have a role in developing local capacity to support these transitions but private finance will avail in the medium-term of the investment opportunities created across the UK.

Among the devolved administrations in the UK, the Scottish Government has formed a Just Transition Commission to produce key just transition plans "in a way that is co-designed and co-delivered by communities, businesses, unions and workers, and all society" (Scottish Government, 2022). Financial institutions can align with and contribute to the delivery of just transition plans at relevant jurisdictional levels in the UK and should look to invest in low-carbon public infrastructure projects that can accelerate the green transition in localities.

Emerging economies

The real test of the just transition will be in major emerging and developing economies, where investment needs for net zero and climate resilience are greatest, but access to and the cost of capital can be a challenge, and social safeguards tend to be weaker than in industrialised nations. In these economies partnerships with development finance institutions will be particularly important to build strong policy foundations, develop innovative financial solutions and reduce financial risks. A recent report finds that annual investments for clean energy in emerging and developing markets need to increase by a factor of seven, from US\$150 billion in 2020 to over US\$1 trillion by 2030 to achieve net zero emissions in 2050 (IEA, 2021).

The main objective for developing countries is to ensure that climate action contributes to rather than conflicts with achieving core development goals, especially those of eradicating poverty, ensuring access to energy, creating new jobs and livelihoods, and replacing jobs that are lost. This requires careful policy sequencing, calibration and an awareness of possible trade-offs but also of synergies between climate and development policies. To achieve the trifecta of jobs, growth and sustainability, people must be placed at the centre of climate action.

South Africa²

South Africa, the world's 12th biggest greenhouse gas emitter, was the first country to include the just transition in its nationally determined contribution (NDC) and the just transition is at the centre of the country's efforts to achieve net zero and build resilience. There is significant poverty, unemployment and inequality in South Africa and the Government's response to climate change and pathways to a low-carbon climate-resilient economy place this context front and centre. The South African position is that climate action can only be implemented in accordance with the country's national circumstances and development priorities. Further, the pace and extent of decarbonisation will be determined by the scale and nature of financial support made available by the global North.

A just transition in the South African context must respond to the following questions:

- How do we empower people and communities in the transition to a low emissions economy?
- How do we ensure that the most impacted are not left behind?

² This section draws on *Toward a contribution to a just transition finance roadmap in South Africa* by Sandy Lowitt (Trade & Industrial Policy Strategies [TIPS], 2021).

- How can the goals of social inclusion and decent work for all be supported?
- How does the just transition process fit into the broader challenge of solving the triple challenges of inequality, poverty and unemployment?

To guide and steer the planning and implementation of a just transition in South Africa, institutional capacity has been formalised and resourced. At the highest level an Inter-Ministerial Committee (IMC) at Cabinet level has been formed, chaired by the President. At a more operational level a Presidential Climate Commission (PCC) has been established. This is a multi-stakeholder body mandated to facilitate dialogue between social partners (government, labour, business and civil society) on the type of low-carbon, inclusive society being sought and pathways to getting there.

One of the PCC's first outputs has been the publication of a Framework for a Just Transition in South Africa. The framework aims to provide clarity and guidance to stakeholders who are strategising, planning and implementing just transition actions. The framework articulates a collective vision for a just transition; the three core principles of a just transition (distributive, restorative and procedural justice); identification of 'at risk groups' (value chains, communities [especially women and youth] and workers); and what planning elements and policy measures are available to achieve the vision. The framework does not deal with climate mitigation and adaptation policies per se, but rather with managing the social consequences and economic upside of those policies while putting human development concerns at the centre of decision-making.

Particular attention is paid in the framework to financing a just transition. Significant capital mobilisation will be required from both public and private sources in the domestic and international markets. International capital will be particularly important given the limited fiscal space of the South African government. The recently convened Just Energy Transition Partnership has the potential to become a blueprint and negotiations have begun to ensure that the package is additive and fit for purpose. The quantity and quality of funding available for the 'just portion' of the just transition must be addressed upfront. South African research has shown that the more ambitious a project is in terms of justice indicators and dimensions, the less likely it is to be funded by the existing financial ecosystem (Lowitt, 2021).

India

Prime Minister Modi's decision to make India net zero by 2070 has fired the starting gun for a multi-decade national transformation. In the years ahead, net zero can become a powerful driver of growth and development, delivering more and better jobs and contributing to India's core sustainable development goals of eradicating poverty and reducing inequality. In a forthcoming report, authors from the Grantham Research Institute, the Environment Management Centre and British International Investment will set out an integrated just transition roadmap of recommendations for India that national, state and district governments could take alongside public and private financial institutions as well as business, trade unions and civil society.

In terms of strategic policy, a starting point would be for the Government of India to produce a just transition strategy as part of its net zero delivery plan. This could include an operational definition of just transition for India's circumstances as well as a baseline quantification of the scale of the social risks and opportunities associated with the country's transition to net zero. Alongside this, an inter-ministerial council could be established to coordinate net zero and the wider just transition agenda. This could undertake monitoring and impact assessment of the effectiveness of programmes and policies launched to support a just transition. A multi-stakeholder and multi-level approach will also be vital to involve different regions, business and enterprise, workers and trade unions, communities and civil society. This could be enabled through a just transition commission.

In terms of public finance, at the domestic level just transition priorities will need to be incorporated into public financial policies and the work of the Finance Commission. Issues for consideration could include the regional balance of public funding to enable a just transition, how social factors can be included in the design of carbon taxes and carbon pricing, and consideration of a dedicated Just Transition Fund to provide focus.

In terms of private finance, in addition to the policy and public finance measures set out above, just transition principles will need to be incorporated within India's sustainable finance strategy and disclosure requirements. This would include India's sustainable taxonomy, using the Business Responsibility and Sustainability Reporting (BRSR) requirements to connect environmental and social factors and making sure that the work of the Reserve Bank of India to counter climate risks includes a strong social dimension. Additional flows of capital from foreign banks and institutional investors should be attracted to support a just transition to net zero in India. Here, the platform of the International Financial Services Centre at Gujarat International Finance Tec-City (GIFT) could be deployed. All of this will require considerable financial innovation, building on the existing momentum in India around green, social, sustainability, transition and impact finance.

Appendix 4. Tailoring action to different sectoral contexts

Just transition factors will need to be included in the net zero pathways for different sectors that investors are developing across the economy, including energy, buildings, industry, transport and land use. In their net zero plans, investors could indicate how they are applying the just transition to each of the different elements we have listed in the report, within their transition plans. The forthcoming sector-specific guidance for net zero plans under development by the Transition Plan Taskforce in the UK should include just transition considerations. Here we provide examples of how the financial sector can support and is supporting the just transition in two different sectors.

Agriculture and nature

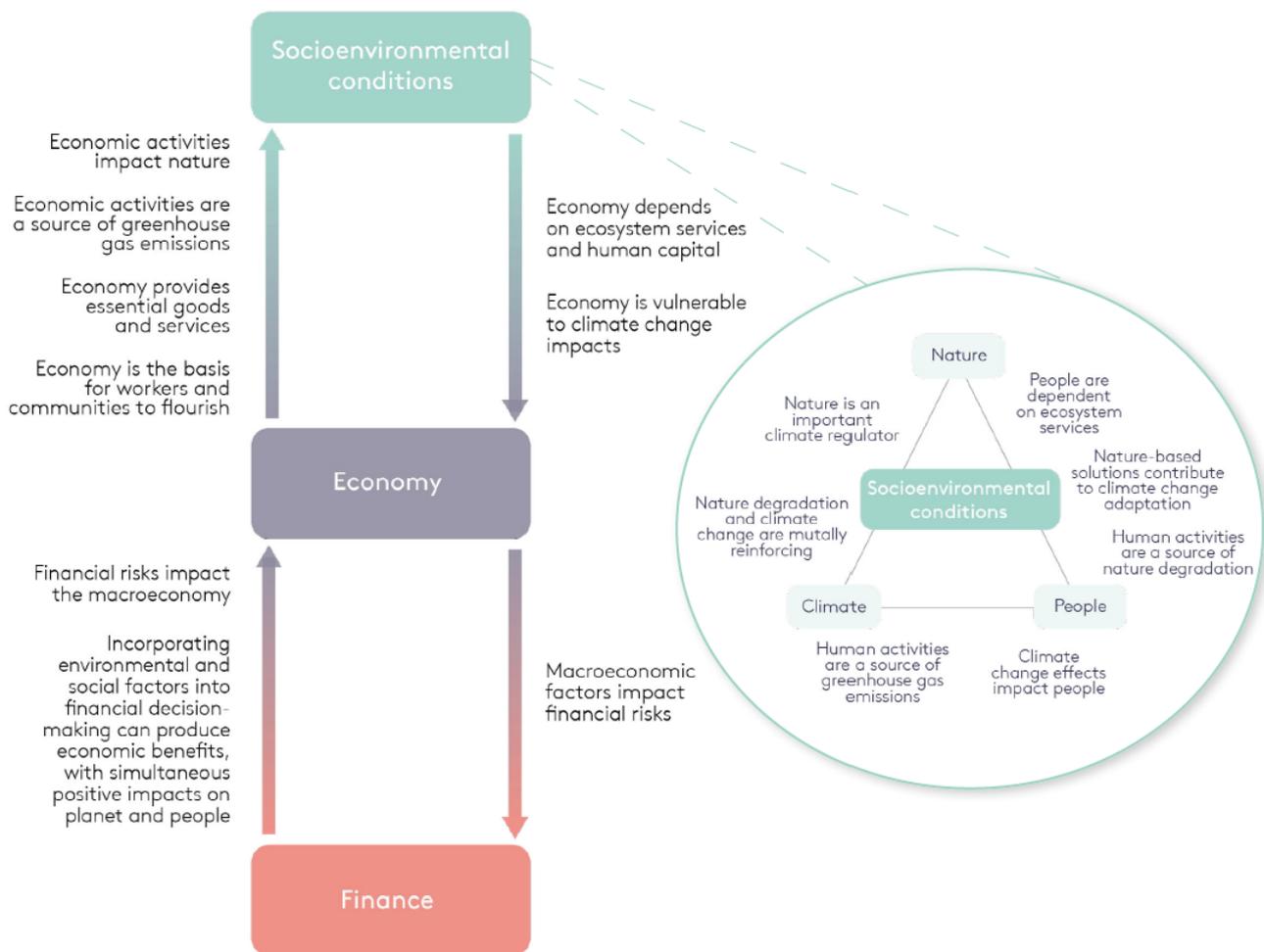
To simultaneously achieve the goals of the Paris Agreement on climate change and the Post-2020 Global Biodiversity Framework, clear commitments to the just transition are needed to build a nature-positive economy. So far, efforts to deliver a just transition have focused on the shift to net zero in the energy system. However, the imperative of decent work and social inclusion applies equally to the transformations that lie ahead to deliver net zero in the areas of agriculture, forests and land use, and in strengthening the conservation of biodiversity.

Figure A1 shows how socioenvironmental conditions, the economy and finance interlink. It is taken from a report we published in August 2022, in which we outlined what a ‘just nature transition’ could look like and how the finance sector can support this agenda, identifying early examples of good practice by financial institutions (Muller and Robins, 2022b). Some of its headline points were as follows. With an estimated 1 billion workers in the agriculture sector globally, the number of potentially affected workers is far greater than in the energy sector. Jobs in agriculture also tend to be characterised by higher rates of job informality, which can negatively impact job security, wage levels, social protections and working conditions. The conversion of forest lands is often connected to human rights violations, including land-grabbing and violence – affecting Indigenous Peoples in particular – as well as accelerating the speed of climate change and biodiversity collapse. Nature-based solutions such as reforestation can play a key role in reaching net zero and promoting human wellbeing, but must be co-developed with local communities and Indigenous Peoples. Oceans are home to a wealth of biodiversity but are under increasing threat from human activity – while jobs in fishing and aquaculture are often dangerous and poorly paid. In a similar way to the energy system, financial institutions including commercial banks and institutional investors need to support the just nature transition through strategic commitment, corporate engagement, capital allocation and policy dialogue.

Overall, even where financial institutions are starting to address the net zero transition beyond the energy sector, including in agriculture and nature, the integration of the social dimension lags behind. Explicit reference to the need for a just transition remains rare. Action in the financial sector needs to be deepened to meaningfully incorporate the social dimension, and broadened to become integrated into policies and decision making across financial institutions.

The ‘just nature transition’ remains a new, complex and challenging area for policy and practice. The emerging agenda contains real opportunities for delivering environmental progress through decent work and social inclusion. But there are a number of tough issues to contend with around awareness and respect for people’s needs, mitigating potential negative impacts, negotiating solutions and practical delivery. Clear commitments and explicit strategies are now required from governments, businesses and trade unions, financial institutions and civil society to accelerate action on climate and biodiversity with workers, communities and consumers at the heart.

Figure A1. How socioenvironmental conditions, the economy and finance interlink



Source: Muller and Robins, 2022b

Energy sector

The energy sector has been the focus of most financial institution work on the just transition to date. Its role involves supporting decent work and social inclusion in the ‘transitioning out’ of high-carbon activities, notably for workers and supply chains as well communities affected by the phase-out of fossil fuels. It also involves addressing the worker, community and consumer dimensions of the ‘transitioning in’ to a clean and efficient energy system, including decent working standards and community benefits from renewable energy, as well as shaping the net zero transition to end fuel and energy poverty. The rapid growth in demand for transition minerals has revealed an additional need for robust just transition standards along the whole supply chain for green energy technologies, which must be rooted in international norms of human rights and labour standards.

As well as drawing up their own expectations and delivering these through capital allocation and broad-based engagement, financial institutions can also support the development and consistent implementation of energy sector just transition frameworks designed by the industry itself. Investors, civil society and universities were involved in the development of the business-led Just Energy Transition framework from the Council for Inclusive Capitalism. Similar tailored approaches are needed for other sectors.

Box A1. The Just Energy Transition: A Framework for Company Action

Energy companies are increasing their commitment to the just transition as an essential part of the net zero pathway. At COP26, the Council for Inclusive Capitalism, working with CEOs from ACEN, Anglo-American, BP, ENI, Reliance, Repsol and SSE, produced the following just energy framework, with four pillars: universal net zero energy access, evolving the energy workforce, community resilience, and collaboration and transparency:

The just energy transition: four pillars and two levels

Four pillars	Universal net-zero energy	Workforce evolution	Community resilience	Collaboration & transparency
Two levels	<p style="text-align: center;">Core practices What are the foundational ESG actions that companies could extend to a just energy transition context?</p> <p style="text-align: center;">Just transition-specific practices What are ambitious actions that a company could take to support a just energy transition?</p>			
Core practices	<ul style="list-style-type: none"> Pursue an ambitious timeline to carbon neutrality targets Work towards universal energy access 	<ul style="list-style-type: none"> Adhere to core labour and safety standards Promote diversity, economic inclusion, and equal access to opportunities 	<ul style="list-style-type: none"> Preserve biodiversity and regenerate infrastructure Support local development initiatives for communities dependent on assets 	<ul style="list-style-type: none"> Ensure social dialogue with workers Engage stakeholders in decision making
Just transition-specific practices	<ul style="list-style-type: none"> Advocate for policies and investments that support just energy transition Strive for consumer fairness, pre-empting or mitigating adverse impacts and sharing benefits Develop a responsible strategy for converting, retiring, or sale of assets 	<ul style="list-style-type: none"> Create decent jobs through low-emissions infrastructure Commit to retain, retrain, and redeploy workers Design innovative social protection measures to combat adverse impacts of low-carbon policy 	<ul style="list-style-type: none"> Engage and support suppliers in their just transition path Nurture competitive, local supply chains Work with educational institutions to bridge anticipated skill gaps 	<ul style="list-style-type: none"> Develop a time-bound just transition plan and disclose progress against it Partner across sectors to scale new ventures with sustainable employment opportunities Share knowledge and best practices with industry peers and other organisations

Source: Recreated from Council for Inclusive Capitalism, 2021: 9

Appendix 5. A framework of just transition expectations of business for investors and banks

In a report titled *From the Grand to the Granular*, authors from the Grantham Research Institute set out an expectations framework of business for investors and banks to use in their engagement with clients and investees (Robins et al., 2021a). This framework should be used by institutions as part of their engagement to drive greater adoption of the just transition with client net zero transition plans. It is presented below.

1. Strategy

- Establish a company strategy and plan for the just transition in the context of delivering net zero and resilience goals, to be adopted at the Board level with clear Board oversight.
- Incorporate the just transition in remuneration, planning, risk management, scenario exercises and capital investment, as well as acquisitions and restructuring. This strategy should be based on established international frameworks and standards (including the Guiding Principles on Business and Human Rights [UNGPs], the Sustainable Development Goals, ILO labour standards and the OECD Guidelines for Multinational Enterprises). The strategy should cover themes 2–7 below.
- Ensure social dialogue and representation of workers and trade unions in company-level climate decision-making and implementation.

2. Workers

- Deliver good jobs and decent work in the transition and respect for worker and human rights (including, for example pay and benefits, job formality and contract length, skills development and training, health and wellbeing, diversity and inclusion, freedom of association and collective bargaining).
- Promote and provide reskilling and retraining, redeployment or retirement support.
- Take a comprehensive approach beyond direct employees (for example, including living wages for all contractors).

3. Supply chain

- Support suppliers (including SMEs) so that they can prosper in the just transition through access to skills, finance and technology; this could include a place-based emphasis on suppliers and services.
- Apply labour, human rights and environmental due diligence and policies along the supply chain, particularly in developing countries. Labour, human rights and sustainability standards that businesses commit to for their own operations should extend to the supply chain.

4. Communities

- Engage with local communities to address the social risks of transitions to regional economies and promote local wellbeing. This inclusion of community voice needs to be firmly rooted from project planning onwards and include a particular focus on vulnerable communities as well as wider sustainability considerations (such as biodiversity).
- Partner with local communities to share value in net zero and resilience investments (including community engagement and respect for Indigenous communities).

5. Consumers

- Support consumers, including vulnerable groups, in terms of improving access to key goods and services in the transition and ensuring they are affordable.
- Enable consumers to participate actively in the transition.

6. Policy and partnerships

- Advocate for the just transition within the context of supporting Paris-compliant decarbonisation targets in industry associations and in lobbying of government.
- Support partnerships for the just transition to net zero at the local, sectoral, national and global levels.

7. Transparency and disclosure

- Report on just transition policies and performance, including on the six themes above, including through Task Force on Climate-related Financial Disclosures (TCFD) reporting.

Appendix 6. Set of disclosure examples related to the just transition, for inclusion in net zero transition plans

Theme	Just transition disclosure example
Foundations	<ul style="list-style-type: none"> • Disclose how the elements of the transition plan have been assessed for specific sectoral and geographical social risks and opportunities. • Disclose how the just transition assessment has influenced the interim targets and scenario analysis that support the transition plan.
Implementation strategy	<ul style="list-style-type: none"> • Disclose how the just transition is embedded within product design and market preparation processes. • Disclose how products and processes have been adapted to take account of just transition impacts (e.g. sustainability-linked investment that supports retraining). • Disclose how products are supporting those customers who are most vulnerable to the transition (e.g. lower income groups).
Engagement	<ul style="list-style-type: none"> • Disclose a summary of engagements with clients on their just transition plans and outcomes (this could be included in metrics and targets element). • Disclose how investees are supporting customers that are affected by the transition plan, especially vulnerable customers. • Disclose current and planned engagement activities with national and local governments, advocating for just and inclusive transition policies. • Disclose current and planned engagement with finance industry initiatives on the topic of the just transition. • Disclose how trade unions have been engaged in client transition planning and how the institution has engaged with civil society actors through the development of transition plan.
Metrics and targets	<ul style="list-style-type: none"> • <i>Process targets – metric examples – disclose:</i> <ul style="list-style-type: none"> • Number of engagements with clients on the just transition • How remuneration and performance take account of a wider variety of sustainability measures including the just transition

	<ul style="list-style-type: none"> • Internal staff training on the just transition • Number of clients with published just transition plans • Percentage of workers or workers’ representatives participating in dialogue regarding the just transition • Percentage of at-risk workers being offered retraining or redeployment • Number of sustainable jobs created as a result of actions undertaken via a transition plan • Number of dialogue sessions held with communities within a year • Number of job losses within a company due to transition plan actions, such as closure of a facility • <i>Outcome targets – evidence examples – disclose:</i> <ul style="list-style-type: none"> • Number of jobs in green industries with decent work • Feedback from impacted communities, workers (via trade unions) and consumers • Evidence of social dialogue in clients’ transition plans • Case studies within different sectors and regions • Evidence of just transition-aligned public policies adopted <p><i>Further suggestions of examples for financial sector disclosure are included in Appendix 6.</i></p>
<p>Governance</p>	<ul style="list-style-type: none"> • Disclose how incentives and remuneration are connected to a range of sustainability factors, including the need to drive a just transition. • Disclose the role the board and other stakeholders (e.g. workers) have in overseeing the just transition. • Disclose commitments or programmes for workers affected by the transition (e.g. retraining or redeployment). • Disclose commitments to providing equal access opportunities for all workers (e.g. diversity and inclusion policies).

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