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Grantham
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on Climate Change
and the Environment



▶ **Just Transition Finance Tool**
for banking and investing activities



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For more information about the tool and guidance on its application, please contact us at: greenjobs@ilo.org and socialfinance@ilo.org

► Just Transition Finance Tool for banking and investing activities

Introduction to the Just Transition Finance Tool

The imperative of a 'Just Transition' is recognised in the Paris Agreement on climate change and is increasingly high on the agendas of governments, companies, workers and financial institutions. The notion that transitioning to a low-carbon economy needs to go hand in hand with equitably addressing socio-economic risks and opportunities is outlined in the ILO Guidelines for a Just Transition, which present a set of principles and potential entry points.

This document aims to take guidance for the implementation of a just transition a step further. This Just Transition Finance Tool provides financial institutions with practical advice on how to embed just transition throughout their operations in their alignment with the goals of the Paris Agreement. Acknowledging that financial institutions can be at different stages of their uptake of just transition, the Tool suggests action areas to start out as well as to make progress in this journey.

The Tool focuses on banking and investment activities and provides financial sector actors with entry points for the structural integration of social considerations into their approach to the climate transition (i.e. how to make the transition just). It does not intend to provide guidance on how to prioritise or develop transition strategies.

The Tool includes some real cases and examples. However, as financial institutions are only starting to implement these concepts, best practice does not yet exist. The cases are thus presented as emerging practices with the purpose of facilitating learning.

This Tool was developed collaboratively by the International Labour organization (ILO) and the LSE Grantham Research Institute for Climate Change and the Environment, with conceptual and technical support provided by Steward Redqueen and financial support by Sida.

We would like to thank ABN Amro Investment Solutions, BlueOrchard, the European Bank for Reconstruction and Development, Ethos, Royal London Asset Management, Robeco, Standard Chartered, Principles for Responsible Investment and the United Nations Environment Programme Finance Initiative for their insights.

Structure of the Tool

A	What?		
B	Why?		
C	Banking: How?	D	Investing: How?
1	Foundations	1	Foundations
2	Governance	2	Governance
3	Implementation	3	Implementation
4	Engagement	4	Engagement
	Metrics: state of play		Metrics: state of play



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What is a just transition to a low-carbon climate resilient economy?

What are the social and economic opportunities?

Job creation, improvements in job quality and incomes, access to clean affordable energy through the development of low-carbon economic activities, new markets, economic diversification, cost savings for companies and consumers through increased energy and resource efficiency, better air quality and related health benefits.

What are the challenges?

Negative socio-economic impacts, including job and income loss, geographical imbalances between job loss and job creation, job quality deterioration, lack of necessary skills in the workforce to sustain the transition, risks of inequitable effects for vulnerable groups, and pressures on land and other resources particularly affecting communities or indigenous people.

A Just Transition involves maximising the **social and economic opportunities** of climate action¹ while minimising and carefully managing any **challenge** – including through effective **social dialogue** and respect for fundamental principles and rights at work².

Which groups are impacted?

Stakeholders directly and indirectly affected by the transition, whose needs and perspectives needs to be considered, include workers, businesses, consumers, communities and indigenous peoples.

What is meant by ‘social dialogue’?³

Social dialogue includes all types of negotiation, consultation or exchange of information between or among representatives of governments, employers and workers. Engagement with other stakeholders, such as indigenous peoples⁴, communities and civil society is also key.

- 1 A just transition does not concern only climate change but also other environmental issues such as biodiversity and pollution; while recognising the importance of these issues, this Tool will focus on a just transition in the context of climate action
- 2 The reference framework for Just Transition is laid out in the ILO Guidelines
- 3 The concept of social dialogue is further expanded here
- 4 When engaging with indigenous people is important to consider their specific rights under international conventions and frameworks.

What are the social considerations related to a just transition?

Different dynamics are at play

For a transition to a low-carbon economy to take place, financing is required to expand and further develop green and low-carbon activities, to help high-emitting and hard-to-abate sectors to transform, and for society to adapt and develop resilience.

Activities in the first group are defined via established green taxonomies, such as the EU taxonomy. On the other hand, taxonomies defining transition sectors are still under development.

There are significant social risks and opportunities

Transitioning to low-carbon economies and adapting to climate change brings employment and social risks as well as opportunities for workers, businesses, consumers and local communities.

Specific social risks and opportunities depend on a company's activities and the context in which it operates

Assessing transition impacts is crucial for addressing them effectively.

Ensuring social dialogue is key

Social dialogue and stakeholder engagement are critical to make the transition just and inclusive and to generate broad-based support for climate action.

Illustrations of transition dynamics and examples of related social considerations

Transition dynamics	Mitigating social risks	Leveraging social opportunities
<p>Green and low-carbon activities</p> <p>Examples:</p> <ul style="list-style-type: none"> • Development of renewable power generation infrastructure. • Installation, maintenance and repair of energy efficient equipment. 	<ul style="list-style-type: none"> • Respecting human and labour rights and standards. • Respecting land and community rights in the development of new infrastructure with particular attention to land-based communities and indigenous peoples' rights. 	<ul style="list-style-type: none"> • Supporting decent, long-term, quality jobs.¹ • Promoting gender equity in newly created jobs. • Integrating local workforce, promoting skills development and technology transfer. • Creating and strengthening value chain linkages with the local economy. • Offering affordable low-carbon goods and services offered and promoting other benefit-sharing arrangements
<p>High-emitting and hard-to-abate activities</p> <p>Examples:</p> <ul style="list-style-type: none"> • Changes in manufacturing of cement or steel to reduce emissions. • Early retirement of fossil fuel plants/ mines. 	<ul style="list-style-type: none"> • Respecting human and labour rights and standards. • Minimising potential job losses by taking appropriate steps to minimise adverse impacts (e.g. redeployment of the workforce). 	<ul style="list-style-type: none"> • Maintaining decent and quality jobs.¹ • Equipping workforce with necessary skills for new processes and technologies. • When possible using retired plants and associated facilities for other purposes that can benefit affected workers and communities.
<p>Adaptation and resilience activities</p> <p>Examples:</p> <ul style="list-style-type: none"> • Development of flood protection infrastructure. • Development and commercialisation of drought-resistant seeds. 	<ul style="list-style-type: none"> • Respecting human and labour rights and standards. • Respecting land rights in the development of new infrastructure with particular attention to land-based communities and indigenous people's rights. 	<ul style="list-style-type: none"> • Supporting decent, long-term, and quality jobs¹ • Promoting gender equity in newly created jobs • Integrating local workforce, promoting skills development and technology transfer. • Offering affordable goods and services to enhance resilience. • Promoting regional economic diversification and transformation towards resilient activities

¹ Decent Work is defined in ILO's [Decent Work Agenda](#).

Where is action needed to achieve a just transition?

A just transition is grounded in international frameworks, but place-based approaches are crucial

Respecting human and labour rights is a universal concept but the structure of economies and labour markets differ between countries and regions. The related socio-economic challenges and considerations will therefore vary as well. To effectively contribute to a just transition, companies' actions must be in line with the nature of their activities and the local context in which they operate.

Just transition strategies and pathways should be developed at a regional-level

Regions that are currently highly dependent on high-emitting industries are likely to face challenges related to worker displacement or job losses, while regions with favourable conditions for renewable energy production will face challenges related to community impacts of large infrastructure projects. Overall, place-specific just transition priorities and challenges can be informed by local government plans, regional just transition roadmaps, and diagnostics developed by Development Finance Institutions (DFIs).

A just transition is not only about energy

While energy is a key sector for climate action, the climate transition affects sectors across the economy, including transport, construction, agriculture, and manufacturing, with specific impacts for different countries, regions, and stakeholders.



COMPANY-LEVEL

Steps taken by companies towards climate action are important drivers of the low-carbon transition. While the growth of low-carbon businesses should be facilitated and incentivised, companies with high-emitting and hard-to-abate activities should undertake a transformation towards greener alternatives. The nature of the business and the geographical context in which the company operates will determine the type and extent of employment and social impacts it should mitigate or maximise to achieve a just transition.



SUBNATIONAL/REGIONAL-LEVEL

Sub-national plans for a just transition, as well as place-based policies and investments, are crucial to effectively tackle the social aspect of the transition. Regions within countries often present specific opportunities and risks in the climate transition.



NATIONAL-LEVEL

Just transition strategies which define priorities and approaches at a national level are grounded in the country context. Climate change adaptation and mitigation measures will therefore take different forms in different countries, leading to diverse social and employment risks and opportunities.



GLOBAL-LEVEL

Just transition is a global challenge and requires global responses. Action is needed on international policies, technical assistance, technology transfer and financial flows across borders.

How does just transition relate to a financial institution's existing strategies and policies?

A close connection to existing frameworks

Just transition considerations are closely related to strategies, policies and processes that may already be adopted by financial institutions. These include ESG and responsible business conduct practices, as well as net zero and decarbonisation strategies and alignment with sustainability-related taxonomies. While each of these frameworks cover some aspects related to a just transition, there are likely to be some gaps.

Structured analysis of gaps

Where the strategies, policies and processes listed above exist, they can be further enhanced by strengthening the social lines. This will allow social risks to be mitigated and emerging opportunities to be harnessed.

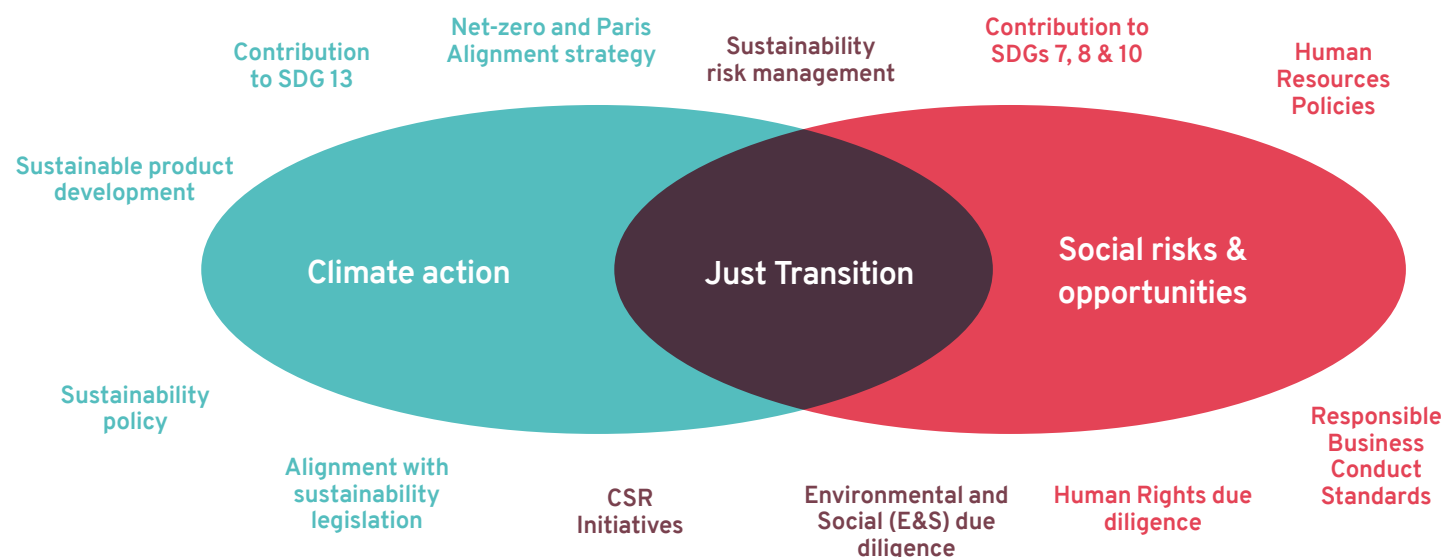
Relationship to the existing portfolio

A financial institution does not necessarily need to create a new just transition portfolio. The portfolio of existing clients provides ample entry points for supporting a just transition.

It can be further leveraged and expanded to include new client segments, sectors and products.

From the Preamble of the Paris Agreement:

"Taking into account the imperatives of a just transition of the workforce and the creation of decent work and quality jobs in accordance with nationally defined development priorities."



The EU Taxonomy, for example, requires the financial sector to ensure that investees meet social minimum safeguards on human and labour rights, as well as working conditions. The concept of a just transition builds on these to enforce social considerations during the low-carbon transition.

Connecting the dots between climate transition and its social and economic implications for financial institutions

	Green and low-carbon activities	Emission-intensive and hard-to-abate activities
Role of a financial institution	Providing capital to projects, companies or sectors that support the low-carbon transition and are aligned with the Paris Agreement.	Providing capital to companies in high-emitting and hard-to-abate sectors undergoing key transformations and phasing down emission-intensive economic activities.
Examples of levers to support a just transition	<ul style="list-style-type: none">• Engage with clients and investees to promote respect for labour and human rights as well as social safeguards in their operations.• Strive to generate opportunities for the creation of decent green jobs.• Assess and mitigate potential negative impacts on affected people and communities.• Aim for gender and generational balance; skills and technology transfer; local workforce integration.	<ul style="list-style-type: none">• Engage with clients to minimise unintended social impacts by promoting early identification of adverse effects (e.g. job losses, deteriorating quality of jobs, disruption of supply chains) and planning measures to address them (retraining, redeployment, retirement).• Engage with investees and clients on development of transition plans that cover operational changes necessary to reduce emissions, workforce skills development on transformed practices and careful consideration of impacts on local communities and suppliers.• Provide funds for location specific just transition priorities including products targeting vulnerable population segments and small- and medium-enterprise (SME) development in the affected regions.• Collaborate with peers and local authorities around financing Paris- aligned economic diversification and transformation projects.

Phasing out of coal: An example of just transition considerations on the ground

A global challenge

Energy production for electricity and heat accounts for almost 50% of global CO₂ emissions, with coal responsible for around 70% of energy-related CO₂ emissions.

Realities at country level: South Africa

In South Africa, coal is used in the production of 87% of the electricity generated. Of the approximately 150,000 people employed in the coal value chain, 72% are intrinsically linked to the mining, transportation and usage of coal. The coal-dependent nature of South Africa's power sector means that numerous secondary economic activities and industries are linked to coal value chains. For coal regions like Mpumalanga, the reliance on coal has far-reaching ramifications for the local economy and social fabric.

South Africa's National Planning Commission has included consideration of a just transition in its policy agenda since 2018. In 2020/2021, just transition planning was carried out through high-level coordination between the Presidential Climate Commission (PCC) and national sector departments, as well as at subnational level with provincial and local governments.

Announced at COP26, the South African government secured a US\$8.5 billion climate finance agreement (including grants, concessional loans and investment) aimed at accelerating its energy transition whilst mitigating and harnessing social considerations.



Examples of social considerations

Transforming the energy sector will have significant benefits but may also lead to economic and social impacts on workers and communities linked to coal production and use. Companies could make the following considerations:

- **Workforce planning:** forecast and assess the possible effects on the workforce (displacement and/or recruitment needs). Provide relevant retraining opportunities or early retirement schemes to address job losses and redeployment. Ensure full respect for labour rights and social dialogue.
- **Land use:** assess issues related to zoning, leases, land use agreements and legal status of the land. Consider post-mining land use.
- **Local businesses and communities:** consult stakeholders and communicate mine closures to the local community and businesses in good time as the local economy could experience a downturn due to out-migration. Explore opportunities for the conversion of assets and engagement in diversification.

Transforming the transportation sector: An example of just transition considerations on the ground

A global challenge

Transportation accounts for more than 20% of global CO₂ emissions, with road transport accounting for 75% of these emissions and aviation and international shipping accounting for approximately 10% each.

Place-based angle: European Union

In the European Union almost 28% of total CO₂ emissions come from transportation. The European Commission developed a Transition Plan for the sector which includes a Sustainable and Smart Mobility Strategy. This states that “transformation offers great opportunities for better quality of life” and encourages all businesses across the value chains to modernise and create high-quality jobs.

Populations in different cities and regions use different modes of transport; this is determined by several factors such as mobility plans and the availability of public transport. While in some countries and cities it is already commonplace to use greener transportation modes such as bikes or electrical scooters, in others public transportation is scarce and people still rely largely on cars. Transition strategies should therefore be place-based and tailored to the local context.



Examples of social considerations

Changes to the landscape of cities and their mobility strategies generate opportunities for communities and consumers as greener and more efficient alternatives are developed. However, companies involved in the low-carbon transition should also consider the potential adverse economic and social impacts. Considerations for companies include:

- **Workforce planning:** forecast and assess possible effects of the transition on the workforce (displacement and/or recruitment needs). Where needed, provide relevant retraining opportunities or early retirement schemes to address job losses and redeployment. Ensure full respect for labour rights and social dialogue. For more information on the employment implications of the transition in the transportation sector, please refer to the [ILO-UNECE report](#).
- **Affordability:** ensure that green alternatives are accessible and affordable to support the inclusion of low-income customers in the transition.



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Why does the financial sector have a pivotal role in ensuring a just transition?

The transformation imperative

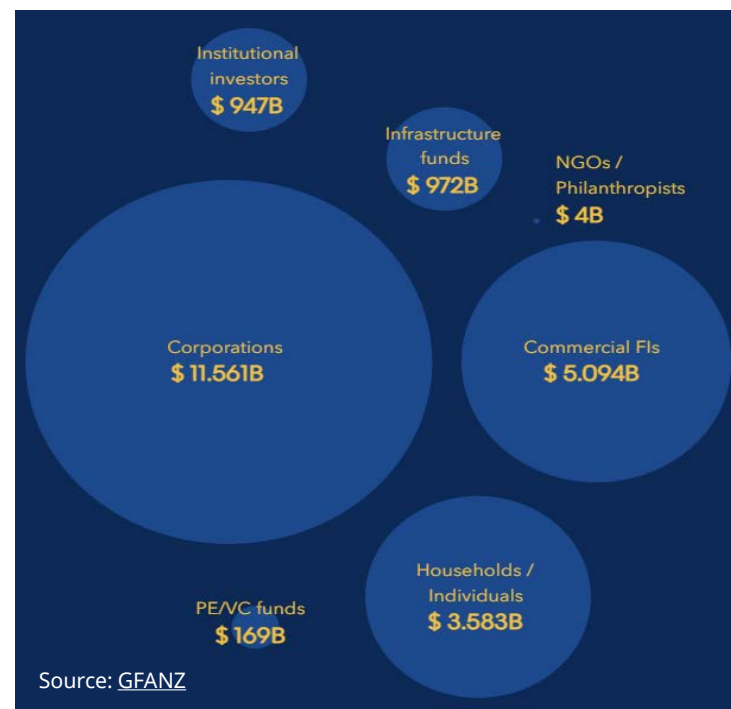
The pathway to net zero and climate resilience requires transformation of the economy, which will have implications for a wide range of sectors, regions and communities.

Banks and investors play a crucial enabling role in transitioning to low-carbon climate resilient economies

Both public and private sector investment and finance is key to mobilising the resources necessary for a just climate transition.

Pursuing financial, social and climate goals at once

The funds allocated to climate action will have major transformational effects. In addition to meeting decarbonization and adaptation targets, they can also be used to bring about positive social outcomes.



Opportunities of a just transition

The Glasgow Financial Alliance for Net Zero (GFANZ) developed a tool showcasing opportunities for various actors accompanied by detailed investment roadmaps. See GFANZ's tool and Financing Roadmaps [here](#) for more background and sector guidance.

Why does integrating just transition considerations make sense?

Living up to fiduciary duty

Focusing on achieving a just transition is a way for investors and banks to address systemic threats to long-term stability and value creation. Banks and investors bound by fiduciary duty towards clients must manage major environmental and social risks to ensure the delivery of long-term investment returns and a world in which these returns are made meaningful.

Strategic rationale for financial institutions to contribute to a just transition:

- ✓ It is the **right** thing to do and is fully consistent with longstanding commitments to human rights, labour standards and the SDGs.
- ✓ It is the **necessary** thing to do, to ensure long-term public support for rapid and potentially disruptive change.
- ✓ It is the **smart** thing to do, because it will minimise transition risks and strengthen the human and social capital needed for long-term investment.

Managing risks and seizing the opportunities of the transition

	General	Financial sector-specific
Risks	<ul style="list-style-type: none"> • Local economic decline in areas dependent on high-emitting activities. • Corporate exodus. • Reduced bottom line for businesses impacted by climate policies. • Decreased asset value. • Increased unemployment in some sectors. • Increasing gender and other inequalities. • Decreased quality of life for communities impacted by new infrastructure projects. 	<ul style="list-style-type: none"> • Business risk. • Financial risk (eg. stranded assets). • Regulatory risk. • Reputational risk. • Legal risk.
Opportunities	<ul style="list-style-type: none"> • Sustainable local economic development. • Growth of green businesses. • Improved productivity through resource efficiency. • Skills development and employee retention. • Job creation and improved working conditions. • Societal buy-in for decarbonisation. 	<ul style="list-style-type: none"> • New business and investment opportunities in fast-growing green markets and around transition finance. • Increased business and investment opportunities through partnerships and synergies among different types of capital providers.

What are the roles of the different financial sector players?

Private sector investment is key to mobilising the trillions of dollars necessary to transition to a net zero economy

According to the UN High-Level Climate Action Champions, the private sector could be able to deliver up to 70% of total investments to meet net zero goals. Banks, investors, insurers and asset owners have levers at their disposal to allocate capital for a just transition and influence the transition process taking place in the real economy.

Public finance sector is fundamental to channel capital towards just transition goals

The mandates of national and international public finance actors often explicitly include social and environmental sustainability goals allowing them to pioneer just transition initiatives. Development finance institutions are key in emerging markets, where investment needs are greatest, social safeguards tend to be weaker, and access to capital can be challenging.

Cooperation between public and private sector players is key to achieve a just transition

Given the complementarity of mandates, roles and levers to stimulate change, cooperation and partnerships between public and private actors is important to ensure sufficient investment for a just transition. The ability to provide patient capital and absorb higher levels of risk allows development finance institutions to have a catalysing role in attracting additional private sector capital through blended finance solutions.

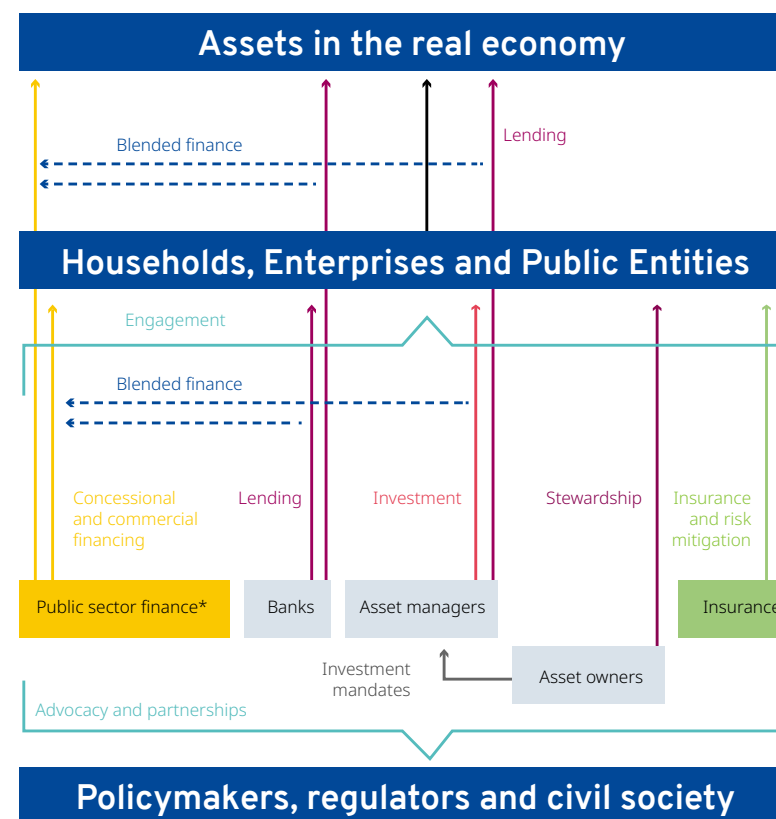
Emerging Practice

The European Bank for Reconstruction and Development (EBRD) has launched a Just Transition Initiative



The EBRD's Just Transition Initiative aims to help share the benefits of a green economy transition and to protect vulnerable countries, regions and people from falling behind. The initiative builds on the EBRD's experience of fostering a transition towards sustainable, well-functioning market economies, and will focus in particular on the link between the green economy and economic inclusion. The initiative emphasises policy and investments across three key areas: supporting a green economy transition, assisting workers (particularly those whose livelihoods are directly and indirectly linked to fossil fuels) in accessing new opportunities and promoting diversification of local economies.

Simplified financial sector ecosystem



* Includes public sector actors such as Multilateral Development Banks (MDBs), Bilateral Development Banks (BDBs), Development Finance Institutions (DFIs), International Finance Institutions (IFIs) and Public Climate Funds. This Tool does not focus on public spending.



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Four steps for embedding just transition in banking activities

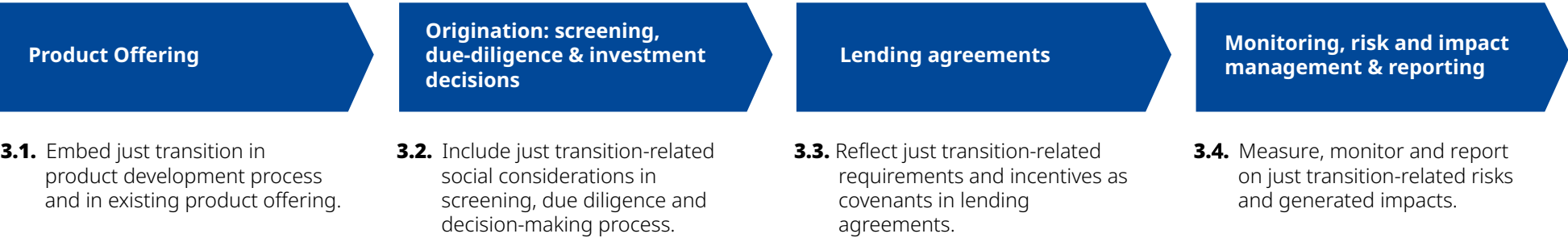
FOUNDATIONS

- 1. Assess the specific implications of the climate transition and include relevant just transition considerations in the organization's corporate and net zero strategies.

GOVERNANCE

- 2. Ensure commitment by the board and senior executive leadership and assign responsibilities and build the capacity and skills needed for a just transition.

IMPLEMENTATION



ENGAGEMENT

- 4.1. Consider social aspects of a just transition in client relationship management processes.
- 4.2. Engage in dialogue with relevant actors to foster an enabling environment for a just transition and promote system-wide innovation.

METRICS: STATE OF PLAY

1. Foundations: how to include relevant just transition considerations in the corporate and net zero strategies of the organization



► Understand just transition and what it means for the organization

ACTION

Assess social and employment implications of the climate transition and consider their materiality in relation to the bank's operating environment, business risks and opportunities.

► Commit to a just transition

Build commitment to a just transition into the institutional strategy. Set just transition objectives in the bank's climate and sustainability strategies and publicly report progress towards achieving them.

► Develop an action plan for operationalisation

Specify how the bank plans to operationalise the contribution to a just transition. When defining support strategies, consider different client segments and the bank's regional and sector exposures.

Consider defining a 'just' transition plan for the bank (e.g. consult [GFANZ Transition Plan Framework](#) and LSE Grantham Research Institute report on [Making Transition Plans Just](#)).

► Review and update current policies

Ensure that just transition support approaches are developed based on consultations with and inputs from relevant stakeholders. Seek coherence and interoperability of processes and, in particular, E&S, credit approval, risk and impact management policies.

Which levers does a bank have to foster a just transition?

- **Increase the supply of capital** for just transition-aligned projects and activities through own practices, partnerships and raising sector standards.
- **Stimulate the demand** for capital by contributing to the design of scalable and investable projects supportive of a just transition.
- **Act on the financial inclusion** of affected groups by supporting most vulnerable customers with innovative financial solutions to achieve a just transition.

Emerging practice

Credit Agricole Climate Strategy



The bank's strategy acknowledges that "the environmental transition must be fair and inclusive". In addition to a science-based climate strategy, Credit Agricole highlighted how it aims to strengthen cohesion and social inclusion. Beyond its commitment to net zero by 2050, the bank's strategy includes:

- Supporting customers to achieve a Transition with regards to housing and mobility, and corporate clients to achieve an energy transition.
- Contributing to revitalising weakened territories.

2. Governance: how to embed the Just Transition in the governance of the organisation



▶ Address just transition in the board and senior executive leadership's commitments

ACTION

Demonstrate senior management's commitment to a just transition by incorporating it into the institutional culture and through internal and external statements. Include just transition as a regular agenda item in board meetings.

▶ Assign clear roles and responsibilities

Assign practical roles and build reporting lines across the organization including the chair, executive and non-executive directors of the board.

Reflect the associated responsibilities and performance targets in job descriptions and remuneration arrangements.

▶ Set up effective execution and monitoring mechanisms

Define milestones for the achievement of targets identified, monitor the progress against the clearly assigned metrics.

Establish channels of communication and feedback between the teams involved in the execution of the just transition strategy.

▶ Build capacity within the organization

Make sufficient budget available and provide training to equip the workforce with necessary skills and knowledge. Tailor trainings to sectors, regions and issues to which the bank has a significant exposure.

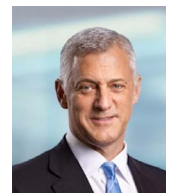
Where in-house capability is not yet available, consider bringing in external experts.

Which knowledge does a bank need to implement a just transition?

The whole organization, including members of the board needs to be informed about the concept of a just transition, its objectives, key considerations and areas of influence for banking activities.

Knowledge areas	Target audience
Sector and country/region-specific risks and opportunities Including financial and real sector regulation as well as climate transition policies	<ul style="list-style-type: none"> • Relationship managers • Financial/Credit analysts • Sustainability/ESG analysts • Risk management team • Product development team • Legal team
Social and labour standards Including performance standards and best practice, as well as responsible business conduct requirements	<ul style="list-style-type: none"> • Relationship managers • Sustainability/ESG analysts
Complementary funding mechanisms and approaches	<ul style="list-style-type: none"> • Product development team • Relationship managers

▶▶ As we reduce the emissions associated with our financing activities to net zero, we will also tackle financial barriers to the transition, including by making more green and transition finance available. This will help clients on a path to net-zero while maximising the benefits of a just transition for people and communities.



Bill Winters, CEO Standard Chartered



3.1 Product offering: how to embed relevant just transition considerations in product and business development strategies



▶ Assess clients' exposure to just transition-related risks and opportunities



Review existing client groups and map the transition dynamics they are exposed to. Identify associated financing needs, risk factors and potential product development opportunities.

▶ Integrate relevant just transition considerations in current product offering

The inclusion of just transition considerations can take place throughout the investment cycle by, for example, adhering to performance standards and/or including targets intended to mitigate the negative socio-economic impacts of the climate transition. Start with existing green finance products.

▶ Explore innovative solutions to support existing and new client groups

Build on the knowledge of local client needs and low-carbon transition trends to develop dedicated financial solutions to support clients' just transition efforts.

Consider the local manifestations of just transition risks and opportunities and develop place-based and inclusive solutions.

Emerging Practice



Just transition projects financed

In 2020, the EBRD invested EUR 56 million in a transition bond to support Polish energy company Tauron in its decarbonisation. Tauron has committed to a reduction in its emissions through decommissioning coal-fired units and expanding renewable energy to generate more than 65% of its energy from low-carbon sources by 2030. The proceeds of the bond are used to expand solar photovoltaic and onshore wind capacity, and to improve the distribution grid. Tauron has committed to develop a programme to address the social impacts of closing its coal-powered plants in Silesia, one of Poland's most carbon-dependent regions.

What banking products can contribute to a just transition ?

	Green and low-carbon activities	High emitting and hard-to-abate activities	Adaptation and resilience activities
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Retail customers	Green mortgages and green retail saving products targeting low-income home buyers and other underserved segments.	Energy efficiency loans targeting vulnerable groups.	Climate risk insurance as protection against shocks for households.
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SMEs and corporations	Green loans with integrated social performance targets.	Transition finance conditional on the completion of transition plans that also tackle socio-economic aspects.	Climate risk insurance as protection against shocks for businesses.
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Advisory services focusing on development of just transition plans and project design.

Capital markets	Blended finance instruments through partnering with financial institutions and climate funds to channel complementary capital to qualifying just transition projects.
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Green, social, sustainability and sustainability-linked bonds and loans with integrated just transition-related social performance targets

3.2 Origination: how to embed social aspects in pre-investment activities



► Embed a just transition lens in screening

ACTION

Complement climate and values-based screening by including social criteria. Add-ons can include respect of human and labour rights, adherence to social performance standards, existence of ESG controversies.

Additional data sources from specialised International Organizations, NGOs and ESG data providers can be leveraged for additional insights.

► Reflect just transition considerations in due diligence process

Expand E&S and climate risk assessment templates and due diligence questionnaires to embed material sector-specific elements. Use this to collect data, identify key issues and assess client's capacity and willingness to address just transition risks.

Reflect just transition elements in internal risk scoring systems and transaction approval prices to incorporate information in decision-making.

► Embed findings in client relationship management process

Use the information obtained in due diligence process to drive client relationships, including monitoring, new product design and client engagement.

Examples of screening questions covering just transition social considerations

The following example focuses on possible positive and negative impacts on workers and communities.

- Is the transaction positively or negatively impacting workers and communities?
- Will the transaction lead to the displacement of people or communities?
- Does the transaction have a large-scale geographical impact?
- Will the impacts persist in the short/medium/long term?
- Is it certain that expected impacts will occur?
- Are mitigation measures to address potential negative impacts foreseen?
- Does the transaction contribute to the bank's just transition strategy?

READ MORE



Due diligence frameworks

Specific due diligence frameworks tailored to support a just transition have not been developed yet. A good starting point is to ensure that human rights are fully integrated in due diligence procedures. For this, refer to frameworks such as the [UNGP Reporting Framework on Human Rights](#), the [IFC Performance Standards](#), [Equator Principles](#), [OECD Guidelines for Multinational Enterprises](#), [OECD Due Diligence Guidance for Responsible Business Conduct](#) and the [UN Global Compact](#).

3.3 Lending agreements: how to incentivise just transition aligned behavior through financial conditions



▶ Reflect just transition objectives in debt covenants and lending agreements



Develop standard clauses covering social considerations of a just transition with a view to secure client's commitment to minimum required standards.

Integrate just transition considerations in the Use of Proceeds requirements and, where applicable, include provisions requiring implementation of just transition elements in related E&S action plans.

▶ Integrate just transition-aligned social metrics in KPI-linked instruments

Include verifiable and measurable just transition-related social KPIs in sustainability-linked instruments. Transition finance transactions in particular warrant the integration of social targets alongside emissions reduction objectives.

▶ Integrate social metrics in regular capital raising operations of companies and sectors exposed to climate transition

For example, green and sustainability instruments.



Guidance on integration of social clauses

For more practical guidance on how social clauses can be incorporated into legal agreements with clients and investees, see [IFC Guidance on Environmental and Social Covenants in Legal Agreements](#). It contains information on positive and negative covenants, conditions and corrective action plans as well as [sample covenants](#).



What elements should be covered in an Environmental and Social Action Plan (ESAP)?

Background	
Summary of E&S risks	Description of the environmental and social risks emerging from the screening and due diligence assessment.
For each identified E&S risk, outline...	
Mitigation measures	Options to avoid, reduce, mitigate E&S risks and impacts. This may also indicate additional due diligence and specific management plans.
Risk significance	Categorise level of risk.
Responsibility	Assign person, unit, or entity tasked to implement mitigation measures.
Timeline	Determine timeline for implementing measures including any additional due diligence and management plans.
Expected results	Define expected outputs of the measures.
Budget	Estimate costs of implementing the measures.

Emerging Practice



Schneider Electric's Sustainability-Linked Financing Framework

Schneider Electric developed a Sustainability-Linked Financing Framework. It includes two main social KPIs:

- Gender diversity in hiring and in front-line managers and leadership teams.
- Number of underprivileged people trained in energy management.

Both these indicators have targets and minimum thresholds. The proceeds of Schneider's sustainability-linked instruments will be used for general corporate purposes but failure of the company to meet the KPIs' minimum thresholds will trigger a step-up margin or a premium payment. Targets are used in incentive schemes for the company's employees.

3.4 Portfolio monitoring, risk and impact management, reporting: how to keep track of progress against just transition expectations



ACTION

▶ Client-level monitoring

Collect client-level data to monitor their exposure to just transition risks factors via E&S, risk and impact management systems. Put special emphasis on material issues and monitor the execution and performance of activities included in the action plans.

Measure and record the positive impact generated by just transition-related activities adopted by the client.

▶ Bank-level portfolio monitoring

Aggregate client-level data and assess the organization's overall exposure to just transition-related risks and performance against the defined impact targets.

Disseminate risk and impact data internally (board, senior management, team meetings) and in the bank's external publications.

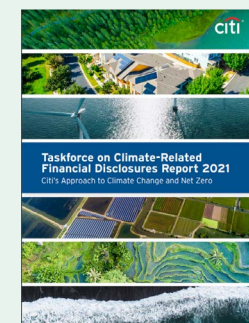
▶ Bank-level external sustainability reporting

Include just transition considerations in the bank's sustainability reporting. For example, integrate the social dimension in standard climate-related reporting like the Task Force on Climate-related Financial Disclosures (TCFD).

Emerging Practice

CitiBank includes qualitative elements related just transition in its TCFD reporting

"While we recognise the imperative for a transition to a low-carbon economy, it should also be a just transition. Economically, certain workers and communities depend on the jobs created by carbon-intensive activities. While the low-carbon transition may naturally create certain jobs that these existing workers and community members can fill, we must also take steps to reduce the risk that they are left behind without adequate training to participate in a new economy. [...]"



4.1 Engagement: how to leverage client relationships to support clients in making their transition just



▶ Integrate just transition aspects in client engagement

ACTION

Leverage relationships with corporate clients and use the knowledge gathered during the due diligence process to engage on material just transition issues.

Potential engagement areas include:

- Development of net zero plans and incorporation of socio-economic just transition objectives and targets.
- Adherence to voluntary sustainability reporting and disclosure standards.
- Importance of transparent, inclusive and direct stakeholder engagement.

▶ Provide corporate and strategic advice and support clients' capacity building

Leverage established client relationships to offer tailored services and advice on tackling place-based socio-economic impacts of the transition.

More specifically, offer support in structuring just transition aligned projects and identifying complementary funding sources (such as public sector mechanisms, dedicated funds and blended finance structures).

Emerging Practice

Barclays emphasises the importance of effective engagement



"We also recognise that many of the companies engaged in new oil and gas projects are large multinationals that are critical for the transition and are actively engaged in it, committing significant resources and expertise to renewables, power infrastructure, EV networks and other essential elements of decarbonisation. To ensure a just and orderly transition our priority is to continue to engage with these clients rather than simply exit them."

Examples of sectoral priorities and themes for engagement

Sector	Sectoral priorities
Clean energy and energy efficiency	<ul style="list-style-type: none"> • Promote consultations with local communities and sharing of ex-ante analysis of impacts. • Promote the creation of decent green jobs as well as gender-equitable skills development. • Consider and mitigate impacts of new infrastructure on local communities. • Evaluate affordability of new products/services for low-income groups. • Support linkages with local businesses and the local economy.
Construction and buildings	<ul style="list-style-type: none"> • Promote consultation with local communities and sharing of ex-ante analysis of impacts, as well as actions plans to mitigate them. • Evaluate affordability of retrofitting activities and other transition-related housing projects for low-income customers.
Transport	<ul style="list-style-type: none"> • Promote reskilling of employees to facilitate the shift towards zero-emission mobility. • Evaluate affordability of new transportation means for low-income customers and accessibility for people with disability.
Industry	<ul style="list-style-type: none"> • Promote the creation of decent green jobs as well as gender-equitable skills development. • Consider and mitigate impacts on local communities. • Support linkages with local businesses and the local economy.
Agriculture and land use	<ul style="list-style-type: none"> • Promote the creation of decent green jobs as well as gender-equitable skills development. • Consider and mitigate impacts on local communities. • Support linkages with local businesses and the local economy.
Fossil fuels	<ul style="list-style-type: none"> • Assess the impact on jobs, promote reskilling and adequate social protection for affected employees. • Consider and mitigate impacts on local communities.

Respect and promote human and labour rights and social dialogue

4.2 Consultations, partnerships and advocacy: how to foster an enabling environment for a just transition and promote system-wide innovation



ACTION

▶ Consult local stakeholders

Dialogue with communities, employers, business membership organizations, trade unions and civil society to uncover emerging needs from the low-carbon transition. Integrate stakeholder feedback and perspectives into financial decision-making and the bank's business strategy.

▶ Partner with peers to support place-based just transition priorities

Engage in partnerships with local authorities, public finance institutions and peer financial institutions, as well as other local stakeholders, to support place-based just transition-aligned project development and financing initiatives.

Contribute to mobilising additional capital by partnering with public, development or other complementary sources of funding.

Liaise with peers, industry groups and service providers with influence across the investment chain (such as investment consultants, data and research providers) to advocate for the recognition of a just transition and to catalyse industry action.

▶ Engage in dialogue with communities, local authorities and policymakers

Engage in dialogue at sub-national, national and international level to advocate for an enabling environment and an ambitious roadmap for a just transition.



Emerging Practice

Rabobank engages in partnerships to develop innovative financing structures to deliver on carbon emission reduction and improved rural livelihoods

In 2017 Rabobank, a commercial bank specialised in financial solutions for agribusiness, partnered with the UN Environment Program (UNEP) to develop the Agri3 Fund which aims to mobilise US\$1 billion of financing to enable a transition to more sustainable practices in agricultural value chains and avert deforestation.

The fund provides guarantees to commercial banks and other private and public financial institutions, and subordinated loans to customers of these institutions, to mobilise financing by de-risking and catalysing transactions. A Technical Assistance facility has also been developed to accelerate the development of investable opportunities and maximise impacts generated by investments.

Emerging Practice

Financing a Just Transition Alliance

In 2020, over 40 banks, investors and financial institutions partnered with universities and trade unions to launch the UK's [Financing a Just Transition Alliance](#) to translate the growing commitment to a just transition across the financial sector into the real world. The Alliance aims to identify concrete steps for the financial sector.

Investment needs to support companies in carbon-intensive industries (e.g. mining, construction and automotive) with the goal of creating jobs in the green economy. As part of a just transition, banks should work with key stakeholders in different parts of the country to respond to diverse needs, such as financing local climate action. They must also engage with policymakers to encourage the right regulatory environment and promote system-wide innovation.

Eva Meyer, Head of Company Engagement at BNP Paribas Germany



Metrics: measuring contribution to a just transition

State of play



Meaningful metrics are central to setting targets and efficiently executing a just transition support strategy

While the consensus is still emerging around metrics and measurement frameworks specifically adapted for just transition, existing frameworks provide financial institutions with a starting point. Banks can focus on:

- Tracking own progress by means of internally-defined and relevant for the institution progress and outcomes metrics.
- Monitoring client and portfolio quality by selecting adequate indicators from the existing reporting frameworks such as: GRI, IRIS+, SASB and WDI.
- Contributing to developing and pilot-testing additional metrics and indicators where gaps are identified.

Examples of financial institution-level process metrics

Measuring progress in executing just transition strategy of the organization

- Total number of engagements on just transition issues with clients.
- Number of the bank's staff members trained on just transition.
- Number of employees with sustainability indicators included in performance appraisals and remuneration arrangements.
- Number of clients with published just transition plans.

Examples of financial institution or portfolio-level outcomes metrics

Measuring the results achieved by executing a just transition aligned strategy

- Total number of jobs created and lost as a result of actions undertaken via clients' transition plans and quality of jobs created.
- Evidence of social dialogue in clients' transition plans.

Examples of client-level indicators

Measuring investees' progress in executing a just transition

Workers and suppliers

- Number of jobs created and lost as a result of the company's low-carbon transition
- Employees earning a living wage or higher (IRIS+).
- Employee trainings and transition programs offered (GRI), including gender equity of participants.
- Operations in which the right to freedom of association and collective bargaining may be at risk (GRI).
- Existence of social dialogue mechanisms and number of consultations and meetings held.
- Non-compliance with laws and regulations in the social and economic area (GRI), including labour issues.

Communities and consumers

- Number of stakeholder consultations held.
- Incidents of violations involving rights of Indigenous peoples (GRI).
- Percentage of the procurement budget used for significant locations of operation that is spent on suppliers local to that operation (GRI).
- Energy affordability (SASB).
- Number of low-income customers served with affordable green products/services.
- Operations with local community engagement, impact assessments, and development programmes (GRI).



▶ CONTENTS

- ▶ What?
- ▶ Why?
- ▶ How? (Banking)
- ▶ How? (Investing)

Four steps for embedding just transition in investing activities

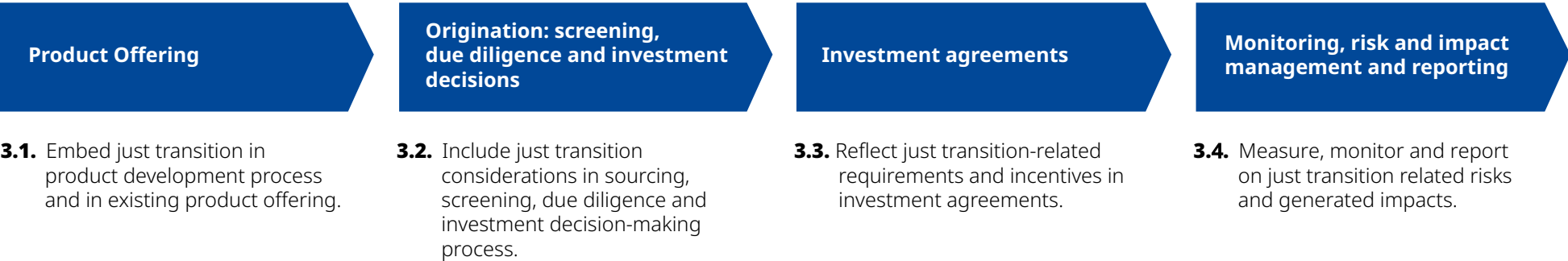
FOUNDATIONS

- 1. Assess specific implications of the climate transition and include relevant just transition considerations in the organization's corporate and net zero strategies.

GOVERNANCE

- 2. Ensure commitment by board and senior executive leadership, assign responsibilities and build capacity and skills needed for supporting a just transition.

IMPLEMENTATION



ENGAGEMENT

- 4.1. Engage with investees on just transition related issues and exercise voting rights.
- 4.2. Engage in dialogue with relevant actors to foster an enabling environment for a just transition and promote system-wide innovation.

METRICS: STATE OF PLAY

1. Foundations: how to include relevant just transition considerations in the corporate and net zero strategies of the organization



► Understand what a just transition means for the organization

ACTION

Assess social and employment implications of the climate transition. Consider the materiality of implications and relations to the organization's investment portfolio, operating environment, business risks and opportunities.

► Commit to a just transition

Commit to a just transition in the institutional strategy. Set just transition objectives in the organization's climate and sustainability strategies and publically report progress towards these goals.

► Develop an action plan

Specify how the organization plans to operationalise its contribution to a just transition. When defining support strategies, consider different asset classes, regional and sectoral specificities and investment horizons.

Consider defining a just transition plan for the organization (e.g. consult [GFANZ Transition Plan Framework](#) and LSE Grantham Research Institute report on [Making Transition Plans Just](#)).

► Review and update current policies

Ensure that just transition approaches are developed based on input from stakeholders. Seek coherence and interoperability of processes and policies within the organization, in areas such as passive and active investment strategies, E&S risk and impact management and reporting.

Emerging Practice

M&G position statement on just transition

M&G plc. has released a position statement on its role in supporting a just transition. It highlights its commitment to financing companies that help achieve a socially just transition, as well as shift carbon-intensive companies to 'green' business models. As an asset owner it promises to integrate just transition consideration into the allocation of capital between asset classes and regions, while as an asset manager it commits to consider future transition-related risks and opportunities in research, portfolio construction and engagement.



Which levers does an investor have to foster a just transition?

Increase the supply of capital for a just transition by consciously allocating capital to just transition-aligned projects and activities, promoting partnerships and raising sector standards.

Stimulate the demand for capital by influencing companies to align with just transition objectives through corporate engagement and stewardship.



Emerging Practice

Investors are increasingly committing to supporting a just transition

Among the prominent collective commitments is the [PRI Statement of Investor Commitment to Support a Just Transition on Climate Change](#), which was endorsed by 161 investors with a total of US\$10.2 trillion in assets. Further, the [ICCR Statement of Investor Expectations for Job Standards and Community Impacts in the Just Transition](#), signed by a coalition of over 300 global institutional investors with nearly US\$4.3 trillion in assets, features a set of principles which companies and investor partners should adopt and advocate for. These are:

- Provide a foundation for decent work, job benefits, and working conditions.
- Offer equitable opportunities for quality jobs.
- Invest in impacted communities.
- Facilitate transparency and accountability.
- Support just transition policies at all levels.

2. Governance: how to embed just transition in the governance of the organization



► Address just transition in the board and senior executive leadership's commitments

ACTION

Demonstrate senior management's commitment to a just transition by incorporating it into institutional culture and through internal and external statements. Include just transition as a regular agenda item in board meetings.

► Assign clear roles and responsibilities

Assign practical roles and build reporting lines across the organization, including the chair, executive and non-executive directors of the board.

Reflect the associated responsibilities and performance targets in job descriptions and remuneration arrangements.

► Set up effective execution and monitoring mechanisms

Define the milestones to achieve the identified targets and monitor progress against clearly assigned metrics.

Establish channels of communication and feedback between the teams involved in execution of elements of just transition strategy.

► Build capacity within the organization

Make available sufficient budget and provide training to equip the workforce with necessary skills and knowledge. Tailor trainings to sectors, regions and issues to which the bank has a significant exposure.

Where in-house capability is not yet available, consider bringing in external experts for ad-hoc advice and/or a permanent advisory board(s).

Which knowledge does an investor need to implement a just transition?

The whole organization, including the members of the board, needs to be informed about the concept of a just transition, its objectives and key considerations.

Knowledge areas	Target audience
Sector and country/region-specific risks and opportunities Including financial and real sector regulation, as well as climate transition policies.	<ul style="list-style-type: none"> • Portfolio managers • Investment analysts • Sustainability/ESG analysts • Stewardship and engagement team • Risk management team • Product development team • Impact measurement and reporting teams • Legal team
Social and labour standards Including performance standards and best practices, as well as responsible business conduct requirements.	<ul style="list-style-type: none"> • Investment analysts • Sustainability/ESG analysts • HR development team
Complementary funding mechanisms and approaches	<ul style="list-style-type: none"> • Relationship managers • Product development team

Emerging Practice

Having incorporated just transition objectives within the Royal London Group Purpose and put in place a focused corporate engagement strategy for energy utilities and the banking sector, Royal London Group took a decision to formally embed a just transition commitment within the governance structure of the organisation.

Since 2022, a portion of the Royal London Group's Group Executive Committee member's long-term incentive plan is directly linked to the achievement of tangible results from just transition-focused engagement. It is determined by the progress made in securing just transition strategies by the top 20 investees as measured by the contribution to the portfolios' CO₂ emissions.



3.1 Product offering: how to embed relevant just transition considerations in product and business development strategies



▶ Integrate just transition in capital allocation process



Strive to integrate just transition considerations into organizations' capital allocation process. Prioritise investment strategies allowing capital to be mobilised to support a just transition.

▶ Embed just transition opportunities in design of investment products and solutions

Explore development of specific just transition-aligned investment strategies to finance activities purposefully mitigating the social risks of the low-carbon transition.

Target material social benefits alongside achieving climate transition objectives.

▶ Strive for coherence

Ensure consistency between the financial and impact performance objectives of the investment. Reflect this coherently in the investment strategy and corresponding investment process.

Emerging Practice

Amundi launched a fixed-income fund dedicated to supporting a just transition



Amundi's 'Just Transition for Climate' fund's strategy uses screening based on both climate and social criteria to identify issuers that have affirmed a goal to reduce their carbon footprint. In addition, it is required that individual bonds have both an ESG rating and a 'Just Transition' score that are higher than or equal to 'E' on a scale from 'A' (highest) to 'G' (lowest). Amundi's 'Just Transition' score looks specifically at different social aspects associated with the low-carbon transition, such as impact on employees, consumers, local communities and society in general.

Examples of investment strategies allowing just transition considerations to be factored into capital allocation

- Active and passive strategies can be designed using a positive and/or negative approach (i.e. channelling investments towards actors supporting a just transition and/or avoiding businesses that disregard just transition considerations).
- Thematic and/or sectoral investment strategies can be developed to tackle specific just transition related socio-economic issues.
- Targeted place-based investments can be considered in regions most affected by the low-carbon transition.
- Asset owners can give importance to just transition priorities when selecting or setting up investment strategies.



Emerging criteria for just transition-aligned investment strategies

- The G7 Impact Taskforce published a [Just Transition Blueprint](#) to promote the development of scalable financial vehicles supporting the objectives of a just transition. By means of 13 principles accompanied by guiding questions, the Blueprint aims to inform the design of investment vehicles across asset classes to ascertain that investments meet a just transition criteria.
- Leveraging on this work, the Impact Investing Institute is launching a [Just Transition Finance Challenge](#) to help asset owners and managers to put the theory around just transition into practice and support mobilising the required capital.

3.1 Product offering: approaches to integrate just transition considerations in different asset classes



	Integrated approach	Thematic approach
Public equity	<ul style="list-style-type: none"> Consider just transition aspects in security selection. Engage investees on just transition-related issues. 	<ul style="list-style-type: none"> Identify companies with a positive social impact in affected regions.
Private equity	<ul style="list-style-type: none"> Include just transition criteria in screening of potential investments and due diligence. Include just transition element in company engagement processes. 	<ul style="list-style-type: none"> Identify companies with a positive social impact in affected regions.
Listed debt	<ul style="list-style-type: none"> Consider just transition aspects in issuer and bond selection. 	<ul style="list-style-type: none"> Target bonds linked to sectoral and/or regional just transition plans and funding.
Private debt	<ul style="list-style-type: none"> Include just transition criteria in pre-investment screening and due diligence. Include just transition related conditionalities in financial agreements. 	<ul style="list-style-type: none"> Target loans linked to sectoral and/or regional just transition plans and funding.
Real assets (Real estate and infrastructure)	<ul style="list-style-type: none"> Include just transition criteria in screening and due diligence. Enforce just transition criteria in green real estate and infrastructure strategies, as well as in timber, land and commodity investments. 	<ul style="list-style-type: none"> Target investment in communities and regions affected by the transition to deliver positive social and environmental impact.
Indirect investments	<ul style="list-style-type: none"> Assess the compatibility of the investment strategy and process with just transition objectives in manager selection. Engage asset managers on including just transition considerations in investment processes. 	<ul style="list-style-type: none"> Seek specialist impact investment funds that link climate, job quality and community development.

3.2 Origination: how to embed social aspects in pre-investment activities



▶ Include a just transition lens in idea generation and screening

ACTION

Complement climate and values-based screening by including social criteria. Add-ons can include respect of human and labour rights, adherence to social performance standards and existence of ESG controversies.

Additional data sources from specialised International organizations, NGOs and ESG data providers can be leveraged for additional insights.

▶ Assess key just transition-related risks and opportunities and the investee's willingness and capacity to address them

Expand E&S and climate risk assessment templates and due diligence questionnaires to embed material sector-specific elements.

Use this to collect data, identify key issues and assess investee's capacity and willingness to address just transition risks.

Reflect just transition elements in internal risk scoring systems and transaction approval processes to incorporate the information in decision-making.

▶ Embed just transition considerations in investment selection and portfolio decisions

Incorporate conclusions from the assessment in financial and risk assessment models to reflect the knowledge in portfolio decisions.

▶ Embed just transition in due diligence of third-party asset managers

When selecting third-party asset managers, assess alignment of the investment strategy with just transition objectives, as well as consistency between investment and impact objectives, quality of processes and capacities.

Examples of institutional arrangements to assess during due diligence

Beyond assessing potential social risks and existing social opportunities, investors need to assess whether a potential investee has in place just transition-aligned institutional arrangements, such as:

- Availability of mechanisms for social dialogue and stakeholder engagement.
- Policies and processes to ensure respect of labour and human rights.
- Existence of corporate transition plans developed based on social dialogue and taking into account impacts of the transition, including gendered ones.
- Existence and coverage of reskilling, retention and redeployment schemes.
- Support mechanisms for displaced workers and early retirement arrangements.
- Provisions for local hiring, inclusion of local suppliers and service providers, skills and technology transfer in green projects.

READ MORE



Example of place specific socio-economic data and tools

The Place-based Climate Action Network (PCAN) launched a [Just Transition Jobs Tracker Tool](#) for the UK which estimates how employment will be affected by the transition in several provinces. The tool estimated the number of jobs requiring upskilling and the number of new jobs that will be created.

3.3 Investment agreements: how to include just transition-related action plans, requirements and metrics in legal documentation



▶ Embed just transition considerations in investment agreements

ACTION ↗

Consider tailoring Use of Proceeds criteria to orient capital towards just transition aligned projects.

Metrics of KPI-linked debt instruments can also be used to condition the cost of funds based on extra-financial performance.

Where the nature and size of the transaction warrants it, include just transition related objectives and targets in investment agreements, for example through undertakings, debt covenants and reporting requirements.

▶ Secure a commitment towards a just transition when investing through externally managed strategies

Asset owners can document the commitment, associated investment constraints and measurable impact objectives in an investment management agreement signed with an external asset manager.

Emerging Practice



L&Q's Sustainability Finance Framework

L&Q created a Sustainability Finance Framework which will enable it to issue green, social and sustainability-linked instruments where the proceeds are earmarked to financing ESG projects. For sustainability-linked instruments, L&Q selects one or several key performance indicators which target operational carbon emissions, energy efficiency of residents' homes, delivery of affordable homes and community investment. In January 2022, L&Q issued its first sustainability-linked bond for £300m to build 8,000 new homes.

Emerging Practice



Statement on requirements in transaction documents

&Green is an investment fund that targets commodities (e.g. palm oil, soy, beef, forestry) to delink them from deforestation. To ensure that its investments generate inclusive outcomes, it integrates warranties and covenants in transaction documents.

&Green released a statement on its contribution to a just transition which included the following section related to transaction documents:

"Ensuring that appropriate E&S representations, warranties and covenants are incorporated into transaction documents (e.g. loan agreements) is crucial."

"The Fund should develop a set of standard E&S terms and conditions, which can be adapted to each investment based on the findings of due diligence. These should include reference to the Finance Exclusion List of activities."



3.4 Portfolio monitoring, risk and impact management, reporting: how to keep track of progress against just transition expectations



ACTION

▶ Investee-level monitoring

Collect data on investee-level exposure to the relevant just transition risks and opportunities via E&S, risk and impact management systems. Put special emphasis on material issues.

Measure and record the positive impact generated by the investee's just transition-related activities.

▶ Organization-level portfolio monitoring

Aggregate investee-level data to assess and manage the company-level portfolio exposure to risks related to a just transition and performance against the defined impact targets.

Disseminate risk and impact data internally (board, senior management, team meetings) in external bank publications and client reporting.

▶ Organization-level external sustainability reporting

Include just transition considerations in the investor's sustainability reporting. For example, integrate the social dimension in standard climate-related reporting, like the Task Force on Climate-related Financial Disclosures (TCFD).

READ MORE



Guidance on portfolio analysis tools

The [Joint Impact Model](#) is a publicly-accessible web-based tool. The tool enables investors with a broad portfolio to systematically model the direct and indirect impacts related to their investment portfolio, by means of climate (e.g. greenhouse gas emissions) and socio-economic indicators (e.g. jobs supported, value added).

READ MORE



Resources on monitoring investee progress on just transition

The World Benchmarking Alliance (WBA) developed a methodology for company assessment which includes a set of [Just Transition Indicators](#) that can be used to monitor investee commitment and progress. Further, the WBA's 2021 'Just Transition Assessment' of 180 companies across oil and gas, electric utilities and auto manufacturing sectors can be used to benchmark investee performance against sector average.

Climate Action 100+ has compiled a series of benchmark indicators, including a [Just Transition beta indicator](#) that can be used to monitor investee commitments towards a just transition.

4.1 Engagement: how to contribute to a just transition by stewardship and active ownership



► Put in place a formal corporate engagement and progress tracking process



Perform individual and/or collective engagement with investees.

Corporate engagement can span all the sectors undergoing low-carbon transition, focusing on specific material issues.

Potential engagement areas include development of [net zero transition plans](#) which consider socio-economic impacts and address company-specific just transition challenges or existing controversies.

When investment instrument allows, exercise voting rights to have additional influence on corporate behaviour.

► Engage with third-party asset managers

Asset owners can engage with third-party managers to raise awareness and promote inclusion of just transition-aligned practices and considerations in their investment processes and strategies.



Engagement framework for Publicly Traded Energy Utility companies

The Initiative for Responsible Investment released a [Framework of Investor Expectations](#) for tailored just transition engagement strategies with Publicly Traded Energy Utility companies, providing guidance on risks to assess and address as well as supporting materials.

Setting clear expectations and targets is critical for effective engagement process



The World Benchmarking Alliance (WBA) developed a framework for investors' expectations on just transition. It includes **six main principles**:

- Engage in meaningful social dialogue and stakeholder engagement on just transition.
- Develop and implement just transition planning which respects and promotes stakeholders' fundamental rights.
- Minimise the impact of employment dislocation caused by the transition to a low-carbon economy by creating and providing or supporting access to green and decent jobs.
- Enable job creation, retention and redeployment through appropriate skills development and training.
- Contribute to social protection, pay fair taxes and to manage the impact of the low-carbon transition on social protection in their just transition planning and related activities.
- Advocate for policies and regulation that support a just transition and avoid undermining policies that are just transition-friendly.

Building on this work, WBA launched a dedicated multi-stakeholder [Collective Impact Coalition](#) which plans to engage with companies to promote the publication of effective transition planning, informed by social dialogue and stakeholder engagement.

► The emissions-intensive automotive sector faces the challenge of shifting to a zero-carbon economy while upholding the principles of a 'just transition'. "That is why we are engaging with car producers on the impact of this transition on the workforce and local communities. Automation, industry transformation and digitalisation could result in the loss of thousands of car manufacturing jobs. We encourage producers to make their workforce part of the transition by offering training and development opportunities."



Anna Pot, Head of Responsible Investments Americas at APG Asset Management US

4.2 Consultations, partnerships and advocacy: how to foster an enabling environment for a just transition and promote system-wide innovation



ACTION

▶ Engage in dialogue with stakeholders

Dialogue with communities, employers and business membership organizations, trade unions and civil society to uncover needs emerging from the low-carbon transition. Integrate stakeholder feedback and perspectives in investment decision-making and capital allocation processes.

▶ Partner with peers to support place-based just transition priorities

Engage in partnerships with local authorities, public finance institutions and peer financial institutions, as well as other local stakeholders, to support place-based just transition-aligned project development and financing initiatives.

Contribute to mobilising additional capital by partnering with public, development or other complementary sources of funding.

Liaise with peers, industry groups and service providers with influence across the investment chain (such as investment consultants, proxy voting advisors, data and research providers) to advocate for the recognition of a just transition and to catalyse industry action.

▶ Engage in dialogue with communities, local authorities and policymakers

Engage in dialogue at sub-national, national and international level to advocate for an enabling environment and an ambitious roadmap for a just transition.

READ MORE

Place-based investing framework



Place-based investment approach can be used to address location-specific impacts and financing needs associated with supporting a just transition. The [Place-based Impact Investing Toolkit](#), developed by the Impact Investing Institute, guides financial institutions through the process of adopting, designing and implementing a place-based impact investing approach.

The toolkit focuses on:

- Establishing and articulating an intention for the place-based approach.
- Identifying the place, building local relationships, setting up place-specific goals and a delivery structure.
- Implementing strategy via collaboration, engagement with stakeholders and peers and measuring and reporting on impact and additionality.

Emerging Practice



InsuResilience Investment Fund (IIF)

InsuResilience is a blended investment fund focused on climate adaptation. The first IIF, set up as a public-private-partnership, combined private debt and private equity investments. Building on the success of the first Fund, KfW and BlueOrchard launched the IIF Private Equity II in September 2022. The second Fund has a strong focus on technology to drive affordability of and accessibility of climate insurance.

Emerging Practice



Including stakeholder dialogue in climate change policy

"In countries in which the economy and employment depend heavily on the coal sector, Generali will involve issuers, clients and other stakeholders through constant dialogue, monitoring their plans to reduce environmental impacts, the strategy to transition to activities with low environmental impact and measures envisaged for protecting the community and citizens."

Metrics: measuring contribution to a just transition

State of play



Meaningful metrics are central to setting targets and efficiently executing a just transition support strategy

While the consensus is still emerging around metrics and measurement frameworks specifically adapted for just transition, existing frameworks provide financial institutions with a starting point.

Investors can focus on:

- Tracking own progress by means of internally-defined and relevant for the institution progress and outcomes metrics.
- Monitoring client and portfolio quality by selecting adequate indicators from the existing reporting frameworks such as: [GRI](#), [IRIS+](#), [SASB](#) and [WDI](#).
- Contributing to developing and pilot-testing additional metrics and indicators where gaps are identified.

Examples of financial institution-level process metrics

Measuring progress in executing just transition strategy of the organization

- Total number of engagements on just transition issues with investees.
- Number of the organization's staff members trained on just transition.
- Number of employees with sustainability indicators included in performance appraisals and remuneration arrangements.
- Number of clients with published just transition plans.

Examples of financial institution or portfolio-level outcomes metrics

Measuring the results achieved by executing a just transition aligned strategy

- Total number of jobs created/lost as a result of actions undertaken via clients' transition plans and the quality of jobs created.
- Evidence of social dialogue in clients' transition plans.

Examples of client-level indicators

Measuring investees' progress in executing a just transition

Workers and suppliers

- Number of jobs lost and created as a result of the company's low-carbon transition.
- Employees earning a living wage or higher (IRIS+).
- Employee Trainings and Transition Programs Offered (GRI), including gender equity of participants.
- Operations in which the right to freedom of association and collective bargaining may be at risk (GRI).
- Existence of social dialogue mechanisms and number of consultations/meetings held.
- Non-compliance with laws and regulations in the social and economic area (GRI), including labour issues.

Communities and consumers

- Number of stakeholder consultations held.
- Incidents of violations involving rights of Indigenous peoples (GRI).
- Percentage of the procurement budget used for significant locations of operation that is spent on suppliers local to that operation (GRI).
- Energy affordability (SASB).
- Number of low-income customers served with affordable green products and services.
- Operations with local community engagement, impact assessments, and development programmes (GRI)

For any feedback, please contact our [team](#).



[Use this link or QR code to download the tool](#)

The drafting team for the development of this tool was comprised of Ekaterina Chubarova, Sarah Gondy, Fernando Messineo Libano, Patricia Richter and Camilla Roman (ILO, Green Jobs Programme and Social Finance Programme); Brendan Curran, Sabrina Müller, and Nick Robins (LSE Grantham Research Institute for Climate Change and the Environment); Silvia Binet, Matthijs De Bruijn, and Roberta Lesma (Steward Redqueen)

Appendix: mapping to other initiatives

Glasgow Financial Alliance for Net Zero (GFANZ)	UK Transition Plans Taskforce (TPT): Sector-Neutral Framework	FJTA Just Transition Framework	Just Transition Finance Tool for banking and investing activities
1) Foundation	a) Ambition b) Target-setting	1. Goals and foundations	1. Foundations
Implementation strategy 2) Products and services 3) Activities and decision-making 4) Policies and conditions	c) Management activities and plans d) Internal policies e) Product and services	2. Capital allocation and risk management	3. Implementation
Engagement strategy 5) Clients and portfolio companies 6) Industry 7) Government and public sector	f) Engagement: value chains/ portfolio g) Engagement: public sector h) Engagement: industry peers	3. Engagement a. Corporate b. Government c. Industry d. Civil society	4. Engagement
8) Metrics	g) Measurement and monitoring	4. Measurement and accountability	Metrics: state of play
Governance 9) Roles, responsibilities and remuneration 10) Skills and culture	h) Skills, incentives and accountability k) Governance, roles and responsibilities	5. Governance	2. Governance

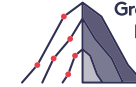


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