

Sustainable Finance Insight Journal

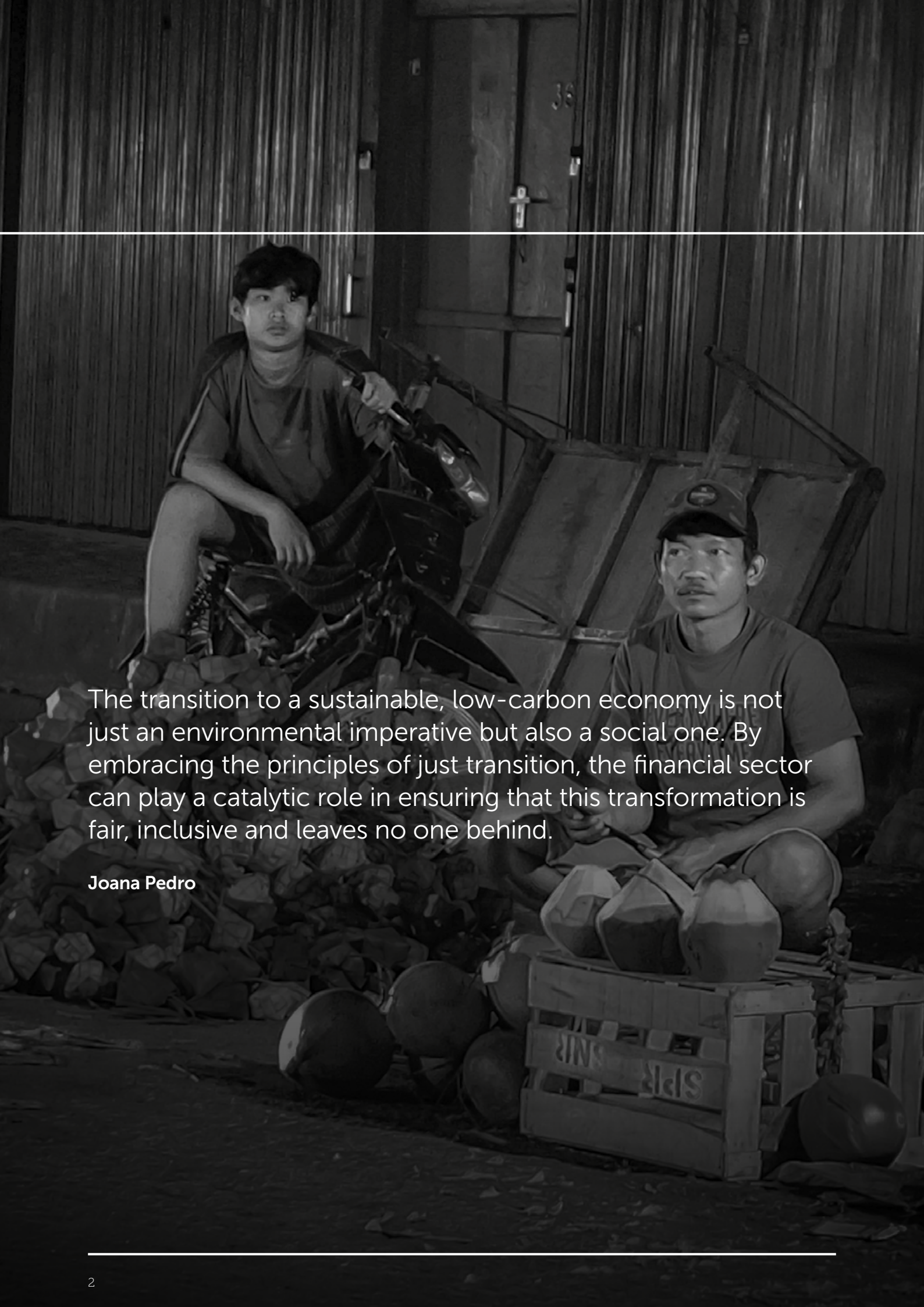
Volume 3: November 2024

Funding the Just Transition

Professional perspectives from UK and
International practice



Guest Editor
Albert Seoane



The transition to a sustainable, low-carbon economy is not just an environmental imperative but also a social one. By embracing the principles of just transition, the financial sector can play a catalytic role in ensuring that this transformation is fair, inclusive and leaves no one behind.

Joana Pedro



As the world confronts the realities of climate change, the concept of 'just transition' has emerged as a crucial framework for guiding the shift towards a sustainable, low-carbon future¹. While no universally agreed-upon definition of just transition exists, its core principles focus on ensuring that the benefits of climate action are shared widely while addressing the social and economic impacts on communities and workers currently reliant on high-carbon industries like coal, oil and heavy manufacturing. Achieving this balance requires careful planning, robust policies and, most importantly, innovative funding mechanisms that prioritise equity and inclusion.

In this third edition of IEMA's Sustainable Finance Insight Journal, you'll find insights from practitioners, thought pieces and case studies from some of the leading voices in this field.

The volume begins with some scene-setting. Anastasia Linn, Matt Orsagh and Steve Rocco from the Arketa Institute for Post Growth Finance discuss the critical need to negotiate a just transition as we shift from a carbon-intensive world to one constrained by the need to operate within planetary boundaries. Grégoire Lusson (Head of NEST, BNP Paribas Group) then outlines the challenges financial institutions face in supporting just transition, emphasising the importance of helping small – and medium-sized enterprises (SMEs) and vulnerable groups manage the transition without significant economic disruption.

James Alexander (CEO, UKSIF) and Liza Hartley (Media Relations Manager, UKSIF) advocate for a comprehensive framework for transition finance in decarbonising hard-to-abate sectors. They argue for the necessity of mandatory, standardised transition plans for all listed and large unlisted companies, with clear targets and periodic goals. Joana Pedro (Social Lead, UNEP Finance Initiative) delves deeper, providing a roadmap for banking and insurance sectors to incorporate just transition principles into their operations. She offers

practical guidance on integrating these considerations into existing business models and new products and service offerings.

Tahnee Rossiter (Sustainable Finance Lead, Carbon Trust Africa) and Kate Hooper (Just Transitions Lead, Carbon Trust) discuss the crucial role of transition finance in helping emerging economies decarbonise, especially in industries where low-carbon alternatives are still developing. They emphasise the importance of third-party verification to ensure that transition finance is implemented effectively and transparently.

Farah Hussain (Senior Financial Officer and Head of Sustainable Finance and ESG Advisory Program, World Bank Treasury), Justine Sylvester (Land Tenure Specialist, Energy and Extractives Global Unit, World Bank) and Dr. Rachel Perks (Senior Mining Specialist, Energy and Extractives Global Unit, World Bank) present the World Bank's Just Transition Taxonomy, a list of 57 eligible economic activities to guide investments that support a just transition from coal.

¹ While the term 'just transition' is a general description of the process of ensuring fairness in the transition to low-carbon and environmentally sustainable economies and societies (see <https://unglobalcompact.org/take-action/think-labs/just-transition>), the 'Just Transition' (proper noun) refers to one of the formal frameworks or movements that advocate for fairness (see, for example, commission.europa.eu/strategy-and-policy/priorities-2019-2024/european-green-deal/finance-and-green-deal/just-transition-mechanism_en). Throughout this volume an effort has been made to clearly distinguish between the two.

In the second part of the Journal, there are case studies and tips for finance practitioners to support just transition. Alban de Faÿ (Credit Portfolio Manager, Amundi) presents two examples from Amundi's Just Transition for Climate Fund, demonstrating how to integrate just transition principles into investment decisions. Brendan Curran (Principal, Gender & Economic Inclusion, EBRD), Joana Gjinopulli (Energy Transition Associate, EBRD) and Dr. Margherita Calderone (Principal, Gender & Economic Inclusion, EBRD) provide a case study from North Macedonia, showcasing a project that not only promotes renewable energy deployment but also helps workers impacted by the coal phase-out by offering skills development programmes.

Md Tariq Habib (Manager, Climate Policy Initiative) and Arnab Sarkar (Analyst, Climate Policy Initiative) discuss the challenges countries like India face in balancing energy security and affordability while transitioning away from fossil fuels. Arzu Uraz Yavaş (Associate Director, WSP) shares insights from two major projects: one involving the development of a Just Transition strategy for a global mining client and the other relating to the phase-out of a coal power plant in the EU and its social implications.

Seb Born (Sustainable Solutions Specialist Intern, Sustainability & Finance Ltd) and David Luck (Founder, Sustainability & Finance Ltd and Chair of the IEMA Sustainable Finance Steering Group) provide a case study on tidal stream energy and outline how workers from declining fossil fuel industries can transition into roles within renewable energy sectors.

Finally, Torrey Sanseverino (Beyond Carbon Senior Manager, BeZero) highlights the role that purchasing high-quality carbon credits plays in supporting a just transition to net zero. She emphasises how the voluntary carbon market allows companies to offset emissions while delivering both environmental and social benefits.

As you explore this edition of IEMA's Sustainable Finance Insight Journal, I hope you find these articles as enriching and insightful as I have during the selection and editing process. The insights shared by our contributors not only highlight the complexities of achieving a just transition but also offer actionable strategies and examples from various sectors. My hope is that you can take these learnings back to your own work, enhancing your understanding and approach to sustainable finance.

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and
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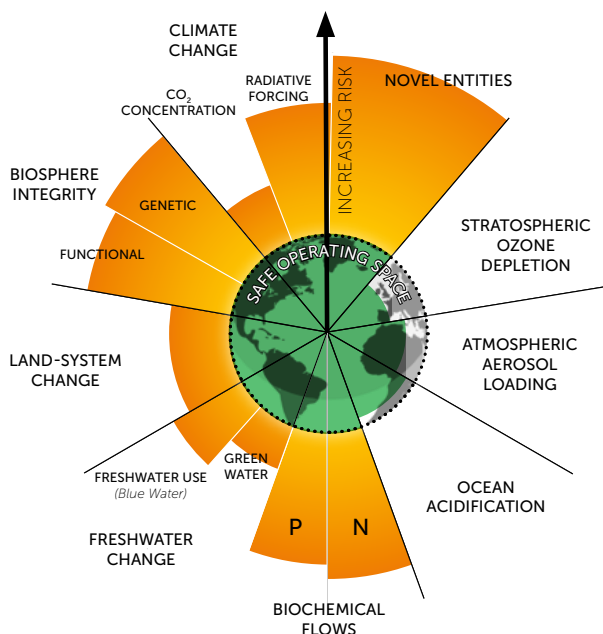
ARKETA INSTITUTE
for post-growth finance



Social foundations and planetary boundaries: the guardrails for a just transition

To realise a just transition, economic activity would need to be brought to a safe and just space where all social and wellbeing needs can be provided for within the physical carrying capacities of our planet.

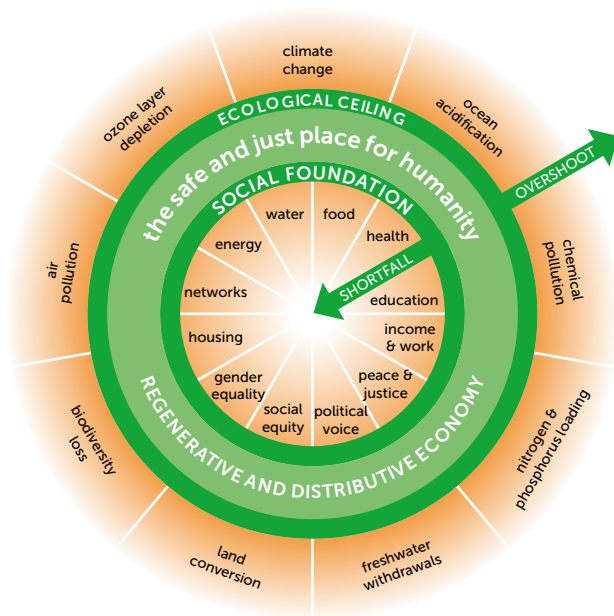
The planetary boundaries framework established by the Stockholm Resilience Centre² sets out the environmental limits we need to remain within for humanity to stay within a safe operating environment in which we can survive and thrive.



Unfortunately, we have pushed past six of nine planetary boundaries, meaning we live *outside* of a safe space for humanity in these areas. Our account with Mother Nature is overdrawn, and the bill is coming due. We need to move back into the safe zone of each planetary boundary to give ourselves the best chance of surviving, let alone thriving.

These planetary boundaries form the outer edge of Kate Raworth's Doughnut Economics model³. The inner edge of the 'doughnut' comprise the social foundations humanity needs, like food, water, housing and political voice. A just transition would get us into the desirable part of the doughnut: the safe and just space where humanity can thrive.

² www.stockholmresilience.org
³ www.kateraworth.com/doughnut



Today, the idea of working within these boundaries is not reflected in traditional economics, or the financial system. Both assume that we have infinite resources and that the economy can expand indefinitely. Following that logic, overproduction and overconsumption have made economic sense. The cost of adopting these actions is surpassing our planetary 'budget' and falling short of global social foundations.

Considering planetary boundaries and social foundations as core tenants of our economic and financial models can help us achieve better environmental and human outcomes. Without them, a just transition wouldn't mean very much. What could a just transition look like?

A just transition to an economy within planetary and social boundaries

The concepts of planetary boundaries and social foundations can help frame a just transition. The 'ceiling' of planetary boundaries and the 'floor' of social foundations set the boundaries for the discussion. Discussions about just transition should include:

- **Dialogue with all parties.** All impacted parties must be around the table so that everyone's point of view is heard and those most adversely impacted by environmental damage or industrial change have a real say. This dialogue needs to be thorough and acceptable to all parties including the communities impacted.
- **Adequate compensation.** In the short term, transitioning away from high-carbon industries is going to adversely impact a lot of people. Those at the beginning of a career may transition more easily. Those near the end may be eligible for early retirement. Some in the middle may require more training and more help to move on to something else. The question of who's going to pay for that transition and how much they're going to pay needs to be discussed honestly and transparently.
- **Job training.** Some folks in carbon-intensive industries will indeed be able to transition smoothly into the jobs of the future. But for many people, the skills they've developed over years or decades won't translate directly to a new field, and they will need to be adequately trained to do something else.
- **Shared sacrifice.** Moving away from carbon-intensive industries will benefit all of us in the long run. But in the short run, we know that industries and workers will need to change, and some will be affected more immediately than others. In addition to fossil fuel workers employed in mines and on oil rigs, this also includes plenty of lawyers, accountants, managers and white-collar employees of fossil fuel companies, not to mention the companies that fund and supply them.

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- **A final plan with firm commitments.** All parties need to agree on a final plan with firm commitments about job training, compensation and community impact. Leaders need to translate these plans into actionable terms that stakeholders can understand and act upon. Politicians need to be honest with their constituencies and take these issues seriously.
 - **Transparency.** All of these aspects of a transition should be undertaken transparently. For workers and communities to agree to these transitions and for societies to see them as just, they must take place in an open, collaborative way and be codified in writing for all to see.

Moving away from carbon-intensive industries will benefit all of us in the long run. But in the short run, we know that industries and workers will need to change, and some will be affected more immediately than others.

Conclusion

If our civilisation is to operate within planetary boundaries and a social foundation, we need to move from a carbon-intensive world to a carbon-constrained one. Negotiating a just transition is a key early step in this process.

Grégoire Lusson

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Just transition: financing the path to a sustainable and fair future

In addressing global climate challenges, the concept of a 'just transition' has become essential for ensuring that the shift to a low-carbon economy is both equitable and inclusive. While the transition is necessary to mitigate climate change, it risks exacerbating social inequalities if not managed carefully. The objective of a just transition is to protect workers, communities and the vulnerable as society moves toward sustainability.

Understanding the energy transition

Transitioning to a low-carbon economy involves not just technological challenges but societal ones as well. The move from fossil fuels to renewable energy necessitates significant shifts in industries and labour markets. The second edition of the *Just Transition Observatory*⁴, published in June 2024, reveals that in Europe, rising living costs and geopolitical tensions have led to decreased prioritisation of climate change, with many now wary of the inequalities the transition might create.

For businesses, particularly SMEs in sectors like energy, agriculture and real estate, balancing decarbonisation with economic stability is challenging. Executives recognise the risks and opportunities, but feel overwhelmed by the regulatory demands, as highlighted by Mario Draghi's report on European competitiveness⁵. A just transition must consider these hurdles to ensure that no group is marginalised in the journey towards a greener future.

The role of redistribution

At the heart of the just transition lies the issue of fairness. Many Europeans, especially in Germany, Belgium and the Netherlands, support wealth redistribution to fund the energy transition. The idea is that those with greater resources should bear the most cost, providing relief for those most vulnerable to economic impacts.

The French have emphasised the need for more attention on vulnerability and applying the 'polluter pays' principle. This perspective demands that those responsible for environmental harm should contribute

While the transition is necessary to mitigate climate change, it risks exacerbating social inequalities if not managed carefully.

⁴ cdn-group.bnpparibas.com/uploads/file/bnp_paribas_just_transition_observatory_2024.pdf

⁵ commission.europa.eu/topics/strengthening-european-competitiveness/eu-competitiveness-looking-ahead_en

more to funding the transition. This reflects a broader demand for climate justice, ensuring the costs and benefits of the transition are shared equitably.

However, challenges remain, especially regarding the generational divide in who should take the lead in the transition. Younger Europeans see businesses as key actors, pushing for more transparency and corporate responsibility. Meanwhile, older generations hold governments and policymakers accountable for driving change.

A slow but necessary transition

Despite the urgency of the climate crisis, the pace of the transition remains debated. While most agree on the need for a low-carbon economy, concerns persist about potential social and economic disruption, especially in fossil fuel-dependent industries. In Europe, the balance between environmental goals and economic stability is delicate. SMEs in particular fear the demands of decarbonisation could threaten their survival.

In this context, the role of financial institutions is crucial. Banks are already providing support for the shift to a low-carbon economy. Accelerating this support while ensuring affordability, particularly for vulnerable individuals and SMEs, is vital. Offering innovative financial products, such as low-carbon mobility loans and sustainability-linked loans with just transition criteria, might help the transition to remain economically viable and fairly implemented.

A notable example is McCain Foods' partnership with BNP Paribas Bank Polska in launching a regenerative agriculture programme in Poland⁶. This initiative promotes sustainable farming practices, ensuring economic resilience and social equity for farmers, aligning with the Just Transition framework.

The future of a just transition

A just transition is not just about reducing emissions; it's about ensuring social justice. The 'S' in ESG must not be overlooked. A key lesson from recent history is that policies addressing climate change must be designed to prevent worsening social inequalities.

France's carbon tax, which led to the Yellow Vest movement, highlights the risks of poorly designed policies. To avoid similar outcomes, policies must ensure that those who can afford the transition are well involved.

The path to a just transition will require collaboration among governments, businesses and individuals. The balance between environmental and economic goals must be carefully maintained to ensure no one is left behind. The success of the transition depends on aligning environmental and social objectives, creating a sustainable future that works for all.

A just transition is not just about reducing emissions; it's about ensuring social justice. The 'S' in ESG must not be overlooked.

⁶ www.mccain.com/information-centre/news/mccain-foods-with-the-support-of-bnp-paribas-bank-polska-launches-a-unique-regenerative-agriculture-program-in-poland

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A framework for transition finance in decarbonising hard-to-abate sectors

Hard-to-abate sectors face unique barriers to decarbonisation, from long asset lifespans and potential for economic disruptions, to nascent clean technologies not currently deliverable at scale. Innovation continues at pace, but the urgency of climate action demands a still faster rate of transition. In this article, we'll examine the main challenges of providing transition finance to hard-to-abate sectors and identify high-potential areas of policy development to deliver solutions.

Despite the work of distinguished economists^{7,8,9} there is currently no universally accepted definition for transition finance. This definitional ambiguity has bled into a generalised muddying of what constitutes a credible transition activity, and thus a credible transition plan, and left the sustainable investment ecosystem open to a new vein of greenwashing risk.

In the UK, the absence of a standardised criteria for transition activities increases the greenwashing risk (and analyst workload) associated with capital allocations in sustainable investment. If heavy emitting companies in hard-to-abate sectors are able to claim transition and thereby attract transition finance without making substantive changes, transition finance will have failed. Where barriers of data quality and consistency around

climate metrics such as emissions and waste are rapidly being resolved, ambiguity around what does and does not count as a transition activity or an enabling activity remains. This effectively bars the way for sustainable investment into hard-to-abate sectors where margins of emissions reduction are often smaller, but in real emissions terms as (if not more) significant.

Consider cement. Currently responsible for 7.5% of total anthropogenic CO₂ emissions, the future production of cement presents a major challenge to decarbonising the hard-to-abate construction sector. That is, until this year, when that challenge became significantly more surmountable. In May, researchers from the Department of Engineering at Cambridge University announced the successful development of very low-emission concrete

7 Piemonté, C., Cattaneo, O., Morris, R., Pincet, A. & Poensgen, K. (2019), 'Transition Finance: Introducing a new concept', *OECD Development Co-operation Working Papers*, No.54, Éditions OCDE, Paris, doi.org/10.1787/2dad64fb-en.
8 Donovan, C., Fomicov, M. & Ostrovnaya, A. (2020), *Transition finance: managing funding to carbon-intensive firms*, Imperial College Business School Centre for Climate Finance & Investment. www.sustainablefinance.hsbc.com/-/media/gbm/sustainable/attachments/transition-finance.pdf.
9 Caldecott, B. (2020), 'Defining transition finance and embedding it in the post-Covid-19 recovery', *Journal of Sustainable Finance and Investment* 12(3), pp.934-8. www.tandfonline.com/doi/full/10.1080/20430795.2020.1813478

at scale using recycled cement¹⁰. The paper announcing the new method, published in *Nature*, shows that, 'the proposed process may be economically competitive.' Brilliant news. But let's imagine for a moment that it is marginally less competitive, or that the switch over from the high emitting concrete production process to the low emitting one requires significant investment into new machinery, or plant redesign. A robust transition plan setting out the transition pathway from high emission cement to low emission, coupled with government policy signals on the medium – to long-term regulatory landscape for emissions from the concrete industry, presents a compelling proposition for investment from, for example, a firm looking to allocate capital for a Sustainability Improvers Fund under the new SDR labels.

There is currently no universally accepted definition for transition finance.

Longstanding regulatory uncertainty, particularly in hard-to-abate sectors such as transport (notably aviation and freight) where multiple non-overlapping lower emission fuel sources are in development, give investors no incentive to back any horse for fear of it being the 'wrong' one. For freight in particular, the lack of a government freight decarbonisation strategy which could identify a 'fuel of choice' for HGVs not currently suited to electrification, has hampered investment in nascent alternative fuels. Our own research conducted in February 2024 revealed that 89% of large UK transport companies said they would benefit from the government providing certainty on the expected fuel of choice for HGVs.

In the context of changing investor expectations, consumer preferences and a shifting regulatory landscape, the failure to decarbonise freight transport at pace has real scope to become a source of transition risk. Given UK freight contributed £127 billion to the national economy in 2022, that is no small matter. Starting early, keeping pace with other industries and maintaining steady progress are all ways to reduce that transition risk. In other words, the longer we wait to unlock transition finance, the more expensive it will become.

Green taxonomies can play a crucial role in supporting the provision of transition finance, but the UK remains without one. A study by Fliegel (2024)¹¹ emphasises the importance of taxonomy alignment as a measure of transition risk, which in combination with traditional metrics like CO₂ emissions or environmental scores, is more accurate still.

In the absence of a green taxonomy, transition plans can still deliver the clarity and comparability necessary for investors to confidently allocate transition finance. Mandatory standardised transition plans for all listed and large unlisted companies should include measurable targets including periodic goals. Tying executive remuneration directly to meeting these targets would ensure accountability.

As things currently stand in the UK, mandatory, robust transition plans must be made a priority. This combined with sector-specific decarbonisation strategies could effectively drive transition finance into hard-to-abate sectors while assuaging fears of greenwashing risks.

¹⁰ Dunant, C.F., Joseph, S., Prajapati, R. & Allwood, J.M. (2024), 'Electric recycling of Portland cement at scale', *Nature* 629, pp.1055-61. www.nature.com/articles/s41586-024-07338-8

¹¹ Fliegel, P. (2024), 'How you measure transition risk matters: comparing and evaluating climate transition risk metrics', *SSRN Electronic Journal*. 1-/2139/ssrn.4742161.



A practical guide to just transition in the financial sector

The UNEP Finance Initiative (UNEP FI) drives progress on sustainability within the financial sector through its network of more than 500 financial institutions. Recently, UNEP FI partnered with the International Labour Organization (ILO) alongside more than 40 banks and insurers to launch, *Just Transition Finance: Pathways for Banking and Insurance*¹². The report is the first of its kind to provide an extensive roadmap for financing a just transition, including practical guidance for incorporating just transition considerations into existing business processes and introducing new product offerings and services in support of a just transition.

Climate action must reach record levels to limit the average global temperature increase to 1.5 degrees, in order to avert catastrophic consequences and to adapt to the physical impacts of climate change. It entails a major *transition* affecting all sectors, geographies and societies.

It is essential for this transition to be a *just transition* and generate benefits both to the environment and the society, while carefully managing potential adverse social impacts from the economic transformation. This means that a just transition entails sharing the benefits of the green economy, especially with those more vulnerable, and minimising negative social impacts related to the transition, such as job losses or impacts that some green and transition-enabling activities may have on land, Indigenous Peoples and human rights across supply chains.

Financial institutions play a critical role in promoting a just transition. Here are some suggested pathways for financial institutions to consider to help ensure the shift to a low-carbon economy is equitable and inclusive:

1. Commit to a just transition and set the foundations

The first step is to secure commitment from senior management and embed just transition principles into the organisation's strategic ambitions. Many institutions already have policies on social responsibility or overall sustainability commitments that can be leveraged to include just transition commitments.

At the initial stage, it is also important to conduct a mapping exercise to assess the social risks and opportunities presented by climate transition, focusing on their financial significance along with the social impacts generated by its portfolio.

¹² www.unepfi.org/wordpress/wp-content/uploads/2023/11/Just-transition-finance_Pathway-for-Banking-and-Insurance.pdf

Case in practice: A bank conducted a comprehensive assessment to identify significant social issues related to its financial services. Following this, the bank developed an action plan with specific measures to address these issues, including direct engagement with potentially affected individuals to ensure their rights are protected.

A just transition entails sharing the benefits of the green economy, especially with those more vulnerable, and minimising negative social impacts related to the transition, such as job losses or impacts that some green and transition-enabling activities may have on land, Indigenous Peoples and human rights across supply chains.

2. Embed just transition considerations into governance and business processes

Financial institutions can consider integrating just transition principles into the organisation's governance structures and decision-making processes. Assigning specific roles and responsibilities, with appropriate training, tied to performance objectives ensures accountability.

Once the governance structure is in place, the next step for many financial institutions is to embed just transition considerations into their business processes, such as due diligence and risk assessments. This includes evaluating the social impacts of financial services and then implementing measures to address issues and foster positive behavioural change among clients.

Case in practice: When evaluating their clients' climate transition plans, a financial institution created a framework to evaluate the impacts of these plans to people, the mitigation measures in place and how the affected stakeholders were involved in decision-making processes.

3. Develop products that promote a just and inclusive transition

Financial institutions can support a just transition by tailoring existing products or developing new ones that address both environmental and social needs. This could include: issuing just transition bonds; providing financing to small and medium enterprises for green technologies; expanding finance and insurance coverage to affected groups, vulnerable populations, underserved clients and low-income customers; or offering green mortgages for energy-efficient homes.

Case in practice: An insurance product offers rapid cash payouts to low-income individuals impacted by extreme weather events, such as storms and heavy rainfall. This initiative specifically targets vulnerable groups, including small business owners and farmers, helping them quickly recover their livelihoods and mitigate financial losses.

4. Stakeholder engagement at the heart of a just transition

Stakeholder engagement is crucial for the success of a just transition. Financial institutions should involve affected communities, local governments, civil society and private sector partners in the development and implementation of their transition plans and just transition work.

Case in practice: A bank formed a National Community Advisory Council represented by various segments of the community, including community leaders and non-governmental organisations, to bring their voices and perspectives into their lending, investment and service initiatives.

5. Advance just transition through partnerships

Collaborating with public and private sectors, civil society and industry initiatives can help financial institutions mobilise resources and direct them towards just transition objectives. Public-private partnerships and innovative financing models are essential tools for enhancing capital allocation to regions and communities that need it most. Community investment funds, capacity-building programmes and technical assistance initiatives are examples of partnerships that can drive sustainable growth.

Case in practice: *A public-private partnership, involving a city and insurance provider, provides immediate cash assistance through parametric insurance that triggers when flooding exceeds certain thresholds.*

6. Measure and report on progress

Finally, financial institutions should establish clear metrics to measure their progress in achieving just transition objectives. In some cases, metrics should be tailored to reflect the unique conditions or specificities of a local area.

Case in practice: *A specific country created a national standard for financial institutions to measure decent work, integrating local specificities and global expectations.*

To conclude, the transition to a sustainable, low-carbon economy is not just an environmental imperative but also a social one. By embracing the principles of just transition, the financial sector can play a catalytic role in ensuring that this transformation is fair, inclusive and leaves no one behind.

For the full report, including detailed examples and additional resources, please visit www.unepfi.org/publications/just-transition-finance-pathways-for-banking-and-insurance

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and

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Financing a just transition: a view from emerging markets

Transition finance will play a critical role in supporting emerging economies' decarbonisation. Just transition needs to be a fundamental part of transition finance, but it may be up to emerging market banks to lead the way.

Transition finance presents a significant opportunity to support emerging markets' shift towards low-carbon and climate-resilient pathways in a just and socially inclusive manner. By financing a *transition to 'green'* (rather than just financing what is already 'green') it can support businesses' decarbonisation activities when low-carbon alternatives are not yet unavailable – and this is particularly important for hard-to-abate industries. Embedding just transition considerations at the heart of transition finance will help ensure such activities maximise positive social impact and minimise risks to communities and workers.

Although transition finance is gaining traction globally, there is a risk that emerging economies – often, countries where capital for transitioning is needed most – are left behind. Countries like South Africa, which is heavily reliant on coal for electricity generation, stand to gain from transition finance. As a means for structuring financial support to enable businesses who have higher carbon emissions to align to a net zero pathway, South African financial institutions can help direct resources to where they are needed most to facilitate the transition, while at the same time tackling the pervasive 'triple challenge' – inequality, poverty and unemployment. By prioritising leaving no one behind, transition finance can contribute to climate justice for emerging markets.

To give confidence that capital is being allocated for just transition activities, clear and robust transition finance frameworks are necessary. These help financial institutions to assess client companies' transition plans as being scientifically adequate and aligned with credible pathways.

However, while international frameworks and guidance are emerging, there are few examples that specifically address emerging market challenges. Despite recognising the need for a just transition to be contextually appropriate, existing guidance is frequently high-level and non-specific, offering few concrete examples of what constitutes best practice.

To make meaningful progress in transition finance, emerging market financial institutions should consider several key steps.

First, develop a comprehensive transition framework. Ideally, this would be based on standardised international best practice guidance (though we note there are numerous guides issued by reputable institutions, there is wide recognition of the need for convergence), but adopt an emerging market lens. This may mean, for example, recognising the limitations in availability or affordability of some low-carbon technologies in a particular context, or, with respect to just transition, recognising the specific socioeconomic complexities, which may include higher unemployment levels, high external debt and high income inequality.

Second, capacity building. Investors (deal teams in particular) need to have confidence to know with which guidance their clients need to align. Their ability to appropriately support clients in the development and implementation of their transition plans is key to fostering uptake across hard-to-abate sectors. This requires time and resources on the part of the financial institutions, which can be seen to be a barrier. Streamlining the assessment process to align with existing due diligence procedures is crucial for enhancing efficiency.

Third, collaborating with influential partners can support first movers who are hesitant to act due to fears of scrutiny. Development finance institutions (DFIs) also have a crucial role to play in alleviating such concerns by developing clear transition finance requirements and providing technical assistance support. There is a pressing need for early movers on just transition in Africa, with demonstrable and clear actions outlined in transition plans. Given their lower susceptibility to risk, especially in emerging markets, DFIs can help overcome the reluctance of issuers and banks, who often avoid green instruments due to fear of scrutiny.

Transition finance will play a critical role in supporting emerging economies' decarbonisation. Just transition needs to be a fundamental part of transition finance, but it may be up to emerging market banks to lead the way.

Finally, developing country- and region-specific guidance that extends beyond coal, in partnership with industry stakeholders, is crucial. Setting out regional or even country-specific guidance, which accounts for regional efforts, taxonomies and other initiatives, will provide more tailored support.

To enable thorough and transparent implementation of this guidance, there is an opportunity for third parties to offer verifications on transition finance-related claims. This is a requirement for other forms of climate thematic debt instruments and a logical evolution for transition finance. Importantly, there must be a recognition of the unique constraints faced in emerging markets, as well as the imperative and opportunity to integrate just considerations in these markets, and guidance should be designed to accommodate these challenges.

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and

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A new taxonomy to channel sustainable finance towards a just coal transition

Despite international commitments to decarbonise and pledges to move toward net zero emissions, coal continues to play a significant role in the energy mix, supplying one-third of electricity generation globally¹³. Decision-makers are grappling with how to ensure that the clean energy transition is ‘just’ – that is, a transition in which positive social outcomes are balanced with environmental impact.

The sustainable finance ecosystem has seen the rise of new financing instruments such as green, social and sustainability-linked bonds¹⁴, loans, equity, green and sustainable finance taxonomies¹⁵, impact reporting and disclosure requirements. However, there is not yet a clear understanding of the various dimensions – environmental, social and governance – of a just transition, nor the types of projects and activities that could be financed to achieve the desired objectives. Adding to the complexity, there are many different definitions of just transition, ranging from global to

local contexts. Additionally, most of today’s sustainable and green finance taxonomies focus on *environmental* dimensions and do not take social impacts into sufficient consideration¹⁶.

Responding to the financial sector’s need for greater clarity and a multi-dimensional understanding of a just coal transition, the World Bank has developed a groundbreaking list of 57 eligible economic activities to guide investments that support a just transition from coal. This is the first taxonomy of its kind – and it’s

¹³ www.iea.org/energy-system/fossil-fuels/coal

¹⁴ thedocs.worldbank.org/en/doc/2fa215f2779f95d970ef0601aa551cbc-0340012024/original/GSSS-Quarterly-Newsletter-Issue-No-7.pdf

¹⁵ www.sbfnetwork.org/wp-content/uploads/2024/05/SBFN-Toolkit_Sustainable-Finance-Taxonomies.pdf

¹⁶ www.lse.ac.uk/granthaminstitute/news/where-are-the-people-in-transition-finance

timely as investors have expressed considerable interest in supporting the Just Transition agenda. 161 investors representing US\$10.2 trillion in assets have pledged, '... to take action to support Just Transition by integrating the workforce and social dimension in our climate practices'¹⁷.

The Just Transition taxonomy is structured across the three pillars of the World Bank's *Coal Regions in Transition* matrix: (1) **governance**, (2) **people and communities** and, (3) **repurposing land and assets**. This framework covers three phases of coal transition: pre-closure, closure and post-closure economic diversification. Each activity in the taxonomy encompasses a comprehensive set of information that captures the essential elements decision-makers would need to effectively prioritise and implement just transition activities in the coal sector.

Public and private banks, corporates, ministries of finance, electric utilities, municipalities and regions can use the Just Transition taxonomy to identify eligible activities and to issue a just transition-themed bond or loan to mobilise capital from the private sector.

Adding to the complexity, there are many different definitions of just transition, ranging from global to local contexts.

Such an instrument would be expected to earmark proceeds identified from the Just Transition taxonomy, ensure the relevant safeguards to avoid social risks, and disclose expected environmental and social outcomes.

The World Bank's Just Transition Taxonomy is just one example of a new tool intended to channel sustainable finance towards just transition efforts. While it currently focuses on the coal sector and does not encompass the entire spectrum of transition sectors, in the future the taxonomy could evolve to include other sectors affected by the transition, including transport, agriculture, manufacturing, fisheries, forestry, tourism and waste management.

¹⁷ www.unpri.org/download?ac=10382

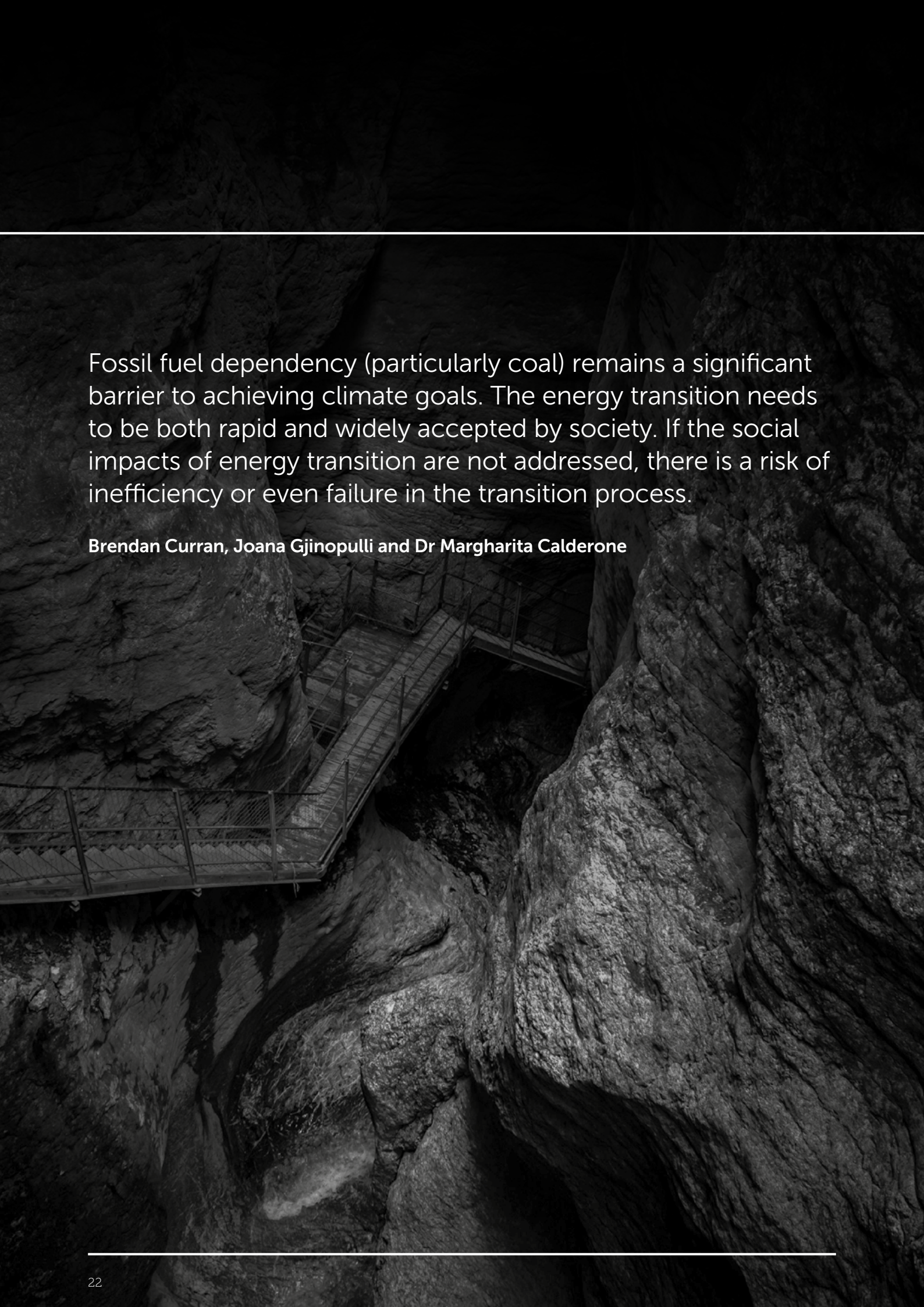
Examples of activities (with sample information) included in the taxonomy:

Pillar	Activity name	Matching to SDGs	Do No Significant Harm (DNSH)	Social safeguards	NACE codes	ISIC codes
1 – governance	Establish a Special Purpose Entity (SPE) or a Special Purpose Vehicle (SPV) to manage new land-use for former coal mining lands	Goal 13: Climate action Goal 15: Life on land	Provide transparent and accurate information about potential harm and mitigation measures. Avoid exacerbating existing inequalities and ensure fair distribution of benefits and burdens. Avoid actions that significantly harm the wellbeing and livelihoods of local communities.	ILO Declaration on Fundamental Principles and Rights at Work. OECD Guidelines for Multinational Enterprises on Responsible Business Conduct. United Nations Guiding Principles on Business and Human Rights (UNGPs). ASEAN Declaration on the Protection of Migrant Workers and Family Members in Crisis Situations and its Guidelines.	P84.1 Administration of the State and the economic, social and environmental policies of the community	O841 Administration of the State and the economic and social policy of the community
2 – people & communities	Development of Regional Transition Plans	Goal 7: Affordable and clean energy Goal 13: Climate action	Provide transparent and accurate information about potential harm and mitigation measures. Establish mechanisms to hold responsible parties accountable for any harm caused. Avoid exacerbating existing inequalities and ensure fair distribution of benefits and burdens. Avoid actions that significantly harm the wellbeing and livelihoods of local communities.	UN Universal Declaration of Human Rights (UDHR). UN International Covenant on Civil and Political Rights. UN Declaration on the Rights of Indigenous Peoples. ASEAN Declaration on Strengthening Social Protection. ASEAN Human Rights Declaration (AHRD).	P84.1 Administration of the State and the economic, social and environmental policies of the community	O841 Administration of the State and the economic and social policy of the community

Pillar	Activity name	Matching to SDGs	Do No Significant Harm (DNSH)	Social safeguards	NACE codes	ISIC codes
3 – repurposing land & assets	Coal power plant conversion to alternative fuels	Goal 9: Industry, innovation and infrastructure	Monitor potential use of coal, along with the new fuel.	<p>ILO Declaration on Fundamental Principles and Rights at Work.</p> <p>OECD Guidelines for Multinational Enterprises on Responsible Business Conduct.</p> <p>United Nations Guiding Principles on Business and Human Rights (UNGPs).</p> <p>ASEAN Declaration on the Protection of Migrant Workers and Family Members in Crisis Situations and its Guidelines.</p>	F43. Specialised construction activities	F43. Specialised construction activities

The energy transition will be a complex, multi-decade process that will require the mobilisation of vast financial resources. We hope our new taxonomy will support investors committed to responsible investment to accelerate progress in financing a just transition away from coal.

The full report and taxonomy can be found here: thedocs.worldbank.org/en/doc/4170363805a08d5eaca17fbd62db45d2-0340012024/world-bank-just-transition-taxonomy-2024

A black and white photograph of a deep, narrow canyon. The rock walls are steep and layered, showing signs of erosion. A metal walkway with railings and a set of stairs is built into the rock face, providing access to different levels of the canyon. The lighting is dramatic, with strong shadows and highlights on the rock surfaces.

Fossil fuel dependency (particularly coal) remains a significant barrier to achieving climate goals. The energy transition needs to be both rapid and widely accepted by society. If the social impacts of energy transition are not addressed, there is a risk of inefficiency or even failure in the transition process.

Brendan Curran, Joana Gjinopulli and Dr Margharita Calderone



Amundi's just transition: building a fair and sustainable economy

The concept of a just transition has become integral to the climate transition agenda since the 2015 Paris Climate Change Conference. There are material business and systemic risks at stake if transition is not implemented in a socially just and fair manner. At the most extreme level, failure to integrate equity and social protection into the transition process can contribute to societal inequalities, poverty and conflict, as well as delays to the green transition agenda caused by stakeholder opposition. On the other hand, by not incorporating social risks into their transition plans, companies can experience a loss of talent, skills and customers. In this context, the concept of just transition is raised, based on the belief a transition to a cleaner, more sustainable economy must be conducted in a way that is fair to all stakeholders: workers, consumers, local communities and society at large.

A concrete illustration of the integration of the just transition into an investment strategy is the creation, in 2022, of a 'net zero transition' solution in the IG Euro Credit universe, ARI, Just Transition For Climate (ARI – Euro Corporate Bond Climate from 14/10/24), incorporating this social dimension of the green transition. We use a proprietary Just Transition score that assesses the efforts of corporates in making the transition inclusive, completely embedded into our investment process, in order to select the best-in-class issuers with an objective to have a better score than the universe.

Another aspect our portfolio can leverage on is about our net zero engagement framework. In Amundi, we seek to strengthen the robustness of our assessment of the credibility of companies' net zero strategies by assessing whether their plans are adequately supported by the assessment of social opportunities and risks associated with the transition.

We are specifically asking if companies have:

- formal just transition strategies (or broadly equivalent) supported by a dedicated budget
- quantified the workforce impact of the mitigation levers identified in their transition plans

- plans to create new jobs and, if so, where these jobs would be located (given the potential impact on not only workers but also suppliers and local communities)
- strategies for engaging with affected stakeholders, including workers.

In order to illustrate how we implement our engagement policy concretely, here is a first case study on a European oil and gas company. The company energy transition plan released in 2022 included ambitions to allocate half of its annual gross capital expenditure to renewables and low-carbon solutions by 2030. Given these commitments, we wanted to ensure that the company had also systematically addressed any potential social risks to the implementation of its climate goals. We noted that although the company published a just transition plan in 2023, it lacked a robust just transition strategy clearly linked to its climate goals.

In response to our concerns about the lack of a formal just transition strategy, the company shared that it did face challenges in devising a full strategy beyond its published commitment, with some work still to be done on identifying gaps and building internal awareness of the topic. The company shared that it did not expect layoffs, but rather planned to retain the existing workforce as it transitioned. It was setting targets for the number of employees that could be reskilled, but did not yet have processes or human resources in place to quantify transition-related skill gaps.

Regarding stakeholder relations, we raised concerns about the impact of the company's climate transition plans on suppliers and local communities who might be dependent on the company for their income, particularly in more remote locations. The company expressed confidence that many of its suppliers are, or should be, capable of supporting the company's projects in the future.

Overall, we concluded that the company's just transition strategy lacked granular timelines, objectives and metrics, and we were also somewhat disappointed by a lack of Board oversight of these matters. Following on from this, we expect to share recommendations and best practice examples with the company to ensure that it makes progress towards devising a formal Just Transition Strategy.

Another example is American Electric Utility Company, one of the largest utilities in the US, with circa 50GW of rate-regulated generating capacity, which recently underwent a noteworthy transformation in its electric generation mix. In 2007, the energy mix comprised 69% coal and 16% natural gas, shifting dramatically to 20% coal and 50% natural gas by 2022. Over this period, 51 out of the 66 coal generating units had been retired or converted. Given the company's substantial exposure to thermal coal operations, Amundi's initial engagement focus with the company has been to ensure adherence to Amundi's thermal coal exit policy, which requires coal phase-out at the latest by 2030 in OECD countries and by 2040 in non-OECD countries. We aimed to ensure systematic and orderly management of the social dimensions involved in thermal coal exit, integral to the broader energy transition strategy. The goal is to ensure the presence of the primary tools to mitigate systemic risks and social tensions associated with the transition that could delay the implementation. The objectives were as follows:

- Evaluate the internal structure and the Board's role and competencies in overseeing the implementation of the just transition strategy.
- Push for clear and quantifiable metrics to monitor the advancement of the just transition strategy implementation.
- Integrate social metrics into the executive remuneration scheme.

Overall, to substantiate and measure the real impact of the just transition commitment, investors and stakeholders would benefit from clearer disclosures and quantitative metrics that would provide tangible evidence of the company's progress in navigating the complex social landscape of the energy transition.

Transition risks and factors pressing companies' business (regulation, cost of capital, taxes, reputation) include a social component. Therefore, it is key to identify the leaders and the laggards among sectors on the complete transition paradigm and the concept of just transition is addressing these issues.

We aimed to ensure systematic and orderly management of the social dimensions involved in thermal coal exit, integral to the broader energy transition strategy.

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Delivering a just energy transition: the people side (North Macedonia)

The European Bank for Reconstruction and Development (EBRD) has, since its inception, been focused on supporting economies to transition. Now, with the Bank's three priorities of green, digital and economic inclusion, there is a focus on supporting our Countries of Operations (COOs) to transition to a green economy in a just and equitable way, with a central emphasis on people. The Bank's Just Transition Initiative and energy transition Country Platforms have served as vehicles for coordinating efforts towards progress in delivering a just transition through three pillars: (1) green energy transition; (2) human capital development; and (3) regional economic diversification.

Since the EBRD's inception in 1991, the Bank has leveraged its expertise to support economic inclusion and private sector development in COOs, deploying capital not only for financial returns but also to foster sustainable structural change. Today, one of our own priorities is supporting COOs' transition to low-carbon energy systems and green economies, alongside supporting digitalisation and continuing our longstanding commitment to economic inclusion.

For many of our COOs, fossil fuel dependency (particularly coal) remains a significant barrier to achieving climate goals. The energy transition needs to be both rapid and widely accepted by society. If the social impacts of energy transition are not addressed, there is a risk of inefficiency or even failure in the transition process. Central to this mission, EBRD deploys tools such as Country Platforms for energy transition and the Just Transition Initiative, designed to ensure that the shift to low-carbon economy is both inclusive and socially equitable. The sectorial Country Platform

approach serves as a multi-stakeholder platform to accelerate energy transition by phasing out fossil fuel capacity, developing renewable energy sources and supporting grid infrastructure, all built in consideration of delivering a just transition. The Just Transition Initiative itself encompasses two of these three strategic priorities (focusing on the social, with digitalisation aligned if not central).

These tools are built on three pillars:

- **Energy transition:** supporting governments or clients with high-carbon assets transitioning to a low-carbon economy.
- **Human capital development:** promoting alternative livelihoods for those whose livelihoods are affected by the transition process through re-skilling and enhancing entrepreneurship within the context of the underlying drivers of inequality.
- **Regional economic diversification:** involves the activities that provide access to quality employment, including tailored support for competitive SMEs and larger firms as well as the financing of projects in sustainable infrastructure. In effect, how can we grow alternative sectors outside the traditional energy sector for impacted regions and communities?

While people are impacted by all aspects of the transition, including new green and low-carbon technologies, Pillars 2 and 3 particularly look at ensuring the negative social impacts of the transition are minimised and social opportunities maximised as the Bank invests in a low-carbon energy system. The energy transition cannot succeed without addressing the social impacts, especially for those directly affected by, for example, the closure of coal mines or thermal power plants. Pillar 2 of the initiative focuses on helping these workers, providing re-training and re-skilling opportunities, while also supporting those nearing retirement with suitable packages. It is unlikely that human capital efforts will provide a perfect brown to

green job transition for every single impacted worker, hence, Pillar 3 plays a crucial role in diversifying local economies. By fostering entrepreneurship and supporting SMEs, we aim to generate new employment opportunities in affected regions.

A prime example of EBRD's just transition work is in North Macedonia, where the Bank is leading efforts to phase out coal while deploying renewable energy through the Just Energy Transition Investment Platform (JETIP). The focus is not solely on impacted workers. This transformation of the economy provides an opportunity to address existing inequalities in the economy and provide opportunities for unrepresented groups within the energy sector (and other sectors). This is often attractive to both public officials and private enterprise as it can support youth, women, disabled and other groups to enter the workforce with skills in demand (supporting the economy's human capital needs). Delivering on our Just Transition Initiative has meant trying to really bring together all the pillars while addressing these workforce access challenges for clients. Our most prominent, and live, programme delivering on this has been in North Macedonia.

In 2020, the EBRD issued a loan to public electricity generation utility JSC Elektrani na Severna Makedonija (ESM) to implement a 30 MW solar photovoltaic (PV) project. This has been bolstered by the Climate Investment Fund's (CIF) Accelerating Coal Transition (ACT) programme, which supports not only renewable energy deployment but also skills development for workers impacted by the coal phase-out. The programme includes accredited skills programmes across North Macedonia addressing the coal phase-out with investments in both ESM, the transmission entity, but also the private sector in the impacted coal regions of Pelagonia and Southwest.

The EBRD is working with in-country expertise to develop several accredited training programmes for impacted ESM workers from closing coal mines in Bitola and Oslomej (as well as workers at thermal power plants). The programme includes accredited training for

former coal miners and thermal power plant workers, equipping them with skills relevant to new green energy infrastructure, such as project management and electricity trading, as well as supporting the development of new training centres through MEPSO, North Macedonia's transmission operator.

Beyond workforce support, the Bank and CIF ACT programme also focuses on broader economic diversification in coal-dependent regions like Pelagonia and the Southwest. Providing tailored advisory projects for SMEs and corporates, acceleration programmes for startups and broad audience training sessions, the roadmap establishes a comprehensive support system that addresses multiple layers of the economic and social structure. These initiatives foster collaboration between businesses, educational institutions and government agencies, ensuring that training programmes are relevant and effective.

Another example of emphasis on economic inclusion is evident in the Women-led Coal Transitions (WOLCOT) programme, which aims to enhance the role of women in North Macedonia's energy transition. By equipping women with leadership and technical skills, the initiative ensures that the transition is not only just but also inclusive, providing opportunities for underrepresented groups to contribute to and benefit from the green economy.

The energy transition cannot succeed without addressing the social impacts.

While North Macedonia is a small country, its ambitious just transition efforts, still in their early stages, offer a blueprint for larger countries facing similar challenges. By prioritising people alongside the green transition, North Macedonia is laying the groundwork for long-term success, demonstrating that it is possible to phase out coal, deploy renewable energy and create an inclusive, diversified economy.^A



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**CLIMATE
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INITIATIVE**



How to approach just transition in India

Just transition as a concept has been in the discussions and attention of policymakers for quite some time. The transition in the power sector, mostly linked to a shift towards greener sources of energy, may impact conventional assets, including power generation and extraction of fossil fuels. The Just Transition discourse in the global north has taken consideration of this and has planned the transition in advance. Coupled with technology and financing, they have a critical cushion of time, technology and finance to make a soft landing.

The same cannot be said about the global south, where the priority is to provide development and electricity to its aspirational population at an affordable cost. This has led to an ecosystem dependent upon fossil fuel extraction and conventional power generation, especially in countries like India, which has significant solid fossil fuel reserves.

Given the climate emergency and India's ambitious target of achieving net zero by 2070, the role of fossil fuels in the power system is expected to diminish over time. However, India currently lacks the critical cushion of time, technology and finance, making it challenging to plan for a just transition. The urgency of this situation cannot be overstated.

This highlights the crucial role of finance in supporting the transition process.

In this situation, the big question is, 'How could India approach just transition without compromising on energy security and affordability?'

The first thing would be to assess states and stakeholders vulnerable to the energy transition. Climate Policy Initiative (CPI), in its study, found states in the eastern part of the country are more susceptible, considering they are hubs of fossil fuel extraction and conventional power generation. Beyond the usual narrative of workers being impacted by energy transition, the study found that apart from the workers, the state government, companies in fossil fuel-linked businesses and the people residing around these assets will face a similar impact, if not less.

The International Labour Organization (ILO) advocates for a just transition, stating, 'No one should be left behind.' This underscores the importance of including all stakeholders in the planning process to ensure a fair and equitable transition.

Once vulnerable stakeholders are identified, the economic implications for each group needs to be quantified for transition assistance to make the transition just and equitable.

The quantification will help the federal and state governments design policies and schemes to attract new investments and plug the gap left by the transition.

Considering that the significant economic implications, as quantified by CPI for one of the fossil fuel-rich states (Jharkhand), come out to USD 8.7 billion per year, it may result in a huge burden on the Government with falling revenue and rising costs.

'Finance will be the enabler while government will be the carrier of the just transition.' This highlights the crucial role of finance in supporting the transition process.

In such a scenario, a facility that could pool different kinds of capital with varying return expectations and risk-bearing potential (public, private, philanthropic, patient, etc.) would help bridge the gap. The facility would not invest on its own; instead, it will help in creating a conducive environment for clean energy investments, such as supporting the Government in building relevant industrial policies, providing technical assistance to ministries and impacted organisations in developing a roadmap of transition, creating a pipeline of transition projects, identifying national and international funding opportunities, etc. This could serve as a template for just transition planning in countries in the global south.



Just transition: key steps for companies to make the net zero transition right

The preamble of the Paris Agreement calls for a ‘just transition’, accounting for the creation of decent work and quality jobs while achieving net zero transition. The green energy transition presents many environmental, social and economic opportunities as well as risks that might be acutely felt by those who are employed in sectors that would need to transform. Climate finance investors are looking for environmentally sustainable, socially inclusive and fair transition models. Therefore, companies would need to embed the Just Transition principles into their net zero transition strategies. This article presents key steps and take-aways driven from project examples, in developing a just transition strategy with a global client in mining and minerals as part of their climate strategy for the first time, and another from a phase-out of a coal power plant in the EU.

Climate change effects are wide ranging and varied across regions. Transition to a low-carbon economy is needed more than ever. Companies are fast-tracking their transitions towards a greener economy. How can we make sure we balance nature and people in this transition? Shutting down a coal power plant may benefit nature and inhabitants with cleaner resources and reduced emissions, but it may also leave the people working in that industry jobless. Alternatively, critical minerals such as copper, lithium, nickel and cobalt are vital for the clean energy transition and renewable energy sector. However, extracting them can potentially cause serious environmental and social impacts.

A just transition approach helps us consider climate change’s nature and social aspects together; by identifying and managing the risks and impacts (do no harm) of the low-carbon transition and maximising the social and economic opportunities around it (do *more* good).

Following the Paris Agreement and ILO’s guidelines¹⁸, more regulatory bodies are incorporating just transition into their reporting frameworks for companies, such as the EU’s corporate sustainability directives, IFRS–S2 climate disclosures¹⁹. Financial institutions are advocating for a just transition²⁰, emphasising focus on the social aspects of their transition finance, such as:

¹⁸ ILO Guidelines for a just transition towards environmentally sustainable economies and societies for all www.ilo.org/media/435091/download

¹⁹ IFRS (December 2023) Educational material on nature and social aspects of climate-related risks and opportunities www.ifrs.org/content/dam/ifrs/supporting-implementation/ifrs-s2/issb-naturesocialaspectsofclimate-relatedrisks-dec2023.pdf

²⁰ Development Finance Institutions (i.e., EBRD, World Bank, IFC, etc.)

1. upholding human and labour rights
2. promoting fairness and equity with decent job opportunities and community benefit sharing
3. ensuring inclusive participation and regular consultation with stakeholders.

Companies need to identify the transition risks and opportunities (both financial and non-financial) of their decarbonisation activities on their key stakeholders: the workforce, consumers/customers, suppliers and communities; and plan to alleviate the potential adverse impacts. For an energy provider, phasing out from fossil fuel to renewable energy could mean job displacement risks for the workforce, but re-skilling/ upskilling opportunities for new green jobs. Similarly, this transition would improve access to cleaner energy for its customers but may also pose affordability issues for certain vulnerable groups.

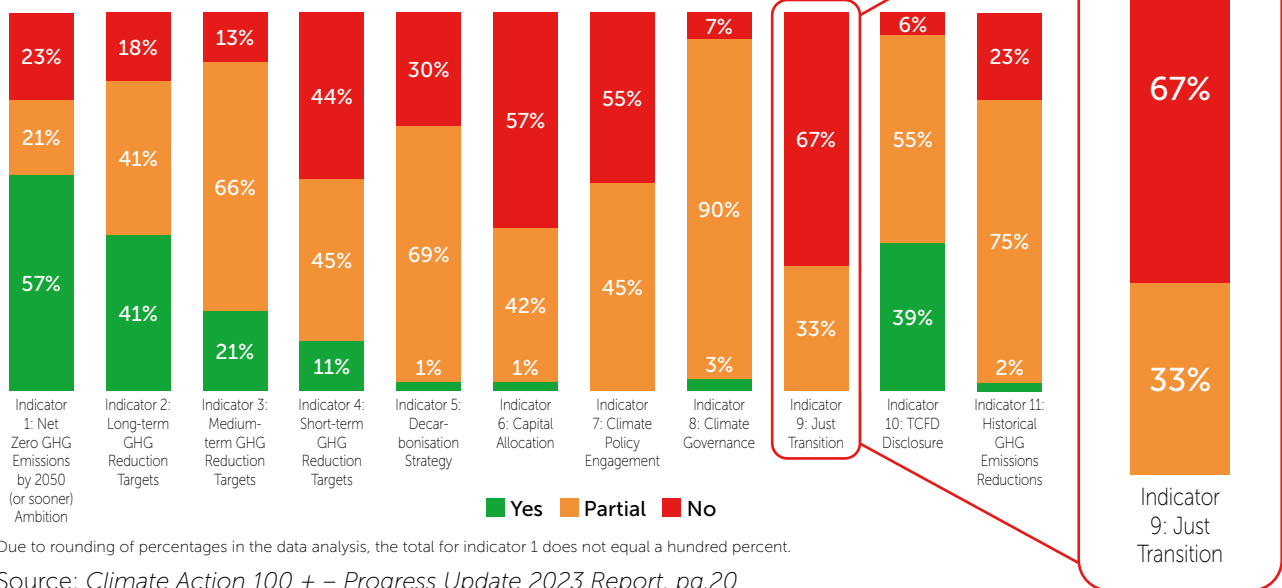
One of the leading investors' networks (Climate Action 100²¹) has conducted a Net Zero Benchmark Assessment²² and disclosed results of 170 companies in the highest emitting sector on their climate disclosure progress against multiple indicators. The 9th indicator on just transition assesses companies on the following metrics²³:

- a) **Commitment** to a just transition (in line with ILO's principles);
- b) Just Transition **Plan** prepared in consultation with its stakeholders; and
- c) **Key Performance Indicators** (SMART) developed to monitor progress.

The diagram shows many of the companies (67%) still have a long way to improve their climate disclosures and planning on just transition.

2023 Results by Indicator

Despite continuous improvement on long and medium-term GHG reduction target setting and TCFD disclosures, significant progress is still needed on short-term target setting, capital allocation, climate policy engagement, just transition and GHG emissions reductions.



21 Climate Action 100+ Just Transition Planning: <https://www.climateaction100.org/news/a-need-for-robust-just-transition-planning/>

22 Climate Action 100+ Net Zero Company Benchmark – Progress Update (2023) <https://www.climateaction100.org/wp-content/uploads/2024/01/Climate-Action-100-Progress-Update-2023.pdf>

23 For a full definition of the just transition indicators and metrics, please refer to <https://www.climateaction100.org/wp-content/uploads/2023/03/Climate-Action-100-Net-Zero-Company-Benchmark-Framework-2.0..pdf>

How can we make sure we balance nature and people in this transition?

We have worked with multiple clients to help them embark on their sustainability and climate change journey, with a focus on just transition. Based on our experience, we can certainly share the following key elements and steps we believe companies will need to achieve a just transition in their net zero journey:

1. Commit – Just Transition Strategy

- a) Define scope of net zero pathways, as part of the climate strategy.
- b) Identify and map the key stakeholders to be involved and most likely to be affected (either positive or negative) by the transition pathway.
- c) Analyse the ESG risks and impacts, accounting for human rights impacts, but also identify the opportunities and benefits for stakeholders.
- d) List the material issues for the company-in-transition, align them with ILO's just transition principles.

2. Plan – Just Transition Plan

- a) **Develop mitigation and enhancement actions, based on the identified risks and impacts, tailored to stakeholders' needs.** For example, in a retrenchment, not all workers will be eligible to the same entitlements. Some workers may prefer compensation and look for another job in the market, some may want to go for voluntary retirement – if the legal framework allows – some may prefer to be re-skilled/upskilled and re-deployed in the company elsewhere. Another group may require additional social

measures due to their special needs. Therefore, understanding what the workforce needs before drafting any actions is essential.

b) **Social dialogue and meaningful engagement.**

Proactively engage with the stakeholders in an open social dialogue, where trust is built, and participatory decision-making is happening. In most of the transition cases we have seen, the engagement strategy tends to be 'sharing information *as and when needed*' rather than a two-way engagement. This reactive approach diminishes the will and trust of the affected workforce and their local communities whom the company will need to rely on in future activities. Lack of social dialogue and honest engagement slows down the transition process. Companies that have gone the extra mile by developing benefit-sharing mechanisms to increase community consent and engaging them as part of the company activities have generated sustainable development outcomes.

3. Monitor – Just Transition Indicators

- a) Set performance indicators and targets in collaboration with stakeholders to track the just transition process.
- b) Regularly and openly share with both internal and external stakeholders what is going well and what is not, so that additional measures or remedies are well-thought through in the process, before it is too late to rectify things.

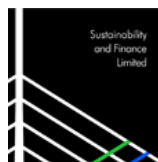
Every just transition strategy and plan needs to be bespoke to the entity and its stakeholders. We believe with the increased focus and scrutiny of the transition finance institutions and reporting frameworks, progress towards just transition will accelerate. Just transition is at the core of sustainable development and can only be achieved with social dialogue of all parties.

Seb Born

Sustainable Solutions Specialist Intern, Sustainability & Finance Ltd
and

David Luck

Chair of the IEMA Sustainable Finance Steering Group
Chief Executive and Founder of Sustainability & Finance Ltd



Tidal stream energy: unlocking sustainable investment for the UK's energy transition

As the world intensifies efforts to combat the climate and biodiversity crises, the transition to renewable energy has become increasingly urgent. While the UK has made remarkable strides in offshore wind deployment²⁴, another marine renewable energy source – tidal stream (TS) energy – has markedly lagged behind. TS energy provides a reliable and highly predictable source of renewable power, making it a valuable complement to the intermittent nature of solar and wind energy in the UK's energy transition efforts. With advancements in TS technology, this sector is now poised to attract sustainable finance to scale up the capacity of tidal arrays.

The predictability of tidal stream energy

Among renewable energy sources, TS energy stands out for its predictability. Driven by the gravitational pull of the moon and the sun, tidal currents are as certain as the tides themselves. Unlike wind and solar energy, which are subject to weather variability, tidal energy offers a consistent and reliable energy output, making it a critical asset in the UK's renewable energy portfolio.

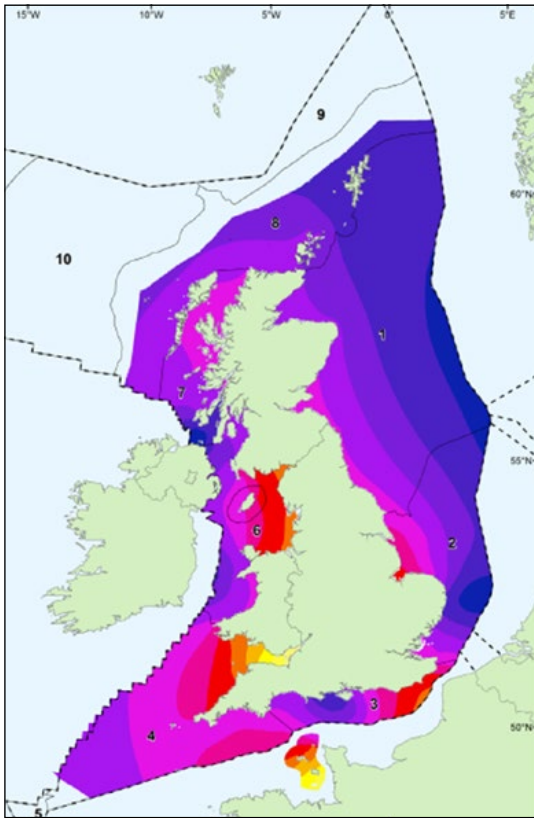
The UK is uniquely positioned to benefit from TS energy²⁵, with one of the world's most significant tidal ranges (see Table 1 and Figure 1). As a maritime nation with numerous suitable deployment points, the UK is a natural leader in this technology. Commercial UK projects are already delivering power to the grid and have demonstrated the potential of TS; however, the sector remains underdeveloped compared to wind and solar energy.

²⁴ Coles, D., Angeloudis, A., Greaves, D., Hastie, G., Lewis, M., Mackie, L., McNaughton, J., Miles, J., Neill, S., Piggott, M., Risch, D., Scott, B., Sparling, C., Stallard, T., Thies, P., Walker, S., White, D., Willden, R. & Williamson, B., (2021). A review of the UK and British Channel Islands practical tidal stream energy resource. *Proceedings of the Royal Society A: Mathematical, Physical and Engineering Sciences*. Available at: doi.org/10.1098/rspa.2021.0469

²⁵ Zeyringer, M., Fais, B., Keppo, I. & Price, J. (2018). The potential of marine energy technologies in the UK – Evaluation from a systems perspective. *Renewable Energy*, 115, pp.1281-1293. www.sciencedirect.com/science/article/pii/S096014811730719X

Table 1: Of the 30 largest tidal ranges in the world, 7 are located in the UK. Source: Tides & Currents, NOAA, tidesandcurrents.noaa.gov/faq.html#08

	Station	Mean Range (feet)
1	Burntcoat Head, Minas Basin, Bay of Fundy, Nova Scotia	38.4
2	Horton Bluff, Avon River, Minas Basin, Bay of Fundy, Nova Scotia	38.1
3	Amherst Point, Cumberland Basin, Bay of Fundy, Nova Scotia	35.6
4	Parrsboro (Partridge Island), Minas Basin, Bay of Fundy, Nova Scotia	34.4
5	Hopewell Cape, Petitcodiac River, Bay of Fundy, New Brunswick	33.2
6	Joggins, Bay of Fundy, Nova Scotia	33.2
7	Leaf Lake, Ungava Bay, Quebec	32.0
8	Port of Bristol (Avonmouth), United Kingdom	31.5
9	Grindstone Island, Petitcodiac River, Bay of Fundy, New Brunswick	31.1
10	Spencer Island, Bay of Fundy, Nova Scotia	30.5
11	Newport, Bristol Channel, United Kingdom	30.3
12	Sunrise, Turnagain Arm, Cook Inlet, Alaska	30.3
13	Burnham, Parrett River, United Kingdom	29.9
14	Weston-super-Mare, Bristol Channel, United Kingdom	29.5
15	Rio Gallegos (Reduccion Beacon), Argentina	29.0
16	Koksoak River entrance, Hudson Bay, Canada	28.5
17	Herring Cove, Bay of Fundy, New Brunswick	28.3
18	Granville, France	28.2
19	Cardiff, Bristol Channel, United Kingdom	28.1
20	Leaf Bay, Ungava Bay, Quebec	28.0
21	Banco Direccion, Magellan Strait, Chile	28.0
22	Cancale, France	27.8
23	Bahia Posesion, Magellan Strait, Chile	27.5
24	Ile Haute, Bay of Fundy, Nova Scotia	27.5
25	Barry, Bristol Channel, United Kingdom	27.1
26	Hopes Advance Bay, Ungava Bay, Quebec	27.0
27	Spicer Cove, Chignecto Bay, Bay of Fundy, Nova Scotia	27.0
28	Iles Chausey, France	26.9
29	Port George, Bay of Fundy, Nova Scotia	26.7
30	Watchet, Bristol Channel, United Kingdom	26.6



Mean spring tidal range (m)

>12.00	8.01-9.00	4.01-5.00
11.01-12.00	7.01-8.00	3.01-4.00
10.01-11.00	6.01-7.00	2.01-3.00
9.01-10.00	5.01-6.00	1.01-2.00
		<1.01

Figure 1: Mean spring tidal range around the UK. Source: Department for Business, Energy & Industrial Strategy. (2016). Offshore energy strategic environmental assessment 3 (OESEA3): Appendix 1d – Water environment. UK Government. assets.publishing.service.gov.uk/media/5a7f47a9ed915d74e33f5745/OESEA3_A1d_Water_environment.pdf

Scaling tidal stream: the role of sustainable finance

To unlock TS energy’s full potential, sustainable finance must play a key role. TS projects have already secured government support through the UK Contracts for Difference (CfD) scheme; allocation round six of the CfD scheme marked the third consecutive renewable auction in the UK with a dedicated ring-fence for TS energy. However, to truly scale the TS sector, private investment is essential.

Investment companies are a proven vehicle for scaling up renewable energy deployment. More than a decade has passed since the first pure play solar investment company – Bluefield solar income fund – listed on the London Stock Exchange. This represented a pioneering step²⁶ and others have followed. Investment companies can provide liquidity in what would otherwise be typically illiquid assets²⁷ and could offer a pathway for institutional investors looking for exposure to a growing and increasingly viable technology. Operational TS projects have already proved that this technology has moved beyond the speculative and venture phase.

Job creation and economic impact

The expansion of TS energy presents an opportunity to enhance ecosystem services and drive substantial economic growth, particularly in coastal and industrial regions that have historically received less investment compared to major cities across the UK. TS projects can leverage the expertise and infrastructure of the oil and gas industry, thus creating jobs in transitional fields from offshore engineering and project management to technical diving and health and safety.²⁸ This ‘just transition’ ensures that workers from declining fossil fuel industries can transition into renewable energy roles, supporting the UK Government’s broader goals of a green economy and social equity.

²⁶ www.londonstockexchange.com/discover/news-and-insights/bluefield-solars-pioneering-journey-london-stock-exchange).

²⁷ www.theaic.co.uk/about-us/our-sector

²⁸ www.gov.scot/publications/draft-energy-strategy-transition-plan/pages/16/

This 'just transition' ensures that workers from declining fossil fuel industries can transition into renewable energy roles.

The UK Marine Energy Council has called for a 1 GW tidal stream target by 2035, a goal that could contribute £41 billion in gross value added (GVA) to the UK economy by 2050²⁹. The Offshore Renewable Energy Catapult has also estimated that the TS industry will support almost 4,000 jobs in the UK by 2030, growing to 14,500 by 2040³⁰. However, this could be just a drop in the ocean with regards to job creation, as the full potential of this predictable and renewable energy source is realised over the longer term.

Environmental and operational resilience

Unlike tidal range or lagoon projects, which require large infrastructure like barrages or artificial enclosures, tidal stream turbines are modular and can be deployed incrementally. This modularity allows for greater flexibility and scalability, reducing upfront costs and minimising disruption to marine ecosystems³¹. It is also likely to attract private capital, since institutional investors can add to this investment opportunity incrementally, building confidence as their assets are deployed and a return on equity is observed.

Conclusion: tidal stream's place in a sustainable energy future

Currently, the UK TS energy sector likely sits at an inflection point; could the coming decade see the kind of exponential growth in TS energy that offshore wind and ground-based solar experienced during the last decade? By subsidising TS energy, the UK Government has an unprecedented opportunity to solidify its position as a leader in both the green and blue economies. TS energy offers predictable, reliable and scalable renewable energy that can enhance our national energy security, foster regional economic growth and support the UK's decarbonisation efforts. Our country has a rich maritime heritage, engineering excellence and TS energy can attract significant investment, create high-quality green jobs and drive technological innovation. This aligns perfectly with Labour's commitments to sustainable finance and environmental leadership on the global stage. Sustainability & Finance Ltd would be an ideal partner to engage in discussions on how to develop and structure the necessary policies, investments and public-private partnerships to unlock the full potential of TS energy for the UK.^B

²⁹ UK Marine Energy Council (UKMEC), (2024), The Marine Energy Council's 5 key asks of the next UK Government. UK Marine Energy Council. Available at: www.marineenergycouncil.co.uk/news/marine-energy-council-s-5-key-asks-of-the-next-uk-government#:~:text=At%201GW%20of%20deployment%20tidal,the%20UK's%20future%20energy%20system

³⁰ cms.ore.catapult.org.uk/wp-content/uploads/2018/11/Tidal-Stream-and-Wave-Energy-Cost-Reduction-and-Industrial-Benefit.pdf

³¹ www.eng.ed.ac.uk/about/news/20211130/new-study-reveals-potential-tidal-stream-energy#:~:text=Further%20findings,%2Ddemand%20matching%2C%20for%20example.



Purchasing high-quality carbon credits is key to enabling the Just Transition

Making the net zero transition a just one is gaining traction with corporates. However, implementing this in practice is very complex, especially when offsetting residual emissions. Purchasing carbon credits that support a just transition is key and requires thorough due diligence.

Corporates broadly accept the need for the energy transition to support both the planet's wellbeing and their companies' supply chains. While implementing this transition, companies are faced with adopting practices that not only benefit the environment but also prioritise the wellbeing of people. This is representative of the Just Transition – a movement towards reaching net zero while being conscious of climate injustices and inequalities, such as regionally inequitable financial flows.

Corporate interest in just transition is fairly popular. Approximately a third of corporate chief executives surveyed by Lloyds Bank in 2023 state they are 'very engaged' in delivering just transition³². But the commitment to making their company's net zero transition a just one ultimately adds to the complexity of reaching net zero. So where do companies go from here? Of course, decarbonisation is the first step towards reaching net zero. But companies can only do so much to decarbonise their emissions while continuing to operate. This may be due to a lack of progress with certain technologies or the fundamental inability of the

company to reduce its emissions past a certain point. For example, zero emissions transport is currently infeasible for many corporates due to technological challenges. Thus, to reach net zero and play their part in a just transition, corporates need to consider purchasing carbon credits in the voluntary carbon market (VCM).

Carbon projects contribute towards the just transition via carbon mitigation *and* supporting equity for people and the environment. Carbon markets can facilitate financial flows towards underserved communities and ecosystems. But they can also have unintended negative impacts which can undermine progress towards the just transition.

The likelihood these credits avoid or remove a tonne of carbon varies, as does the likelihood that they reduce inequalities and do no harm. Identifying the projects that do have a high likelihood of delivering on their carbon mitigation claims whilst reducing inequalities is difficult. Carbon quality is often assessed by several risk factors including additionality, carbon accounting and non-permanence³³. Additionality is the risk that the carbon

³² www.lloydsbank.com/assets/assets-business-banking/pdfs/edie_insight_sdg_business_blueprint.pdf

³³ bezerocarbon.com/insights/how-do-you-know-if-carbon-credits-are-living-up-to-their-promises

avoided or removed would have occurred regardless of the existence of the carbon project. For example, carbon mitigation primarily funded by sources outside of the sale of carbon credits like a government fund would have significant additionality risk. Carbon accounting is the risk that the amount of carbon mitigation calculated by the project and thus the resulting credits issued are inaccurate. Non-permanence is the risk that the carbon avoided or removed will not be sustained throughout the committed time period, such as the degradation of forests due to wildfire. The robust assessment of these factors takes a team of scientists to decipher the relevant data in unstandardised project documents, conduct in-depth literature reviews, analyse spatial data and undertake rigorous analysis accounting for all relevant information³⁴.

Perhaps more complicated is analysing the risk that a project may have negative impacts on people and/or the environment, such as forcibly displacing people and planting invasive species, and the likelihood that a project may have positive impacts on people and/or the environments, such as creating job opportunities and uplifting biodiversity³⁵.

Non-carbon impacts are often understood under two main umbrellas; negative impact risk and positive impact likelihood³⁶. Negative impact risk can be assessed via project safeguards and positive impact likelihood, through project contributions towards the UN Sustainable Development Goals (SDGs). The lack of standardisation amongst standards bodies on how they define elements of non-carbon impacts, their requirements on non-carbon impacts, how the data is reported and what information is disclosed, makes it extremely difficult for corporates who are not experts in carbon markets to determine which carbon credits align with their just transition ambitions³⁷.

Buyers must do their due diligence to ensure that their money is truly contributing to just transition. Independent carbon ratings agencies such as BeZero Carbon can

provide the information and unbiased analysis buyers need to identify projects that align with their priorities. As an independent ratings agency, BeZero has no internal conflicts via a separation between commercial and analytical functions, doesn't trade or develop projects, does not offer consulting, makes headlines ratings publicly available and does not engage in results-based payments³⁸. Thus, independent ratings agencies can be a powerful tool for corporates when identifying carbon projects that support the Just Transition.

The following are recommendations for corporates to implement when considering purchasing carbon credits that align with the Just Transition:

1. Decarbonise in line with a recognised framework for net zero targets.
2. Identify where residual emissions lie in your activities and supply chain.
3. Establish priorities for carbon project characteristics (i.e., high-priority co-benefits like impacts on human health or biodiversity, project types, issuance status, location, risk, appetite, price etc.) in line with your business objectives.
4. Review projects' independent ratings to assess carbon *and* non-carbon risks (e.g., safeguards and SDG claims).
5. Purchase credits and report your purchases publicly.

In order to finance projects that strongly contribute towards the Just Transition, companies must do due diligence on carbon quality and non-carbon impact integrity. However, understanding the risk associated with carbon projects is challenging. Buyers and investors can engage with independent experts like ratings agencies to understand the risk profiles of carbon projects and identify high-quality credits that align with their commitments to the Just Transition.

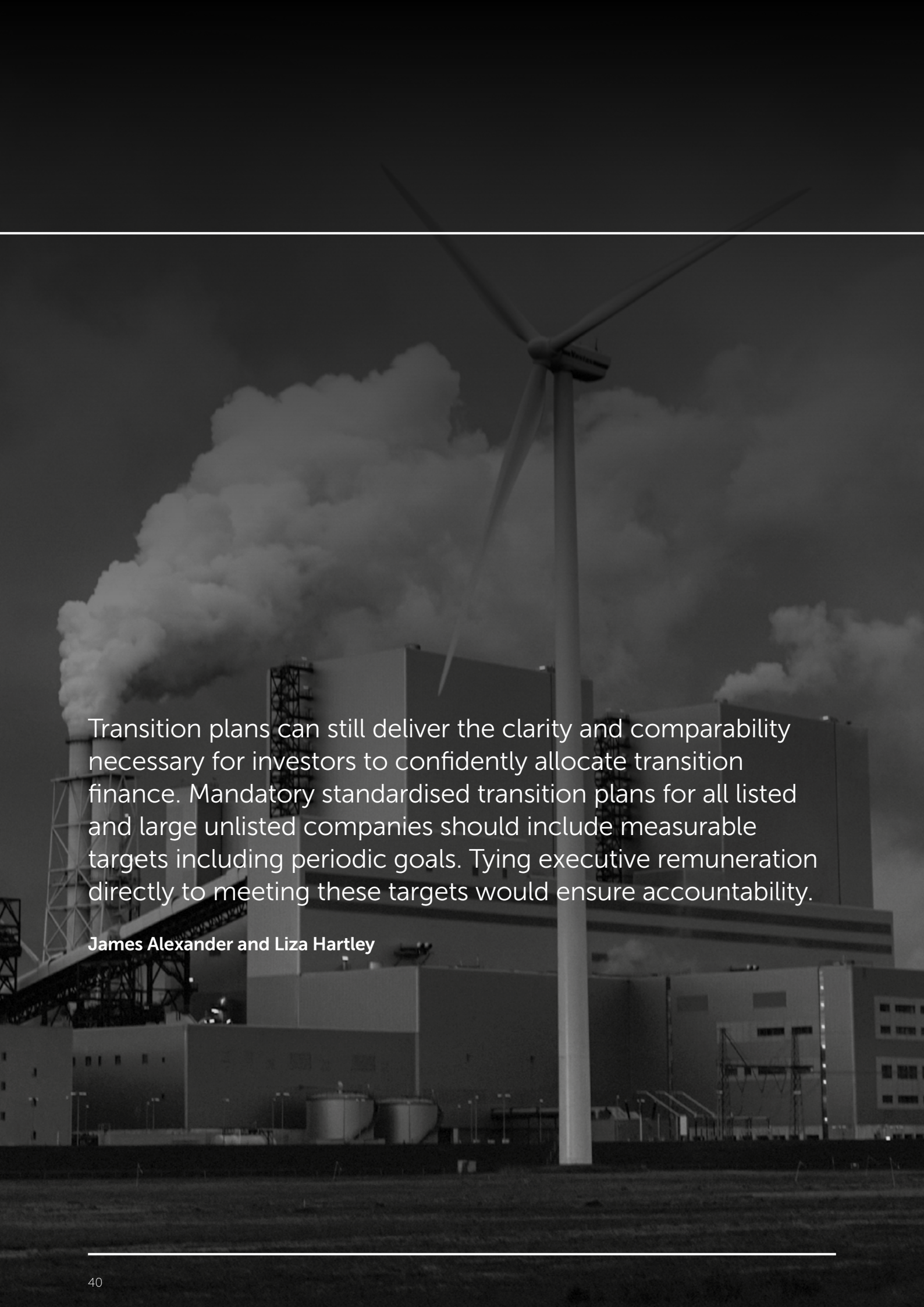
³⁴ bezerocarbon.com/insights/what-does-it-take-to-rate-a-carbon-project

³⁵ bezerocarbon.com/insights/beyond-carbon-q-and-a

³⁶ bezerocarbon.com/insights/understanding-and-assessing-project-impacts-beyond-carbon

³⁷ bezerocarbon.com/insights/first-do-no-harm-safeguards-in-carbon-projects; bezerocarbon.com/insights/mapping-the-sdg-claim-lifecycle-2023-update

³⁸ bezerocarbon.com/insights/independent-carbon-ratings



Transition plans can still deliver the clarity and comparability necessary for investors to confidently allocate transition finance. Mandatory standardised transition plans for all listed and large unlisted companies should include measurable targets including periodic goals. Tying executive remuneration directly to meeting these targets would ensure accountability.

James Alexander and Liza Hartley

Summary

Based on the insights gathered from this collection of articles, it is clear that a just transition is far more than an idealistic aspiration; it is a practical framework for ensuring that the shift to a low-carbon future is fair, inclusive and sustainable. The journey towards a sustainable future is not just about reducing carbon emissions – it is also about building a resilient, fair and just society for all. In a rapidly changing world, where climate goals are becoming urgent, this concept is crucial to ensuring that no one is left behind in the race to decarbonise.

As Arzu points out on her article, ‘shutting down a coal power plant may benefit nature and inhabitants with cleaner resources and reduced emissions, but it may also leave the people working in that industry jobless’. This presents a clear ethical dilemma; one that has real-world consequences. Communities that depend on carbon-intensive industries, like coal mining or oil extraction, often face economic ruin when these industries are phased out. Without a clear strategy to re-train workers and help them transition to new roles, we risk deepening inequality and creating pockets of poverty where once-thriving economies existed.

If there is something you take out of this conversation (and remember, just transition is an ongoing dialogue) is that we should be continuously asking ourselves the question: transitioning to what? And most importantly, for whom?

As the just transition conversation continues, it is more important than ever to recognise the tangible consequences of our decisions. These aren't hypothetical scenarios; they are real and pressing challenges. For instance, some investors, eager to accelerate the transition to clean energy, fund the construction of solar plants to reduce greenhouse gas emissions. Yet, these investments may perpetuate forced labour conditions in the polysilicon supply chain, a critical material for solar panels. While solar energy is proclaimed as a solution to the climate crisis, we must confront the uncomfortable truth that such ‘green’ technologies can also contribute to human rights violations if supply chains are not carefully scrutinised.



Transitioning to what? And most importantly, for whom?

The challenges are not limited to solar energy alone. The extraction of minerals like cobalt and tantalum, which are essential components of batteries and electric vehicles, often takes place in regions plagued by exploitative labour practices, hazardous working conditions and even armed conflict. It is essential that the green economy we are building is not reliant on exploitative practices but instead promotes dignity and fairness throughout the supply chain.

Moreover, the impact of what is now being termed ‘green colonialism’ is another pressing concern. Communities, often in marginalised regions, are being displaced to make way for wind or hydropower plants. While these projects may be hailed as green solutions for reducing global carbon emissions, the displacement of local populations and disruption of their livelihoods can have devastating effects. The question must always be: are we creating solutions that benefit everyone, or are we simply shifting the burden of climate action onto vulnerable populations?

Building on Chico Mendes’ renowned quote, ‘Environmentalism without class struggle is just gardening’ one could argue that a climate transition that lacks a focus on justice is nothing more than dressing up existing inequalities in green rhetoric. Without addressing the deep-seated social and economic imbalances that persist in our world, such a transition risks entrenching the very inequities it claims to be addressing. A truly sustainable future must include the voices and concerns of all people, especially those who have been historically marginalised.

This is not a straightforward topic, but these conversations are crucial to shaping the future. Supply chain due diligence is one area where progress is being made with legislation such as EU CSDDD, as companies are being pushed to trace their materials and ensure ethical sourcing. At the same time, we must prioritise re-training workers from declining industries and providing them with opportunities to transition into new, sustainable jobs. Ensuring a just transition means more than achieving environmental goals; it means aligning these goals with the principles of fairness, equity and human dignity.

In conclusion, the choices we make today will shape the future, and we must ensure that these decisions do not replicate the injustices of the past. A just transition is not just an option; it is a necessity if we are to build a world where sustainability and social justice go hand in hand. I assume that by reading this journal, you are already engaged in this critical conversation, and I invite you to continue doing so. Together, we can ensure that the path to a low-carbon future is fair, inclusive and respectful of both people and the planet.

Climate transition that lacks a focus on justice is nothing more than dressing up existing inequalities in green rhetoric.

Albert Seoane
November 2024



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Funding the Just Transition

This third volume of the Sustainable Finance Insight Journal delves into the intersection of finance and the Just Transition, with a special focus on the role of financial institutions in supporting a fair and inclusive shift towards a green economy. In this edition, the Guest Editor, Albert Seoane, has selected 12 articles produced by IEMA professionals and sustainable finance experts. The result is a valuable yet quick read across some of the different aspects of UK and international practice, exploring funding and financing aspects of a just transition.

About the Guest Editor: Albert Seoane

MSc AIEMA

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Albert Seoane is a Senior Officer at Innpact, based in Luxembourg. He is a member of IEMA Sustainable Finance Steering Group. Albert started his career in the fund industry in Luxembourg focusing on alternative investment funds. After spending four years in the Luxembourg fund industry and wanting to focus on sustainability, he took a career break to study political ecology and climate change science. He then started to work at EcoAct in London a sustainability consultancy focusing in GHG accounting, decarbonisation strategies and the voluntary carbon market. He is now combining both his finance and sustainability knowledge in his current role at Innpact.

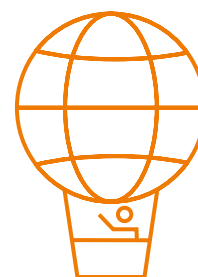
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About IEMA

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