WHITE PAPER: LEVERAGING THE SPECTRUM OF FINANCE FOR JUST TRANSITIONS

IHRB

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TABLE OF CONTENTS

Acknowledgments 3

Executive Summary 4

1. Introduction 6

Unpacking Just Transitions Principles 6

Mobilising Finance for Just Transitions 7

Obstacles to Financing Just Transitions 8

About this Report 9

Mapping the Spectrum of Just Transitions Finance 10

2. Public Finance Instruments 16

Tax Benefits 17

Fossil Fuel Subsidy Reform 19

Expansion of Existing Government Spending Schemes 21

Carbon Pricing Instruments 22

Central Bank Refinancing 23

Policy-based Financing 24

Government Bonds 25

3. Private Finance Instruments 26

Portfolio Screening 27

Corporate Bonds 28

Social Impact Bonds 29

Sustainable Lending 30

Microfinance 31

4. Blended Finance Instruments 32

Guarantees 33

Transition credits 34

Climate and Environmental Funds 35

Public-Private Partnerships 37

Export Credits and Guarantees 38

5. Conclusions: Steps for Better Just Transitions Alignment 39

For Governments and Public Financial Institutions 40

For Business and Financial Institutions 41

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EXECUTIVE SUMMARY

The financial system must play a central role in delivering just transitions to a net-zero and climate resilient economy. In essence, the just transitions concept reflects the strategies needed to ensure that climate action maximises social benefits (for example for workers and communities) while also actively managing the social risks of transitions.

Making this happen is set to involve significant changes to financial practice, and early-stage experimentation is emerging in public and private finance. Now is the time to take stock and identify how to scale just transitions finance. This report seeks to address one dimension of this challenge by illustrating specific financial instruments that are already or could be better designed to contribute to the just transition.

This report maps a range of 30 examples of financial instruments being deployed across the fields of public, private, and blended finance. Some of the examples mapped can be included under multiple categories. All of the mechanisms mapped are worthy of further exploration. Some might be better suited for certain types of transitions or certain types of financial actors. Many might be described as forms of "blended finance" between public, private, and/or philanthropic sources. All work under the assumption that private sector finance will need to become the primary source for financing transitions to more sustainable economic activities if we are to find the trillions of dollars urgently needed annually by 2030, and 2050 longer-term.

Some of the examples self-declare their commitment or alignment to just transitions principles. Others are not explicitly "declared" as just transitions mechanisms or instruments but nonetheless demonstrate elements of implicit alignment or the potential for greater alignment in future. The selection of examples cited is far from exhaustive and intended only to illustrate a small slice of what is in reality a more complex spectrum. However, it is hoped that the selection gives a sense of the variety and range of instruments that can and must be creatively leveraged moving forward.

Public finance	Private finance	Blended finance
Financing provided by governments, whether disbursed nationally, sub-nationally, or internationally. Instruments issued by multilateral development banks (MDB) are included in this category where they do not seek to directly mobilise private finance. Public finance is instrumental to overcome market failures and fund core just transitions outcomes such as social protection and reskilling.	Finance provided by private sector entities, including corporations, private banks, and investment funds, with a focus on returns and which are increasingly combined with impact goals. It can involve various forms of equity or debt financing, such as venture capital, private equity and listed equity, commercial loans and bonds, as well as community and micro-finance. Private resources also support public finance (for example through the purchase of municipal and sovereign bonds).	Instruments that pool resources from both public and private sources to maximum effect, which can involve concessional capital from the public financier. Aside from public finance, MDBs often manage blended finance when dealing with co-financing with private institutions. Those that have been classified solely as a public or private financing instrument could also be conceived as a blended finance instrument in the future if the right participants are involved.

In terms of scope, the examples highlighted focus almost exclusively on instruments designed to support the achievement of net-zero. As the physical impacts of climate change intensify, achieving 'just resilience' is becoming a growing focus for government policy as well as for the financial sector. Furthermore, beyond this first sample of 30 examples, there are likely to be many other financial instruments which could be tailored to support the just transition. But a major constraint holding back finance is the lack of agreed principles, taxonomies and metrics for the just transition.

Concrete steps can be taken by financial actors to increase alignment between the actions needed to address the climate crisis and protect the human rights and development prospects of vulnerable communities. This is most urgent within the realms of private finance, from where most financial resources will need to come in the years ahead, but where the least progress has been made so far.

Looking ahead, increasing attention should be placed on the quality and accountability of climate finance in terms of socio-economic process and performance. Just transitions frameworks should acknowledge the importance of the timing and cohesion of activities towards stated goals. Because of how far-reaching the socio-economic impacts of climate action projects can be, and how equally far-reaching efforts to mitigate harms must be, careful planning and communication is essential. A substantial amount of work in projects should be carried out in the design stage, focused on identifying potential impacts of specific actions (both positive and negative) through extensive analysis and meaningful stakeholder engagement. These steps are critical to defining appropriate actions in subsequent phases. Monitoring and evaluation will also be crucial to ensure that defined activities are truly supportive of the rights and interests of workers, communities and other affected stakeholders and that rapid, continuous improvement is the norm: robust metrics are needed to track performance and outcomes.

In support of this ambition, the following conclusions to governments and public financial institutions as well as business and private financial institutions are offered as a starting point in the development of more dynamic approaches. Whilst the primary responsibilities lie with these actors, civil society must also be actively involved in the evolution of just transitions finance, playing a crucial role in driving integrity, inclusivity, and accountability. As such, their capacities for engaging with various actors, instruments, and forms of finance should be supported and strengthened by both public and private financial actors.

Action needed from Governments and public financial institutions

- Show policy leadership and coherence
- Plan early and review continuously
- Ensure social dialogue and stakeholder engagement
- Incorporate in impact assessment
- Make part of fiscal reform
- Strengthen social safety nets
- Drive gender-responsive activities
- Align sustainable finance policies
- Measure and evaluate
- Deepen international collaboration

Action needed from private financial institutions

- Make part of ambition and strategy
- Incorporate in assessment and planning
- Ensure social dialogue and stakeholder engagement
- Business model redesign
- Engage along value chains
- Integrate in policy dialogue
- Drive financial innovation
- Include just transitions in governance
- Develop culture and skills
- Be accountable and disclose

This report is a mere snapshot of the spectrum of finance and the potential for each actor across public, private, and blended finance domains to play their part in transforming the financial system and intentionally serving just transitions pathways. The just transitions finance ecosystem is still relatively small, and mainstreaming is the ultimate aim. The authors and many other organisations are actively collaborating on innovations, research, and sharing concrete examples of practice to further these aims. We invite you to join us in these collaborations.

1. INTRODUCTION

The just transitions concept has grassroots origins in activist efforts in the 1970's to align trade union and worker struggles with environmental action and concern for environmental justice.[1] The concept has grown over the last several decades to today encompass a comprehensive agenda reflecting the social imperatives at stake in the transition to a net-zero, climate resilient, and nature positive world. This includes connecting climate action to the wider agendas of eliminating poverty, reducing inequality, and building shared prosperity, particularly in emerging and developing economies.

Political necessity, business logic, and social pressures have prompted increasing government, corporate, finance, and civil society action to seek to concretely translate just transitions into practical action.

UNPACKING JUST TRANSITIONS PRINCIPLES

It was in 2015 that a major milestone was achieved in cementing the concept's centrality to all climate action, with an explicit reference embedded in the 2015 Paris Agreement,[2] stating:

> **"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.**

This followed the ILO's tripartite adoption of their seminal 2015 Just Transition Guidelines,[3] which lay out key guiding principles for implementation. Reflecting the concept's growing importance and uptake globally, the 2015 ILO Just Transition Guidelines were formally reaffirmed in 2023 by governments, employers and unions (see box). The Paris Agreement and the ILO's Just Transition Guidelines serve as the foundation on which the concept should be understood in local contexts, across sectors, and in extending its principles to other potentially affected stakeholders beyond workers.

ILO's Guiding Principles for the Just Transition

"A just transition promotes environmentally sustainable economies in a way that is inclusive, by creating decent work opportunities, reducing inequality and by leaving no one behind. Just transition involves maximizing the social and economic *opportunities* of climate and environmental action, including an enabling environment for sustainable enterprises, while minimizing and carefully managing challenges. It should be based on effective social dialogue, respect for fundamental principles and rights at work, and be in accordance with international labour standards. Stakeholder engagement is also important.

Ensuring a just transition is important for all countries at all levels of development, and for all economic sectors, the formal as well as the informal economy, and should be in line with national development priorities. Strong social commitment and consensus is fundamental. Social dialogue must be integral to policymaking and implementation. Engagement and consultations should take place with all relevant stakeholders.

Human rights and fundamental principles and rights at work should be respected, promoted and realized. International labour standards should be ratified and effectively implemented. Gender equality, social inclusion and equity should be promoted, paying particular attention to indigenous and tribal peoples and groups in vulnerable situations. Policy coherence at all levels and across different fields should be fostered. Adequate provisions for financing for a just transition should be put in place."

- ILO, 2023[4]

At the international level, COP28 in 2023 marked an important milestone with the creation of the UNFCCC's first Just Transitions Work Programme (JTWP) and annual UNFCCC Just Transitions Ministerial, to advance coordinated international action and ambition. In addition, at COP28 the world's governments also committed for the first time explicitly to the need to transition away from fossil fuels and ensure that these transitions are "just, orderly, and equitable" and "leave no one behind".[5]

Translating these principles and developments into practice, four essential elements stand out:[6]

- **Risks and Impacts:** The transition brings potential risks for affected groups, including workers, diverse local communities, indigenous peoples, and consumers. These adverse impacts should be actively prevented and mitigated through ongoing human rights due diligence as part of targeted just transitions programmes.

- **Opportunities and Benefits:** The global transition also brings significant potential social opportunities and benefits in terms of boosting decent work, as well as contributing to ending poverty and reducing inequality, including gender inequalities. However, too often, human rights and social protections – the baseline conditions for a dignified life – are positioned as "benefits" and "opportunities" in the transition context. When understood as the core conditions required for people to be able to exercise their agency in order to negotiate opportunities and access benefits, the human rights framework can help unlock the potential for truly transformational planning at all levels of the transition.

- **Agency and Accountability:** Both risk prevention and opportunity maximisation are dependent on building accountability to, and ensuring the agency of, potentially affected groups in transition planning and decision making. Social dialogue, inclusive and meaningful stakeholder engagement must be part of all transition plans, processes, and outcomes in order to achieve bottom-up support for the necessary disruptions to come.

- **Transformational Systems Change:** Ultimately, just transitions are about deep and fundamental restructuring of the systems that have created the dual inequality and climate crises: production, consumption, and growth plans that transgress all planetary boundaries; extractive fossil fuel-based energy systems; unfair international trade relationships; a lack of dignified jobs; a financial system oriented around value extraction over the delivery of inclusive and sustainable development and; the inability to create shared prosperity systems. Transformation will fail if transitions are treated as linear, like-for-like replacements of high-carbon to low-carbon activities only.

MOBILISING FINANCE FOR JUST TRANSITIONS

All finance, whether purely focused on economic returns, contributing to societal benefits, and everything in between, now needs to support efforts to address the climate crisis. At the same time, financial resources are vital to achieving global goals such as ending poverty, reducing inequality, and achieving gender equality. Finance, in all its forms, must be deployed in ways that actively respect human rights and safeguards against risks to various potentially affected groups while also delivering beneficial outcomes for workers, local communities, and wider societies who are most vulnerable and in need of support.

To date, the climate finance agenda has understandably been focused on increasing the *quantity* of investments required to achieve internationally agreed and nationally determined net-zero and resilience goals.

A comprehensive expansion of climate finance will be required to reduce global emissions by 43% by 2030 and then reach net-zero by 2050. For example, it has recently been estimated that around $8.5 trillion a year of climate finance will be needed from the end of this decade, of which nearly half must be invested in energy and food systems, as well as industry, transport, and the built environment in emerging markets and developing economies (EMDEs).[7]

In EMDEs, the economic transformations required to reach net-zero by 2050, build the resilience of impacted communities and their economies, restore nature and pay for the loss and damage caused by climate disasters will require significant upfront investment. According to the Independent High-Level Expert Group (IHLEG) on Climate Finance, EMDCs (excluding China) will need to invest $2.4 trillion every year from 2030 in emissions reductions action, adaptation advancements, and in protecting and restoring nature.[8] Of this, $1 trillion has to come from external public and private flows.

This wave of investment will impact livelihoods and development opportunities, the living environments of communities, and in so doing the full range of these stakeholders' human rights.[9] There will be hundreds of thousands of local and time-bound economic and industrial transitions globally over the decades ahead. Ensuring that financing meets local needs is not only essential to the success of the global climate response – but also to each transition's potential to be socially transformational.

The just transitions imperative means that all of these climate related investments will need to be aligned with principles of human rights and social justice. In addition, a portion will need to be dedicated to funding specific initiatives aimed at supporting those most adversely impacted by transitions away from carbon intensive activities. For example, the IHLEG has estimated that $40 billion a year by 2030 will be required for just transition in EMDEs along with further investment for early phase-out of coal and just transition-related costs in the energy system. All of these investments need to be designed in ways that not only bring climate benefits, but also safeguard against harm and generate positive social outcomes. The full level of dedicated investment required for these and related efforts is not known, and will depend on the degree of ambition adopted by key decision-makers.

Ultimately, it will be those most affected by a specific place-based and time-bound transition who will judge whether it is 'just' or not. It is up to those managing each transition – whether they be in government, business, financial institutions, or civil society – that need to do their utmost to involve affected stakeholders at all levels throughout the process, and this includes in financial decision making.

OBSTACLES TO FINANCING JUST TRANSITIONS

According to the Just Transition Finance Lab, there are at least four obstacles to better financing of transitions that accounts for social impacts, namely:[10]

- **Limited traction in mainstream financing decisions:** The just transitions concept is still relatively new in the financial world and needs to be translated into guidance and standards that change actual practices;
- **Uncertainty over what 'good' looks like and how to track progress:** Just transitions is a broad agenda and finance needs principles, taxonomies[11] and metrics to be able to evaluate materiality, allocate capital confidently, and measure performance;
- **Inadequate policy rules and incentives to drive substantive action:** Government policy is an essential driver of climate action, and just transitions are no exception. In addition, policy reform is also needed to mobilise the public finance and incentives that form a core part of mobilising investment in the just transition; and
- **Insufficient real-world leadership to raise the bar of expected practice:** Leadership across the financial system is needed to translate high-level imperatives into practical action.

Incremental changes will not be adequate to the task of implementing the scale and quality of transitions, nor to more fundamentally transforming the c$500 trillion global financial system to better align with just transitions principles.

ABOUT THIS REPORT

This report was initially inspired by the "Spectrum of Capital" originating in the early years of the impact investing movement (see box below).

The idea that investment can be a positive force for societal change is hardly a new one. This was the premise on which the original "spectrum of capital" was launched in the early years of the impact investing movement twenty years ago. This original concept laid out the spectrum of "focus" that different financial actors can take – ranging from purely profit-only motivations; those that add a focus on mitigating environmental, social, and governance (ESG) impacts that could harm the business; those that also seek to enhance financial value through progressive ESG practices; through to those that also seek to achieve a tangible positive impact on societal challenges as well as financial return (impact investors); and those that forego a financial return in order to achieve their defined societal impact (impact-only investors).

The original Spectrum contends that by understanding this range of "focus", it is possible to design different investment strategies to promote entrepreneurial solutions to societal challenges. As the dotted lines along the spectrum reflect, these categories are not mutually exclusive; often they are interdependent, with many investors operating between or across categories.

These sentiments are entirely relevant today, and worthy of building on given the climate imperative and just transitions context. As such, this report seeks to map an initial range of financial instruments that are already or could be used to implement just transitions principles and priorities. The aim is to illustrate the roles various types of financial actors and instruments could be playing – and in so doing, exemplify the potential for greater transformational ambition of the financial system as a whole.

To do this, the Just Transition Finance Lab (JTFL) at the London School of Economics and the Institute for Human Rights and Business (IHRB) jointly mapped a number of **public, private and blended** financial instruments as illustrative examples demonstrating promising practice as well as progress still needed to achieve greater alignment. As part of this, they commissioned Neyen to support the process with background research.

Financing instruments have been grouped into whether they are considered public, private, or blended finance. Each section illustrates this category of finance with one or more examples of its application in the real-world.

Spectrum of Capital

	Financial-only	Responsible	Sustainable	Impact		Impact-only
	Delivering competitive financial returns					
		Mitigating Environmental, Social and Governance (ESG) risks				
			Pursuing Environmental, Social and Governance opportunities			
				Focusing on measurable high-impact solutions		
FOCUS:	Limited or no regard for environmental, social or governance (ESG) practices	Mitigate risky ESG practices in order to protect value	Adopt progressive ESG practices that may enhance value	Address societal challenges where returns are as yet unproven	Address societal challenges that require a below-market financial return for investors	Address societal challenges that cannot generate a financial return for investors

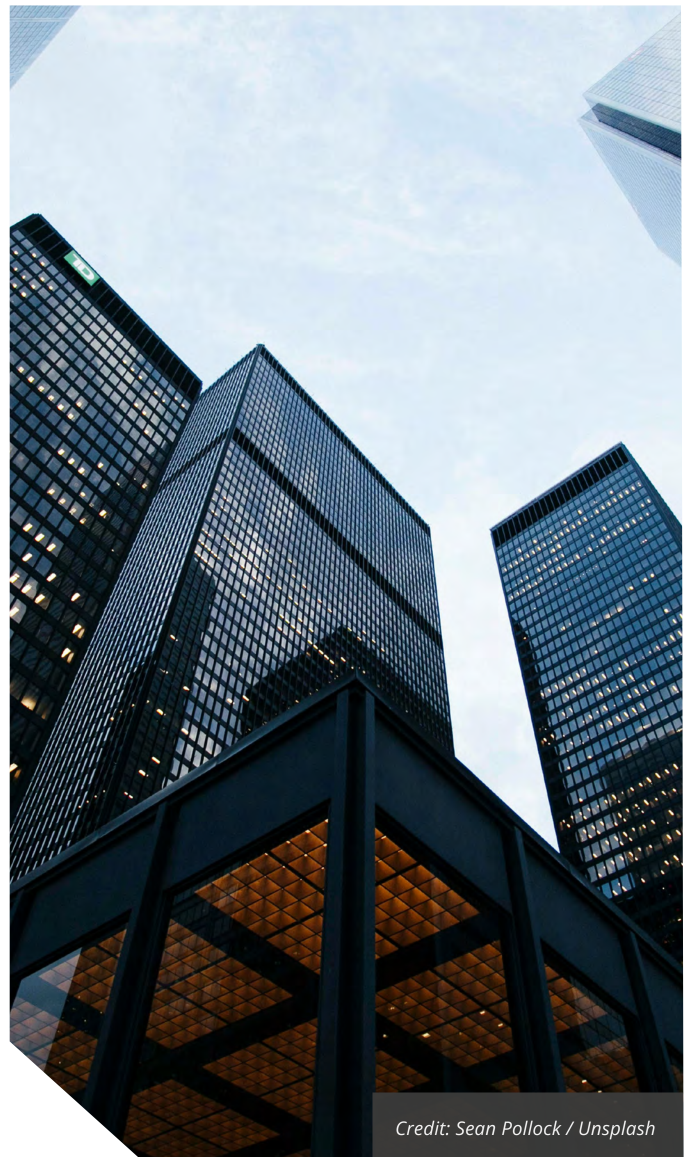
Source: Bridges, 2015[12]

MAPPING THE SPECTRUM OF JUST TRANSITIONS FINANCE

This report maps a range of examples of explicit instruments being deployed across the fields of public, private, and blended finance.

A range of examples are provided under each category, highlighting those that are self-declared as just transitions aligned as well as others that are not explicitly declared but nonetheless demonstrate elements of alignment that could be built on. Some of the examples mapped can be categorised under multiple forms. Where this occurs, the example is elaborated in only one of the sub-sections. All of the mechanisms mapped are worthy of further exploration and in some way seek to deliver positive outcomes. Some might be better suited for certain types of transition or certain types of financial actors. Many might be described as forms of 'blended finance' between public, private, and/or philanthropic sources. All work under the assumption that private-sector finance will need to become the primary source for financing transitions to more sustainable economic activities if we are to find the trillions of dollars urgently needed annually by 2030, and 2050 longer-term.

This report looks across the full spectrum of financial instruments, but does not delve deeply into the role of impact investing or philanthropic investments. It also does not address the role that insurance could play.[13]



Credit: Sean Pollock / Unsplash

Public finance	Private finance	Blended finance
Financing provided by governments, whether disbursed nationally, sub-nationally, or internationally. Instruments issued by multilateral development banks (MDB) are included in this category where they do not seek to directly mobilise private finance. Public finance is instrumental to overcome market failures and fund core just transitions outcomes such as social protection and reskilling.	Finance provided by private sector entities, including corporations, private banks, and investment funds, with a focus on returns and which are increasingly combined with impact goals. It can involve various forms of equity or debt financing, such as venture capital, private equity and listed equity, commercial loans and bonds, as well as community and micro-finance. Private resources also support public finance (for example through the purchase of municipal and sovereign bonds).	Instruments that pool resources from both public and private sources to maximum effect, which can involve concessional capital from the public financier. Aside from public finance, MDBs often manage blended finance when dealing with co-financing with private institutions. Those that have been classified solely as a public or private financing instrument could also be conceived as a blended finance instrument in the future if the right participants are involved.

Table 1. Summary of financing instruments and whether they are classified as public, private, or blended finance. X's denote in what sub-section an instrument is discussed.

Financing Instrument	Public finance	Private finance	Blended finance
Tax Benefits	x		
Fossil Fuel Subsidy Reform	x		
Expansion of Existing Government Schemes	x		
Carbon Pricing Instruments	x		
Central Bank Refinancing	x		
Policy-based Financing	x		
Government Bonds	x		
Portfolio Screening		x	
Corporate Bonds		x	
Social Impact Bonds		x	
Sustainable Lending		x	
Microfinance		x	
Guarantees			x
Transition Credits			x
Climate and Environmental Funds*			x
Public-Private Partnerships*			x
Export Credits and Guarantees*			x

* Entities or financing vehicles that source public and private financing and may deploy a range of financing instruments to disburse funds

The selection of examples cited is far from exhaustive and intended only to illustrate a small slice of what is in reality a more complex spectrum. However, it is hoped that the selection gives a sense of the variety and range of instruments that might be leveraged towards maximising just transitions alignment moving forward.

Some specific examples of explicit just transitions alignment are already being deployed and self "declared" as a just transitions financing mechanism. In other cases, the examples are not yet explicitly designed as just transitions mechanisms or instruments, but these have been included where they demonstrate *elements* of implicit alignment or *potential* for greater alignment in future. Suggestions on the next steps needed for wider applications are made in the Conclusions.

Table 2. Summary of financing examples that are self-declared as explicitly in alignment with just transitions principles, as well as those that are not explicitly declared but demonstrate potential for greater alignment.

PUBLIC FINANCE EXAMPLES

Financing Instrument Example	Just Transitions Dimension	
Tax Benefits		
USA: Inflation Reduction Act	DECLARED	
Australia: Tax exemptions for retraining and reskilling		POTENTIAL
USA: Deferral of taxes on capital gains through investments in Qualified Opportunity Funds		POTENTIAL
Fossil Fuel Subsidy Reform		
Morocco: Reallocating fuel subsidies for renewables		POTENTIAL
Egypt: Staged phase out of fossil fuel subsidies		POTENTIAL
Indonesia: Financing development with money saved from fossil fuel subsidies		POTENTIAL
Expansion of Existing Government Schemes		
India: Utilising district funds to support coal dependent areas	DECLARED	
Carbon Pricing Instruments		
EU: Social Climate Fund	DECLARED	
California: Revenues from cap-and-trade provides benefits to consumers and businesses		POTENTIAL
Central Bank Refinancing		
Korea: Refinancing at lower rates to banks that lend to SMEs		POTENTIAL
Policy-based Financing		
Asia: ADB approves a $250 million policy-based loan to support climate action in the Philippines		POTENTIAL
Government Bonds		
USA: A sustainability bond finances affordable energy efficient housing in New York		POTENTIAL
Chile: Issuance of a sustainability-linked bond (SLB) to support net-zero and gender equality		POTENTIAL

PRIVATE FINANCE EXAMPLES

Financing Instrument Example	Just Transitions Dimension	
Portfolio Screening		
UK: Barclays' Client Transition Framework	DECLARED	
Japan: SMBC's Transition Finance Playbook aligning with the Just Transition	DECLARED	
France: Amundi Euro Corporate Bond Climate Fund	DECLARED	
Corporate Bonds		
Poland: Tauron Polska Energia issues transition bonds and addresses social impact of coal-closure	DECLARED	
Social Impact Bonds		
India: Skill Impact Bond		POTENTIAL
Sustainable Lending		
Chile: Engie Chile's sustainability-linked loan (SLL)		POTENTIAL
Spain: Iberdrola's Credit Facility	DECLARED	
Microfinance		
France: BNP Paribas develops Inclusive & Sustainability-Linked Financing (ISLF+) to further support microfinance institutions	DECLARED	
Switzerland: responsAbility Investments AG Microfinance Securitisation		POTENTIAL

BLENDED FINANCE EXAMPLES

Financing Instrument Example	Just Transitions Dimension	
Guarantees		
EU: The InvestEU program provides a budgetary guarantee for the EU's Just Transition Mechanism	DECLARED	
Transition Credits		
Singapore/Philippines: Revenues from transition credits financing early CFPP retirement to be used to support just transitions activities	DECLARED	
Climate and Environmental Funds*		
Global: The Green Climate Fund provides USD 49 million towards a zero-emissions bus rapid transit system in Karachi, Pakistan		POTENTIAL
Global: CIF's Accelerating Coal Transition program supports a just energy transition in Indonesia	DECLARED	
USA: Just Transition Fund deploys philanthropic capital to leverage public and private funds for coal communities	DECLARED	
Public-Private Partnerships*		
Asia: ADB's Energy Transition Mechanism mobilises public and private capital to support the early retirement of coal-fired power plants	DECLARED	
South Africa: South Africa's matchmaking JET funding platform	DECLARED	
Export Credits and Guarantees*		
Global: Net Zero Export Credit Agencies Alliance seeks to align portfolios and business activities with net-zero pathways	DECLARED	

* Entities or financing vehicles that source public and private financing and may deploy a range of financing instruments to disburse funds

Explainer: Green, social, sustainable and sustainability-linked (GSS+) bonds

The green, social, sustainable and sustainability-linked (GSS+) bond market has grown significantly as investors have sought to deploy their capital sustainably: cumulative issuances to the end of 2023 totaled US$4.5 trillion in labelled bonds.[14] The market covers both public and private issuers, such as sovereign governments, municipalities, development banks as well as financial and non-financial corporates. The just transition remains a new theme for both issuers and investors in the GSS+ bond market. Issuers of use of proceeds green bonds as well as transition bonds could, for example, seek social co-benefits from their environmental investments and respond to social impacts. Social bonds could channel funds into employment activities and SME financing, as well as community empowerment and access to key services (such as housing) linked to the net-zero transition or climate resilience. Sustainability bonds could combine both environmental and social spending allocations relevant for just transitions. Issuers of sustainability-linked bonds could include key performance indicators (KPIs) and sustainability performance targets (SPTs) tied to just transition outcomes.

Initial research from the Climate Bonds Initiative and the Just Transition Finance Lab found that $548bn of existing sustainability bonds combine use of proceeds earmarked for energy as well as employment, education or equality spending, what could be called just transition-related bonds.[15] What is less clear is how many bonds have been consciously targeted at the social impacts caused by energy or other sectoral transitions, which could be called just transition-focused.

Given the potential for bonds to increase financing of low-carbon investments that also support social outcomes, it is vital to tackle market barriers to their issuance and support market leaders to integrate just transition factors into their sustainable financing frameworks.

Credit: International Monetary Fund / Flickr

2. PUBLIC FINANCE INSTRUMENTS

Public finance is defined as financing solely provided by governments, whether disbursed nationally, sub-nationally, or internationally. Public finance is often instrumental in kickstarting initiatives and addressing market failures. Governments have a fundamental duty to respect, protect and fulfil the human rights and fundamental freedoms of their people, as well as regulating national economies and collecting taxes in various forms. Governments are also economic actors in their own right. Sovereign governments have the legitimacy and the capacity to identify where financing is needed and how it should be spent, including public funds and international development assistance. As signatories to the Paris Agreement, governments are committed to achieving net-zero and climate resilience through a just transition. In 2023, this commitment was deepened with the agreement to create a Just Transitions Work Programme (JTWP), to support governments with regular and ongoing knowledge-sharing and the development of climate action practices in line with just transitions principles.[16] This is complemented by an annual Just Transitions Ministerial where government ministers reaffirm their commitment to just transitions and share their latest actions and ambitions.[17]

The main way governments can channel finance towards domestic just transitions initiatives is through fiscal policy. Through fiscal policy reform, governments can play a pivotal role in facilitating just transitions by reshaping overall economic priorities toward the development of low-carbon alternatives across all sectors aligned with just transitions principles. Fiscal policy reform can take on different forms. For example, individual governments can offer tax benefits encouraging businesses and industries to transition to low-carbon and increased resiliency practices while ensuring social development and inclusion commitments are also realised. Governments can also increase the allocation of public funds towards specific programmes, such as through fossil fuel subsidy reform, which would permit funding to other activities, as well as progressive revenue recycling provisions for carbon pricing instruments.

Another way that governments—particularly those in developed countries—can support just transitions initiatives is through the provision of adequate and effective climate finance for emerging and developing countries, thereby increasing fiscal space. Whether climate finance for just transitions is realised bilaterally with the recipient country or through multilateral development banks (MDBs), it is vital that it serves specific country needs and generates lasting results on the ground. Because MDBs are often able to mobilise co-financing from private institutions towards priority projects, many of their financing modalities are considered blended. Thus, while public funds are used by MDBs, some MDB-deployed financing modalities are discussed in the Blended Finance section.

Examples of public finance instruments explored in this section:

- Tax Benefits
- Fossil Fuel Subsidy Reform
- Expansion of Existing Government Schemes
- Carbon Pricing Instruments
- Central Bank Refinancing
- Policy-based Financing
- Government Bonds

Credit: Steinphoto / iStock

TAX BENEFITS

Tax benefits that support just transitions objectives are incentives provided by governments to encourage investments and actions that advance the equitable shift to a low-carbon, sustainable economy, particularly by seeking to safeguard or uplift disadvantaged communities. These benefits can ease the financial burden on businesses, individuals, and communities involved in or affected by transitions in specific contexts. Tax benefits of this kind would include tax credits for businesses and individuals to invest in renewable energy, credits for implementing energy-saving measures in homes, buildings and industrial processes, and incentives for purchasing electric vehicles.

In addition, accelerated depreciation allows for the faster depreciation of assets such as clean energy and energy efficiency projects on balance sheets. Governments can also issue various forms of tax credits for investment, research and development, training and education, and investments into green projects, as well as tax deductions for environmental remediation or social equity projects.

EXAMPLE DECLARED

The US Inflation Reduction Act

The US Inflation Reduction Act[18] is perhaps the largest example of tax credits being linked to clean energy investment with explicit conditionalities for environmental justice and community benefit. It includes some two dozen tax provisions to save families money on their energy bills and accelerate the deployment of clean energy, clean vehicles, clean buildings, and clean manufacturing. Many of the clean energy tax provisions offer bonus credits to projects that are located in low-income communities or energy communities, pay prevailing wages and use registered apprentices, or meet certain domestic content requirements—all with the goal of creating good-paying, high quality jobs and shared economic growth over the long-term. Emphasising the importance of place-based approaches, the IRA emphasises that state, local, and Tribal governments are in the best position to understand the unique needs of their communities, match those needs with available funding streams, and build a strong, sustainable development strategy. Environmental justice is a guiding imperative across the programme, with just transitions explicitly highlighted in a programme for the electric vehicle transition.[19]

EXAMPLE POTENTIAL

Tax exemption for companies providing retraining and reskilling for redundant employees in Australia

In Australia, fringe benefits taxes (FBT) are paid by employers on certain benefits granted to their employees or to the families of employees. These include car parking, paying an employee's gym membership, and reimbursing an expense incurred by an employee, such as school fees. However, employers may be exempt from FBT on training provided to redundant or soon-to-be-redundant employees. The exemption covers the delivery of the training and associated benefits, including course materials, textbooks, travel, and accommodation. This scheme could be tailored and used to support just transitions activities.

EXAMPLE POTENTIAL

Deferral of taxes on capital gains through investments on Qualified Opportunity Funds in the United States

Investors are encouraged to invest their capital gains on *Qualified Opportunity Zones*, or areas in the United States that have been designated as socially distressed, through a Qualified Opportunity Fund. In exchange, investors can enjoy tax deferrals on eligible portions of the gains they invest. By incentivising investments in low-income areas, the government seeks to catalyse economic growth and job creation towards better communities. Investors can qualify for different tax breaks, depending on how long they hold on to their investments in a Qualified Opportunity Fund. For example, if an investment is held for at least 5 years, the basis will increase by 10% of the deferred gain; if held for at least 7 years, the basis increases by another 5% of the deferred gain. This incentive could be tailored and used to support just transitions activities.

Credit: MDGovpics / Flickr

FOSSIL FUEL SUBSIDY REFORM

According to the IMF, fossil fuel subsidies are currently worth around $7 trillion a year and, with some 80 countries having some form of scheme in place.[20] While many, including the UN Secretary General,[21] contend these subsidies undermine and delay the transition to a low-carbon economy, governments continue to subsidise fossil fuels for a number of reasons, including voter demand, energy security, keeping energy affordable, interest group politics, and protecting consumers from rising energy prices.

Redirecting state subsidies towards urgent growth sectors in low-carbon industries could significantly hasten more sustainable development within a country. However, this requires careful measures to reduce impacts on workers and other affected stakeholders in the upstream sectors of fossil fuel industries, as well as on downstream consumers who are accustomed to subsidised energy-intensive goods and services, requiring adjustments and safeguards in cost structures and economic activities.

EXAMPLE | POTENTIAL

Reallocating Morocco's fuel subsidies for renewable energy acceleration

Morocco has a Nationally Determined Contribution (NDC) target to reduce emissions by 42% by 2030 and to read reach 52% renewable capacity by 2030. Morocco is endowed with very few fossil fuel resources and has long relied on imports to meet 90% of its energy needs, which has increased in recent decades as a result of growing population, urbanisation, and socio-economic development. In the early 2010s, subsidies for fossil fuels consumed a large and growing share of the Government budget, making the country vulnerable to fluctuations in global energy markets. In 2014, the Government of Morocco decided to reform its fossil fuel subsidies. Direct transfers to the national electric utility continued, but electricity prices for consumers were raised, igniting public protests.

In response, the Government continued to subsidise butane to avoid a disproportionate burden on poor and rural populations, who use it for cooking, lighting and agricultural irrigation — meaning that an increase in butane prices would have also raised food prices. Some electricity subsidies were also maintained to help address public concerns. As a result, in 2016, the poorest 40% of households needed to spend only 4.6% of their monthly income to consume the average household level of electricity.

The policy contributed greatly to both Morocco's GHG emissions reduction goal and its fiscal burden. As a result of the reforms, the Government of Morocco reduced fossil fuel subsidy spending by about US$3.68 billion in 2014 and US$1.26 billion in 2015, from a previous US$6.5 billion, freeing up fiscal space for investments in renewable energy. By 2019, the country had 2,696 MW of renewable electricity capacity, 34% of its total installed capacity. Renewable energy sector in Morocco accounted for 12,500 jobs in 2021, and has been projected to generate between 267,000 and 482,000 by 2024.

In 2024, the Government is set to start phasing out direct butane subsidies to reduce its budgetary allocation. Subsidies for wheat, sugar and cooking gas will continue to be provided for poorer households.

EXAMPLE POTENTIAL

Egypt's Staged Phase Out of Fossil Fuel Subsidies[22]

Fuel shortages had been central to Egypt's economic crisis in 2013, with 22% ($21 billion) of the state budget going into fuel subsidies, equivalent to 6% of national GDP. The subsidies disproportionately favoured wealthier people, who consumed more petroleum products: the wealthiest 20% of households enjoyed 46% of the benefits in absolute terms, and the poorest 20% received just 9% of total subsidy spending. In urban areas, the wealthiest 20% of the population received eight times more subsidies in absolute terms than the poorest 20%. In 2014, political upheaval and economic difficulties due to slowing GDP, increasing unemployment, and a national budget deficit, forced the Egyptian Government to reform its longstanding fossil fuel subsidies.

In July 2014, the Egyptian Government implemented wide-ranging subsidy reform for the first time in decades, cutting around a third of fuel subsidies in the 2014-2015 budget and raising the prices of gasoline (by 78%), diesel (by 64%) and kerosene (by 64%) and several other petroleum products. This freed up fiscal space to address rising unemployment and slowing growth. The Government also adopted several new social protection measures to offset the disproportionate impact of higher fuel prices on lower-income families: extending and diversifying national food subsidies, two stimulus packages, expansion of social security pensions, and increased wealth taxes. Clear and transparent communication about the urgency of price increases helped reassuring the public of the positive impact of this reform in the long-term. Utilising financial support to implement social policies with immediate effect and tangible results, paired with inclusive communication strategies, were crucial in fostering cohesion both within Government and the population.

The Government has pushed back the date for phasing out subsidies from mid-2022 to mid-2025, due in part to concerns about rising consumer prices.[23] To date, the reform has had a mixed impact on private households. In the short term, real household consumption declined modestly and poverty levels increased slightly. However, the reform may lead to economic growth and structural economic adjustment in the long run.

EXAMPLE POTENTIAL

Financing development in Indonesia with money saved from fossil fuel subsidies[24]

Traditionally, Indonesia subsidised gasoline and diesel prices, selling them below international market rates and covering the difference with government funds. In 2014, substantial reforms were enacted, removing gasoline subsidies except for distribution costs in certain regions, and introducing a fixed subsidy of IDR 1,000 per liter for diesel. These reforms, combined with reduced international oil prices, led to significant fiscal savings of USD 15.6 billion (IDR 211 trillion), which exceeded 10% of state expenditure in 2015. These savings allowed the government to increase investments in regional and village transfers, infrastructure, and human and economic development programs, resulting in positive development outcomes. The Ministry of Finance estimated a decrease in inequality (Gini Ratio decreased from 0.34 to 0.32) and a reduction in poverty percentages in rural areas (from 14.09% to 13.93%). Up to 2018, a total of USD 12.2 billion (IDR 180 trillion) was allocated for village funds. The unemployment rate also reached a historically low point of 5.1%. Because these improvements have not been unequivocally linked to the subsidy reform in the case of Indonesia, future efforts to reallocate expenditures on subsidies to development activities should seek to carry out robust monitoring and evaluation to determine their efficacy.[25]

EXPANSION OF EXISTING GOVERNMENT SPENDING SCHEMES

Government spending schemes and programmes can be restructured or expanded to address issues relating to socio-economic impacts not sufficiently addressed by project-level safeguards and local regulations, especially across the project supply chain. Identifying gaps in assistance coverage along the transition lifecycle and value chain is essential for redesigning these schemes. For instance, following the phase-down of coal-fired power plants, coal transport may emerge as a vulnerable sector. However, existing government systems may lack provisions to support workers in coal transport due to their perceived distance from primary project activities or oversight during initial risk assessments.

To remedy this, social protection schemes can be broadened to ensure these workers receive necessary support, such as compensation, job placement, and relocation assistance. This approach underscores the importance of adopting a comprehensive lifecycle and value chain perspective in assessing and addressing socio-economic impacts throughout the transition process.

Credit: Land Rover Our Planet / Flickr

EXAMPLE | DECLARED

India seeks to utilise existing resources to increase support for areas dependent on coal mining

To support the development of human capital for its energy transition, India is looking to leverage existing resources and institutions to carry out skills development and education for its workforce. India's District Mineral Foundation Funds (DMF), introduced in 2015 as a benefit-sharing scheme with communities affected by mine closures, was mandated by law to channel 60% of its funds to high-priority areas including skill development. However, states have been discovered to disburse little of their DMFs, with funding for skills development and education not reaching mandated levels.

To close this gap and utilise the DMF to support India's energy transition, the Asian Development Bank (ADB) is partnering with the Ministry of Skills Development and Entrepreneurship to develop a Just Transition Worker Support Facility for coal mining-dependent regions to "integrate existing resources across skilling and reskilling, entrepreneurship, livelihood development, and relevant social protection initiatives to make available bespoke assistance."[26]

CARBON PRICING INSTRUMENTS

Carbon pricing instruments are policies designed to put a price on carbon emissions, aiming to internalise the environmental costs of greenhouse gas emissions into economic activities. The two main types of carbon pricing instruments are Carbon Taxes (a direct tax levied on the carbon content of fossil fuels or on the emissions generated from burning those fuels); and Cap-and-Trade Systems or Emissions Trading Systems (a market-based approach where a limit is set on the total amount of greenhouse gases that can be emitted by covered entities).

Both carbon taxes and cap-and-trade systems aim to reduce greenhouse gas emissions, but they differ in their implementation and economic impacts. Some regions and countries may employ hybrid approaches or other variations of these instruments tailored to their specific economic and environmental contexts.

Beyond offsetting expenditures for low-income households, recycling revenues from carbon pricing instruments can help finance transformative transition related projects, especially those spearheaded by local communities.

EXAMPLE DECLARED

The European Union's Social Climate Fund[27]

The European Union's "Social Climate Fund" is designed to mitigate the potential negative social impacts of the EU's Emissions Trading System (ETS) expansion to include buildings and road transport. Essentially it acts as a safety net for vulnerable households and micro-enterprises who may face increased energy costs due to carbon pricing; it aims to provide financial support to help them transition to cleaner energy solutions and mobility options, funded by revenue generated from the ETS itself. Its funding source is drawn from revenue collected from the Emissions Trading System (ETS), specifically the new ETS2 which covers buildings and road transport. Member states will develop "Social Climate Plans" outlining how they will use the fund to support vulnerable groups through measures like home energy efficiency upgrades, access to cleaner transport options, and potentially direct income support.

EXAMPLE POTENTIAL

Revenues from California cap-and-trade scheme provide benefits to consumers and businesses

Just over one-third of the revenue generated from the auction of allowances in California's cap-and-trade programme is passed on to electric and natural gas utilities, which are mandated by law to use them to benefit ratepayers. Utilities have channeled this revenue towards a variety of initiatives, including the following:

- Residential Climate Credit: Since 2014, California's investor-owned utilities have provided semi-annual credits on electricity bills to residential customers, dividing auction proceeds equally among them if not allocated to other purposes, therefore boosting fairness.
- Compliance or Purchase of Allowances: Privately owned utilities and electric cooperatives have the choice to use consigned allowances directly for compliance, offering ratepayer protection.

continues on next page

- Clean Energy and Efficiency Programs: Up to 15% of auction proceeds for investor-owned utilities can be used to support clean energy or energy efficiency projects, with a 2% allocation to the multifamily affordable housing solar roofs program in 2017, and privately owned utilities and electric cooperatives dedicating 15% of consignment funds to renewable energy and energy efficiency initiatives.
- Small Business Return: Small businesses in California have received electricity bill credits since 2014 to offset 100% of the cap-and-trade program's impact, decreasing by 10% annually after 2015.

CENTRAL BANK REFINANCING

To date, social considerations have generally not been part of central banks' approach to climate change.[28] However, the income and regional inequalities generated by climate change and the potential side effects of the transition to a sustainable economy are of growing strategic relevance. Inequality also poses important challenges to central banks and supervisors, for example to financial stability, central banks' mandates (e.g. inflation), and public support for their independence. Employment is at the heart of central bank economic monitoring and some mandates (such as the US Federal Reserve). There is thus potentially important linkages with the just transitions agenda as it requires the creation of quality jobs in environmentally sustainable economic activities to replace positions lost in stranded sectors.

As such, central banks could integrate just transitions principles into their refinancing terms while simultaneously providing more appealing refinancing options for projects and entities that prioritise safeguarding potentially affected stakeholders and maximising beneficial social outcomes. By selectively replacing existing loans or debt obligations with new ones featuring improved terms like lower interest rates, extended repayment periods, or modified payment schedules, financial institutions can more effectively mobilise capital, promote investments, and facilitate the transition of industries and infrastructure towards a low-carbon, resilient economy.

Central banks have a pivotal role in facilitating refinancing. By offering these incentives to financial institutions, greater support can be extended to emerging companies, fostering economic diversification and transformation.

EXAMPLE | POTENTIAL

Bank of Korea provides refinancing at lower rates to banks that lend to small and medium-sized enterprises

The Bank of Korea's "Bank Intermediated Lending Support Facility" aims to support banks based on their small and medium-sized enterprises (SME) loan performance by offering them low interest rate loans, including for low-carbon technologies. Support is particularly extended to financial institutions that have provided loans to SMEs with innovative technology, as well as to those in regions where economic conditions require such support.

Refinancing mechanisms have the potential to be deployed for just transitions where clear criteria can be developed enabling simple allocation: central banks can allocate to SMEs simply as the criteria for allocation are well-established. For just transitions, criteria would be needed for the green and social dimensions.

POLICY-BASED FINANCING

Disbursed only when a borrower fulfils predetermined policy reforms, policy-based loans (PBLs) have been used by MDBs as a tool to help countries transform their economies towards low-carbon, climate-resilient goals. However, committed action over many years is often jeopardised by regularly changing politics and administrations. PBLs can be leveraged to ensure that long-term policy objectives are met.

Just transitions priorities can also be integrated by calling for governments to carry out reforms such as aligning social protection services with energy transition risks, improving academic and vocational training, and creating an enabling environment for socially-aligned climate financing. Just transition-aligned policy-based financing can also be coupled with project financing in relevant sectors.

EXAMPLE | POTENTIAL

The Asian Development Bank approves a $250 million policy-based loan to support climate action in the Philippines

In 2022, the ADB issued its first climate action policy-based loan – a $250 million PBL to the Philippines that aims to spur the development of planning, financing, and institutional systems within the Philippine Government to accelerate climate action. Reforms are intended to increase the resilience of farming and fishing communities to the worsening impacts of climate change, as well as strengthen low-carbon pathways through renewable energy, energy efficiency, and sustainable transport. The programme has a strong focus on social inclusion. Future PBLs could be more directly associated with the just transition.[29]

GOVERNMENT BONDS

Bonds from national and local governments, development banks and other public bodies have a high-potential for supporting just transitions. As governments and public financial institutions increase their policy commitments to the just transition (for example, through Nationally Determined Contributions, NDCs) thematic bonds could be an obvious mechanism to raise finance. This could include green, social and sustainability use-of-proceeds bonds as well as sustainability-linked bonds (SLBs).

EXAMPLE | POTENTIAL

A sustainability bond finances affordable energy efficient housing in New York

In 2023, the New York State Housing Finance Agency issued sustainability bonds to finance mortgage loans for the construction, acquisition, or rehabilitation of six multi-family rental housing projects that meet energy efficiency standards and features. Proceeds shall support energy efficient features including insulation, windows and doors, heating and cooling equipment, lighting, and appliances that comply with defined targets of energy consumption performance levels. At the same time, bond proceeds aim to provide affordable housing to low-income families, thereby implicitly contributing to a just transition. Looking ahead, local government bonds (such as for affordable housing) could make a more explicit link between the social and environmental benefits could be a strong area for just transition finance.

EXAMPLE | POTENTIAL

The Government of Chile issues sustainability-linked bonds (SLB) to support emission reduction and gender equality

Building on its ESG bond programme that started in 2019, the Government of Chile issued a 20-year USD 2 billion sustainability-linked bond in 2022 supported by a framework that sets the following KPIs and SPTs:[30]

1. Greenhouse Gas (GHG) emissions per year, measured in $MtCO_2eq$.
   a. Achieve annual GHG emissions of 95 $MtCO_2e$ by 2030
   b. A maximum of 1,100 $MtCO_2e$ between 2020 and 2030

2. Non-Conventional Renewable Energy (NCRE) Generation, as the percentage generated in the National Electric System, measured in megawatt hours (MWh).
   a. Achieve 50% electricity generated from non-conventional renewable sources by 2028
   b. Achieve 60% electricity generation derived from non-conventional renewable sources by 2032

3. Percentage of women in board of directors at companies reporting to Chile's Financial Market Commission (CMF)
   a. Achieve at least 40% of women's representation in board of directors at companies to CMF by 2031

A "basis point" (bps) in a sustainability-linked bond refers to a unit of measurement, equal to 1/100th of a percentage point, that represents the potential increase in the bond's coupon rate (interest payment) if the issuer fails to meet its predetermined sustainability targets; essentially acting as a penalty mechanism to incentivise environmentally responsible practices. In the case that Chile does not reach its targets, two coupon-step ups, each 12.5 bps, have been defined for March 7, 2034. The SLB was issued in the context of Chile's commitment to just transitions as part of its climate policy. The two green goals and the gender goal essentially run in parallel so that women's representation is not necessarily related to the achievement of the climate targets. Future SLBs by sovereigns and others could include KPIs and SPTs linked to specific just transitions outcomes.

Credit: Tifonimages / iStock

3. PRIVATE FINANCE INSTRUMENTS

Private finance comes primarily from players such as commercial banks, institutional investors, insurance firms and capital markets; philanthropies can also be included in terms of their investment portfolios. Sustainability, ESG, and impact goals are increasingly embedded, but consistency and alignment with the SDGs and global climate goals remain far off. Just transitions is becoming a growing area of attention, but remains early stage.

Different types of risks can hinder private sector participation: just transitions projects often involve innovative and emerging technologies, industries, or economic models, which can carry a higher perceived economic risk, leading private investors to be hesitant to engage in projects that are not tried and tested as they may lack historical data or a clear track record of success. Policies and regulations that support, explicitly or implicitly, just transitions-aligned principles may be inadequate. These uncertainties can create risks related to changing incentives, compliance, and the potential for regulatory obstacles. An additional concern involves possible longer payback periods for such projects due to their social and environmental objectives or may lack viable short term commercial returns. This can be less appealing to private investors seeking quicker returns on their investments. The longer payback periods can lead to perceived risks in terms of tying up capital.

Nonetheless, institutional investors are increasingly making commitments to the principles of just transitions, though evidence of impact is so far limited. Forceful stewardship through shareholder and bondholder engagement is growing, building on initiatives such as Climate Action 100+ which includes an assessment of just transitions performance in its net-zero benchmarking of the world's most carbon intensive companies: in 2024, only 1% of the 170 companies fully met the criteria, and a further 33% partially met the criteria.[31] The Transition Pathway Initiative (TPI) has also included just transitions in its work with investors to evaluate banks. In 2024, none of the 26 largest banks had a sufficiently broad commitment to decarbonize in line with just transitions principles, but four were starting to incorporate.[32] In addition, on behalf of investors, TPI has evaluated just transitions as part of its assessment of sovereign bonds, finding 11% out of 70 issuing governments meeting its criteria, with a further 66% achieving a partial score.[33]

Financial institutions could also allocate capital to funds and assets that promote activities in line with just transitions concerns, particularly in private markets like infrastructure. Capital markets connect various financial segments and are thus crucial for just transitions innovation, especially in the growing green, social, sustainability, and sustainability-linked (GSS+) bond markets. This market involves both public finance, including governments and development banks, and corporate/private finance sectors, making it a key area for promoting just transitions in practice.

Looking ahead, private financing instruments can be redesigned to be more supportive of just transitions principles. For example, thematic bond frameworks can incorporate principles and activities that prioritise the rights and interests of impacted workers or communities. In terms of bonds, just transitions goals can be included in the use of proceeds, through incorporation into entity level targets as well as through impact reporting.

Examples of private finance instruments explored in this section:

- Portfolio Screening
- Corporate Bonds
- Social Impact Bonds
- Sustainable Lending
- Microfinance

PORTFOLIO SCREENING

The primary way that financial institutions can start their alignment with just transitions is to assess the clients they are lending to or investing in. This could also involve setting up dedicated just transitions portfolios.

EXAMPLE DECLARED

Barclays' Client Transition Framework[34]

UK-based Barclays has developed and implemented approaches to identify and monitor social risks, opportunities, and impacts across various sectors involved in the climate transition. The bank has introduced a Client Transition Framework designed to assess clients' alignment with the bank's emissions targets, sector benchmarks, and the credibility of clients' transition plans. As part of a pilot assessment, the bank is evaluating whether clients' efforts to decarbonise align with the principles of a just transition. This includes consideration of adverse impacts on stakeholders resulting from their activities, such as job loss or loss of tax revenue, as well as the inclusion of actions to mitigate these impacts, such as upskilling, adjustments in remuneration, and psychological support. Additionally, the pilot assesses whether impacted stakeholder groups are involved in decisions that affect them. In 2023, the pilot found that 40% of the assessed clients have committed to a just transition.

EXAMPLE DECLARED

SMBC's Transition Finance Playbook: Aligning with the Just Transition[35]

Headquartered in Japan, the SMBC Group developed its approach to transition finance- generally understood as finance intended to decarbonise entities or economic activities that are emission-intensive, which may not currently have allowed-emission substitutes but which are important for future economic development. The Group's "Transition Finance Playbook," documents internal definitions as well as the internal procedures for identifying and assessing transition finance transactions. The Group's approach is underpinned by four principles: do no significant harm; no carbon lock-in; best available technology; and just transition—and differs between project, general purpose corporate finance and the use of proceeds instruments. Aligning with just transitions considerations, the Playbook outlines that investments should maximise social and economic opportunities, which can be achieved by means of consultations with impacted groups. Additionally, the Group assesses the extent to which the project or its main sponsor addresses employment-related issues stemming from the project's implementation.

EXAMPLE DECLARED

Amundi Euro Corporate Bond Climate Fund[36]

Originally launched in 2021, Amundi's 'Just Transition for Climate' strategy was billed as "the first attempt to provide investors with a unique solution to measure and integrate the financial risks associated with climate change and use their investments for an inclusive transition in line with the Paris Agreement". It used screening based on both climate and social criteria to identify bond issuers for the fund. Individual bonds have to 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. The fund was renamed in 2024 to the Euro Corporate Bond Climate, though continues its just transition approach, which includes a score capturing the performance of companies compared with peers on various social issues and "still seeks to beat the index just transition score."[37]

CORPORATE BONDS

Growing numbers of businesses are making commitments to the just transition as part of their climate programs. Bonds could be a useful mechanism to raise funds to implement their transition plans, combining the phase out of high-carbon assets and the scale up of net-zero and resilient activities with measures for key stakeholders, such as workers, communities and consumers.

EXAMPLE DECLARED

Tauron Polska Energia issues transition bonds and addresses social impact of coal-closure

In 2020, EBRD committed to investing roughly the equivalent of USD $60.5 million in 5-year unsecured bonds issued by Tauron Polska Energia S.A. The purpose of this investment is to support Tauron's energy transition program and decarbonisation strategy, which involves the phased decommissioning of coal-fired units, the expansion of renewable energy generation, and the reduction of CO_2 emissions. Additionally, the project aims to strengthen the grid to accommodate increased intermittent renewable energy generation, resulting in an estimated energy saving of 26,404 MWh per year and a reduction of 20,569 tonnes of CO_2 emissions annually, according to the Bank's calculations.[38] In line with the EBRD's just transition initiative, Tauron will develop a programme to mitigate the social impact of closing its coal-powered plants in Silesia, including by reskilling workers.

SOCIAL IMPACT BONDS

Also known as "Pay for Success", social impact bonds have traditionally embodied outcome-based financing instruments involving a contract between impact investors, a service provider, and an outcomes payer. In this contract, the outcomes payer — typically a government or a community benefiting from the financed project — pays investors only if the project achieves desired outcomes based on pre-agreed indicators.

Social impact bonds address the barrier of large upfront capital required for launching government projects, which many private investors may be too risk-averse to undertake. These projects often involve innovative approaches and technologies that are untested or targeting local markets with unstable political and governance environments, increasing the perceived risk of failure. Impact investors entering these contracts are prepared to lose up to 100% of their investments if the project does not meet its objectives. Social impact bonds have been used to tackle various issues, including conservation and development. A specialised type, development impact bonds (DIBs), has been implemented in low- and middle-income countries for development programs, with philanthropic organisations serving as outcomes payers instead of the government.

EXAMPLE | POTENTIAL

Skill Impact Bond - India

In India, a Skill Impact Bond was launched in 2021 by a broad coalition including government, philanthropy and business to train 50,000 young people (particularly women) over four years with payments linked to enrollment, job placement and retention. By mid-2024, over 29,000 had been enrolled, 74% of which were women. This model could be tailored to address the skills and employment dimensions of the climate transition. The bond is targeting the upskilling 50,000 young people, 60% of whom were to be women and girls.[39]

The National Skill Development Corporation (NSDC) and Michael & Susan Dell Foundation (MSDF) provided the working capital of US$4 million upfront to the service providers to implement the program, which ran over four years from 2020–2023. The outcome payers, which in this case were philanthropies like the Children Investment Fund Foundation and corporate social responsibility spend of companies like JSW and the bank HSBC India, agreed to pay the at-risk investors with an initial investment for each positive outcome achieved at up to US$14.4 million over the four years. Given the early signs of success in this bond and the critical role skilling will play in the just transition, this type of financial instrument has the potential to finance green skilling for the transition.

Credit: UN Women / Flickr

SUSTAINABLE LENDING

Sustainable lending considers environmental, social, and governance (ESG) factors in credit decisions. The goal is to align the financial incentives of a loan with its sustainability outcomes.

Private financing for climate action infrastructure projects is typically provided at market rates. However, if these projects can demonstrate plans to support just transitions principles, they could be positioned to qualify for more attractive financing rates. For instance, projects that promote female employment or engage women in managerial positions within renewable energy facilities could secure preferential financing rates. The task ahead is to explore how to integrate just transitions-consistent policies and actions into the market for sustainability-linked loans (SLL) issuance.[40]

EXAMPLE POTENTIAL

Engie Chile Sustainability-linked loan (SLL)

The SLL to Engie Chile was a $400 million loan, it includes $200 million from the IFC, $114.5 million from institutional investors, $35 million from the SDG-linked ILX fund, and a $50 million in the parallel arm from DEG (KfW's private lending arm). The loan was used by Engie Chile to re-leverage two solar PV projects and to finance a battery energy storage systems project. The loan interest payments were tied to three KPI's essentially offering a step-down, first that the company convert or close its remaining 1GW of coal capacity by the end of 2026. Second, they add 500MW of renewables by the end of 2026. The final KPI, Engie Chile committed to increasing the proportion of women in its management from 24% in 2022 to 31% in 2026.

The SLL does not explicitly include just transitions metrics, but there are multiple just transitions elements at play in this transaction. The SLL has helped enhance ENGIE Chile's social policies and stakeholder engagement. Engie as a corporation has a coal phase-out date and has explicitly stated it will be delivered in the context of a just transition based on three pillars: employment and training, local development and environmental management. The KPI on women in management is, however, not directly linked to the decarbonisation efforts. The combination of a company-wide just transitions target and specific step-down incentives in the SLL make it an extremely relevant emerging asset class and instrument for just transitions financing. In future, SLLs could be issued with specific just transition KPIs.[41]

EXAMPLE DECLARED

Iberdrola's Sustainable Credit Facility

Iberdrola signed a €1.5 billion multi-currency syndicated credit facility in 2019 tied to sustainability criteria, with the bank BBVA as the lead arranger and sustainable agent. The facility's terms are contingent on meeting two sustainability indicators particularly SDG 7.1, "universal access to affordable, reliable, and modern energy services", and SDG 7.2 "increasing the share of renewable energy in the global energy mix".[42] The facility was presented as the first credit transaction with a conscious focus on the just transition, connecting the environmental and social dimension through improved access to clean energy.

MICROFINANCE

Ample resource mobilisation is essential to empower local communities and small businesses to manage the potential negative impacts of transitions and maximise the beneficial opportunities. In areas where climate activities may phase out carbon-intensive industries, this has the potential to strip local communities of their income sources.

In this and a variety of other transition contexts across sectors, micro-financing can be offered to stimulate small-scale alternative economic activity and diversification. Micro-finance can accelerate the growth of small and medium-sized enterprises (SMEs), boosting their contribution to the country's overall economic development.

EXAMPLE DECLARED

BNP Paribas develops Inclusive & Sustainability-Linked Financing (ISLF+) to further support microfinance institutions

In 2023, after over 30 years of providing support to microfinance institutions (MFIs), BNP Paribas, in collaboration with JuST Institute, developed Inclusive & Sustainability-Linked Financing (ISLF+) to extend further support to MFIs.[43] Adapted from Sustainability-Linked Loans, ISLF+ offers reduced interest rates to MFIs that achieve environmental, social, and just transitions objectives that they specify at the start. In addition, MFIs can receive technical assistance towards promoting ecological transition. In 2023, three MFIs were granted Inclusive & Sustainability-Linked Financing. One of the recipients, PerMicro from Italy, defined the following indicators:

1. volume of microloans to microenterprises run by young people and women
2. value of the portfolio dedicated to financing green technologies and practices, including sustainable mobility, energy efficiency and renewable energies
3. volume of loans with environmental impact and climate vulnerability assessment

EXAMPLE POTENTIAL

responsAbility Investments AG Microfinance Securitisation

responsAbility Investments AG, an international impact asset manager, has successfully concluded a securitisation of USD $175 million in loans extended to microfinance and SME-finance institutions in emerging markets. The proceeds from this initiative will be used to support financial intermediaries that provide funding to 30,000 small businesses and 5.6 million microfinance borrowers, with a noteworthy 81% of these borrowers being women. This securitisation, denominated in USD and with an expected maturity of three years, offers investors the option of three different risk-return profiles (senior, mezzanine, and junior) in a publicly traded, transferable bond format. The senior and mezzanine notes offer fixed interest rates, while the junior note returns depend on the performance of the underlying loan portfolio. Key investors in this transaction include the Overseas Private Investment Corporation (OPIC), a US government agency that initially provided the capital to attract private institutional investment, Alecta (the fifth-largest occupational pension provider in Europe), and Calvert Impact Capital (an impact investing firm that introduced U.S. private capital into the deal).[44]

4. BLENDED FINANCE INSTRUMENTS

The tendency of private financiers to be risk-averse can keep large amounts of capital locked away from projects addressing the social impacts of climate action, as these often carry greater perceived risks. Blended finance mechanisms pool or combine public and private funds to finance projects, leveraging often concessional public resources to mobilise private capital into areas that otherwise might not receive financial support. Effective blended financing instruments aim to capitalise on the different strengths of public and private players to catalyse financing and realise projects and initiatives that would otherwise not be carried out with either financing alone. The utilisation of public resources in blended finance is designed to rebalance the risk-reward ratio and thus attract more private financing in order to achieve specific public policy outcomes such as climate or gender.

Such approaches have significant untapped potential for the just transition.

Many developed countries channel their climate finance to developing countries through multilateral development banks (MDBs). MDBs are significant blended finance drivers as they are often able to mobilise co-financing from private institutions alongside the disbursement of public funds. These institutions also play a pivotal role by providing guarantees and de-risking project investments.

Private and public institutions often collaborate in the design of new financing instruments. Relevant to this theme are the emerging arena of transition credits: created when emissions are reduced or avoided by retiring coal plants early and replacing them with clean energy sources. The difference between the emissions that would have occurred if the coal plant had continued operating and the lower emissions that result from retiring it early is represented by the transition credits.

A diverse range of entities are involved in blended finance instruments, including climate and environmental funds, public-private partnerships, explicitly-labelled just transitions financing vehicles, and export credit agencies. Other entities and financing vehicles source public and private financing in support of climate projects and initiatives. These may deploy a range of financing instruments to disburse their funds. While it is important that financing instruments they use incorporate features that contribute to just transitions principles, these institutions should also internalise policies and strategies that align their own operations with social and environmental responsibility objectives. For many of these institutions, adopting a just transitions framework to guide the selection of collaborating companies, and the design and selection of projects, will be key in ensuring significant positive and long-lasting societal impacts where they operate.

Examples of blended finance instruments explored in this section:

- Guarantees
- Transition Credits
- Climate and Environmental Funds
- Public-Private Partnerships
- Export Credits and Guarantees

GUARANTEES

Perceptions of "higher risk" investments that prioritise just transitions principles can be alleviated through project guarantees that allow financiers to share specific risks that may be too challenging to manage on their own. Guarantors, such as MDBs, can promise guarantees to reduce financial risks. For example, when a country's unstable political or economic environment can jeopardise the success of a transition project, a guarantor can absorb associated risks through a partial risk guarantee. In such an agreement, the lender is typically prepared to take on *commercial risk* (these risks can arise from a variety of sources, including contracts, product liability, employee relations, and competition) or *credit risks* (protecting businesses from non-payment by a counterparty), but not *political risks* (such as political violence, government intervention, and changes in government or international relations).

Some financing institutions, such as MDBs, can also provide policy-based guarantees. Similar to project guarantees, policy-based guarantees are provided to a government to partially cover its credit risk when it borrows from a private lender or issues a bond, but only upon the completion of a predetermined policy reform.

EXAMPLE | DECLARED

The InvestEU program provides budgetary guarantee for the EU's Just Transition Mechanism

The Just Transition Mechanism is a tool by the European Union to mobilise around €55 billion in its most affected regions to alleviate the socio-economic impact of a transition to a low-carbon economy. One of the pillars to finance this initiative is the InvestEU program's Just Transition Scheme, which can provide a budgetary guarantee to investments aligned with one of four policy windows: (1) sustainable infrastructure; (2) research, innovation, and digitisation; (3) small and medium-sized enterprises; and (4) social investment and skills. It is anticipated to mobilise €10-15 billion for the Just Transition Mechanism. Beyond the Just Transition Mechanism, the InvestEU program provides a total of €26.2 billion in budget guarantee towards the same four policy windows. Among the supported activities are developing clean and sustainable transport modes; improving energy efficiency in buildings; transferring technologies and research results to the market; supporting start-ups, and younger and smaller companies; and promoting gender equality, skills, education, training and related services.[45]

Credit: Todamo / iStock

TRANSITION CREDITS

The need for financial support for the early retirement of coal-fired power plants (CFPPs) has resulted in the development of transition credits: created when emissions are reduced or avoided by retiring coal plants early and replacing them with clean energy sources. The difference between the emissions that would have occurred if the coal plant had continued operating and the lower emissions that result from retiring it early is represented by the transition credits.

This kind of accounting and independent verification of GHG emissions reduction would allow governments under Article 6 of the Paris Agreement to engage in cooperative agreements and lower the cost of finance for CFPP retirement.

Philanthropies and corporations can also transact mitigation outcomes and either provide lower cost finance or a revenue stream for related projects. As these are tied to mitigation actions that may have significant impacts on employment, incomes, and regional revenues, among others, the generation of transition credits can be linked not only to emission reductions but also proven measures and results from socio-economic risk mitigation. While transition credits have only been explored for CFPP retirement so far, the approach could also be applied to other activities.

EXAMPLE DECLARED

Exploring how revenues from transition credits for early CFPP retirement can support just transitions activities

The Monetary Authority of Singapore is promoting an approach to use transition credits to help finance and accelerate early CFPP retirement. In its approach, provisions are made for a portion of the revenue to be earmarked for just transitions activities, including impact assessments, training and development, worker compensation, healthcare, or career support for displaced workers. This is currently being trialed in the case of energy utility ACEN in the Philippines, working together with the Monetary Authority of Singapore, the Rockefeller Foundation and the ADB.[46]

Credit: Annie Spratt / Unsplash

CLIMATE AND ENVIRONMENTAL FUNDS

TA number of funds have been established around the world to pool public and private resources towards climate action and environmental preservation. There are several large-scale funds that operate worldwide – such as the Global Environmental Facility, the Green Climate Fund, and the Climate Investment Funds – employing a variety of financial instruments to support climate and environmental projects, including grants, concessional loans, equity, guarantees, and results-based finance.

Climate and environmental funds can support just transitions by financing projects that, in addition to upholding social and environmental safeguards, incorporate activities that further the implementation of sustainable development goals in the country.

EXAMPLE POTENTIAL

The Green Climate Fund provides USD 49 million towards a zero-emissions bus rapid transit system in Karachi, Pakistan

The Green Climate Fund (GCF) has been supporting developing countries in carrying out mitigation and adaptation actions through a variety of financing instruments. In addition to mitigating potential negative environmental and social impacts of its activities, GCF aims to maximise the environmental and social benefits, as well as improve its environmental and social performance over time.

In 2018, GCF provided USD $37.2 million in loans and USD $11.8 million in grants towards the development of a 30-km bus rapid system (BRT) to reduce emissions from privately owned vehicles and improve mobility in the city of Karachi. Aside from incorporating biomethane-hybrid buses, the project aimed to introduce cycling lanes, a bike sharing system, e-pedicabs for last-mile connectivity, and improved pedestrian facilities. Among the planned activities to address the socio-economic aspects of the project were promoting engagement with the existing bus industry and establishing a negotiation process to enable existing operators to participate in the new BRT system. It also had provisions for non-participating operators where a fleet scrapping program and a compensation mechanism were created. In future projects like this the implicit just transitions dimension could be further elaborated.

EXAMPLE DECLARED

US Just Transition Fund

This US Just Transition Fund[47] combines public, philanthropic, and private resources to expedite just transitions for coal communities. Established with philanthropic funding in 2015, it introduces place-based economic development strategies, with a focus on three key areas:

1. Broadband: Addressing the digital divide in rural communities with nearly $1 million initial investments in organisations striving to provide reliable and affordable high-speed internet access.
2. Community Economic Development: Offering grants and technical support to assist communities in creating quality jobs and fostering equitable local wealth.
3. Workforce Development: Allocating investments to workforce programs that train individuals affected by changes in coal-related industries, providing comprehensive support services to ensure successful program completion and job placement in in-demand fields.

So far, the JTF has helped drive $2.45bn of federal investment to America's hardest-hit coal communities in the last few years.

EXAMPLE DECLARED

CIF's Accelerating Coal Transition program supports a just energy transition in Indonesia

In October 2021, Indonesia was chosen as one of four pilot countries for the Accelerating Coal Transition (ACT) program,[48] a program by the Climate Investment Funds (CIF) supporting coal-dependent countries in accelerating their transition from coal to renewable energy. With its three pillars of governance, people and communities, and infrastructure, ACT aims to realise in its partner countries energy transitions that are "holistic, integrated, socially inclusive, and gender-equal." In its investment plan, the Government of Indonesia presented project concepts proposing activities to support a just energy transition.

As part of a proposed Just Transition Program, the Government of Indonesia aims to "mitigate the social, economic, and environmental risks and impacts associated with decommissioning and repurposing of CFPPs (including upstream impacts from the closure of coal mines) while enhancing the opportunities of this transition." Interventions will be linked to activities related to dismantling, remediating, and repurposing CFPPs. Cross-sectoral in nature, the initiative will involve activities related to "energy and extractives, social protection, education, financial support for small and medium enterprises, along with a gender component." Activities include:

1. local development planning and infrastructure
2. skills, livelihoods, and entrepreneurship activities
3. community outreach and citizen engagement activities

Another project concept aims to build Indonesia's capacity to build a workforce equipped with the skills and competencies to work in the clean energy sector through the development of modern and efficient science and technology parks (STPs). Developed by the Asian Development Bank (ADB), the project shall support four top-ranked Indonesian universities in improving the success rate of startup incubation at their STPs. Other activities in the project include training curriculum and training roll out, workforce training roadmap development, seed funding for start-up incubator, which CIF is looking to support through co-financing.

This project was a precursor for Indonesia's Just Energy Transition Partnership (JETP) and Comprehensive investment plan (CIPP).

Credit: Aji Styawan / Climate Visuals

PUBLIC-PRIVATE PARTNERSHIPS

Although governments may have a vision for how just transitions are to be achieved in their country, they may lack the capacities to carry out the necessary projects to do so. Through public-private partnerships, governments can recruit the help of the private sector and its ability to finance and execute complex projects effectively and efficiently. The government can guide projects by defining outcomes and outputs that would lead to long-term societal impacts aligned with just transitions principles.

EXAMPLE DECLARED

ADB's Energy Transition Mechanism mobilises public and private capital to support the early retirement of coal-fired power plants

The Energy Transition Mechanism Partnership Trust Fund (ETMPTF) was established to raise resources for the ADB's Energy Transition Mechanism (ETM), which aims to mobilise public and private capital to expedite the shift from carbon-intensive coal-based power plants to clean energy in developing member countries (DMCs). Public and private investments—from governments, multilateral banks, private sector investors, philanthropies, and long-term investors—will finance projects and country-specific ETM funds to retire coal power assets on an earlier schedule compared to the business-as-usual timeline. The ETM will support projects focused on reducing greenhouse gas emissions from coal-fired power plants, increasing the use of clean energy, assisting DMCs in developing policies for transitioning to cleaner energy, and promoting a just transition.

In Indonesia, ADB collaborated with Cirebon Electric Power, an independent power producer (IPP), and other partners under this program for the early retirement of coal power plants in the country. The ADB is now underway and carrying out just transitions assessments of potential deals.

EXAMPLE DECLARED

South Africa's Matchmaking Funding Platform

Launched in 2024, South Africa's planned Just Energy Transition (JET) Funding Platform is a matchmaking service that will connect local and international grant funders with potential beneficiaries in South Africa.[49] The funding platform aims to bridge the funding for JET projects outlined in South Africa's JET Implementation Plan[50] and build capacity for smaller-scale initiatives.

The JET Funding Platform will help to match grants to projects and match investment finance to projects. The platform focuses on:

- Economic diversification planning
- Developing social and economic support for communities and workers affected by coal mine and coal power plant closures
- Piloting renewable energy community ownership models
- Reskilling and upskilling for workers
- Financing for start-up companies
- Technical assistance for project preparation and business development

EXPORT CREDITS AND GUARANTEES

In addition to including climate considerations in their operations and supporting investments in low-carbon technologies and infrastructure, export credit agencies (ECAs) can contribute to just transitions to a low-carbon economy that benefits all stakeholders, particularly those most vulnerable to climate change and economic transformations.

Domestic exporters who contribute to trading partners' socially responsible practices and align their own operations with just transitions principles can be offered better terms. Similarly, companies such as manufacturers engaged in the supply of environmentally and socially sustainable goods and services in a developing importer country can be further supported by ECAs.

EXAMPLE DECLARED

Export credit agencies in the Net-Zero Export Credit Agencies Alliance seek to align their portfolios and business activities with net-zero pathways

Launched at COP28[51] by five founding members and three affiliate members (listed below), the Net-Zero Export Credit Agencies Alliance (NZECA) brings together global public finance institutions that together in 2022 supported an estimated $120 billion in international trade. Member ECAs are obliged to commit to a number of responsibilities, including "facilitating exporters" and, where possible, other parties' "transition to net-zero emissions" and ending "new direct support for the international unabated fossil fuel energy sector by the end of 2024."

Founding members:

- EKN
- Export and Investment Fund of Denmark (EIFO)
- Export Development Canada (EDC)
- Svensk Exportkredit (SEK)
- UK Export Finance

Affiliated members:

- Etihad Credit Export Insurance (ECI)
- Cesce
- KazakhExport

While primarily focused squarely on carbon emissions reductions, the NSECA pledge includes a commitment by each member to "advance a just transition" and offers an opening for significant progress and deepening of this important actor within the financial ecosystem to embed just transitions principles within their strategies, products, operations, and services. However, few ECAs have their own just transitions policies or practices, and the OECD 'Common Approaches' on export credit makes no reference to the importance of just transitions, nor do the IFC Performance Standards, which remain the ECA's main benchmark for investments decisions (though these are due to be revised in 2025).

5. CONCLUSIONS: STEPS FOR BETTER JUST TRANSITIONS ALIGNMENT

This report was inspired by the original concept of harnessing the full spectrum of finance. Currently, the just transitions state of play across the three broad categories of finance could be summarised as follows:

- **Public financial institutions**, such as finance ministries, public banks and central banks, must set the tone. Even though public finance holds a smaller share of global financial assets it needs to drive systemic change through policy and capital provisions, including concessional capital and guarantees. Some leading multilateral and national development banks are moving in this direction and must accelerate efforts to transform the wider financial system.
- **Private financial institutions**, such as commercial banks, institutional investors, insurance firms, and capital market intermediaries, hold the majority of capital that is needed to bridge the financial gap to achieving net-zero by 2050, and at least 43% advancement toward this by 2030. These transitions must be embedded in corporate purposes, product design, governance, fiduciary duties, and stakeholder engagement. They must also prioritise human rights and labour standards in climate finance plans and improve access to sustainable finance for clients in the real economy to achieve their climate goals.
  - The private banking sector, the largest component of the financial system, plays a crucial role given its impact on the real economy. Some commercial banks are beginning to incorporate just transitions principles and thinking into their climate policies, but commitments need to translate into practical changes, particularly extending to banks in emerging and developing economies. All areas of banking, including housing finance, corporate lending, and finance for micro, small, and medium-sized enterprises (MSMEs), will need to align their activities with just transitions priorities.
- **Blended finance approaches** are a key strategy being deployed by public and private financial institutions in partnership, combining public capital and development funds with private capital to achieve specific social and environmental goals. Historically, this has been used to correct market failures, mitigate perceived risk or lower returns for private investors, and create investible opportunities in EMDEs in particular. Blended finance applications are emerging in the just transitions agenda, where public finance may often be needed to pay for the public goods involved in the just transition.

Each type of finance has different purposes and therefore forms. Looking ahead, commitments to achieving just transitions principles will need to be clearly translated into practical guidance to avoid confusion, complacency, and even co-option. While there are welcome examples of explicit alignment of real-world instruments with just transitions principles (particularly for public and blended finance), these are still at the margin and do not yet add up to systemic solutions. Looking ahead, taking just transitions finance from the realm of early declarations to mainstreamed and systematic responses requires serious efforts by governments as well as business and finance communities, and wider civil society.

In support of this ambition, the following recommendations to governments and public financial institutions as well as business and private financial institutions serve as a starting point in the development of more dynamic approaches. Whilst the primary responsibilities lie with these actors, civil society must also be actively involved in the evolution of just transitions finance, playing a crucial role in driving integrity, inclusivity, and accountability. As such, their capacities for engaging with various actors, instruments, and forms of finance should be supported and strengthened by both public and private financial actors.

FOR GOVERNMENTS AND PUBLIC FINANCIAL INSTITUTIONS

Governments can strengthen efforts to finance activities advancing just transitions by taking a range of actions including:

1. **Policy Leadership and Coherence:** Develop national just transitions plans, programmes and mechanisms, which make labour and human rights core to climate action, and ensure coherence between just transitions policies and financing broader industrial, social, and environmental policies. This should be reflected in Nationally Determined Contributions (NDC) due from all governments in 2025 and Long-Term Strategies (LTS).

2. **Plan Early and Review Continuously:** Begin just transitions planning early and integrate the needs and voice of potentially affected stakeholders from the outset, *before* planning decisions are already predetermined. Ensure this engagement is meaningfully continued throughout the lifecycle of transition processes, enabling learning, evolution, and course-correction as implementation unfolds.

3. **Social Dialogue and Stakeholder Engagement:** Government action is essential to ensure that meaningful engagement with affected stakeholders takes place through analysis, planning, and decision making – including with workers along value chains, businesses (especially MSMEs), communities, indigenous groups, and consumers. Without understanding and embedding their needs and concerns, no transition can be considered "just". Support and promote social dialogue and stakeholder engagement in terms of public policy as well as in business and communities.

4. **Impact Assessment:** Conduct detailed assessments to understand the socio-economic impacts on stakeholders, particularly vulnerable or excluded groups including informal workers, women, indigenous peoples, those on low incomes, youth and ethnic minorities. Identify ways that transitions can be shaped to contribute to ending poverty and reducing inequalities.

5. **Fiscal Reform:** Reform existing subsidy programmes and design incentives to maximise just transitions opportunities, incorporate just transitions principles into sovereign bond issuance and the activities of public financial institutions (including to boost blended finance for just transitions).

6. **Social Safety Nets:** Expand and enhance social protection programmes for vulnerable populations and upgrade policies for the development of sustainable and decent jobs as well as place-based regional revitalisation.

7. **Gender-Responsive Activities:** Incorporate gender-specific considerations into climate policies in government and business to address unique challenges faced by different genders.

8. **Explicitly Align Sustainable Finance Policies:** Include just transitions priorities in key sustainable finance policies including disclosure, corporate due diligence, net-zero planning as well as the work of central banks and financial regulators.

9. **Measurement and Evaluation:** Establish mechanisms to measure, evaluate, and monitor the progress and effectiveness of just transitions programmes. Use stakeholder feedback to make necessary adjustments and improvements.

10. **International Collaboration:** Work with international partners, organisations, and initiatives to share best practices, understand transboundary implications, incorporate just transitions in the work of international financial institutions, and significantly increase flows of finance for just transitions across diverse emerging and developing economies.

FOR BUSINESS AND FINANCIAL INSTITUTIONS

1. **Ambition and Strategy:** Commit to a just and inclusive transition as an integral part of climate plans, including respect for human rights, promoting decent work, and reducing inequalities both in the transition out of high carbon activities and the transition in to low carbon activities. This can include the development of standalone just transitions plans at the entity-level (corporate transition plans) or in relation to each place-based and time-bound transition (project transition plans).

2. **Assessment and Planning:** Undertake early assessment of the social implications of transitions (positive and negative) and climate impacts and identify costed measures to safeguard and support stakeholders (including through social protection), ultimately ensuring that harms are prevented and opportunities maximised.

3. **Social Dialogue and Stakeholder Engagement:** Undertake social dialogue with workers and meaningful engagement with affected stakeholders in the development and delivery of climate plans, including their financing. Without understanding and embedding their needs and concerns, no transition can be considered "just". Meaningful engagement with stakeholders is essential for thorough analysis, planning, and decision making – including with workers along value chains, businesses (especially MSMEs), communities, indigenous groups, and consumers.

4. **Business Model Redesign:** Integrate just transitions principles into business models, the redesign of production processes, and changes to portfolios of products and services to ensure delivery of green and decent jobs, community benefit, and consumer value.

5. **Holistic Engagement:** Promote just transitions principles and assessments throughout value chains, including deploying human rights and environmental due diligence and taking action to address harms and impacts.

6. **Policy Dialogue:** Advocate for effective government policies to support just transitions financing across climate and other policies (not least the policy recommendations above).

7. **Financial Innovation:** Identify credible and efficient ways to make the just transitions part of all relevant financing mechanisms and asset classes including equity and debt (such as sustainability-linked bonds and loans), listed and private markets, and develop trusted standards.

8. **Governance:** Ensure board oversight for just transitions to ensure delivery as part of wider business strategy and bring stakeholder voices to the table.

9. **Culture and Skills:** Make just transitions part of corporate culture, raise awareness and commit to retaining, redeploying and reskilling affected workers and closing skill gaps by building a diverse and inclusive workforce.

10. **Disclose:** Report on just transitions policies, activities and performance using quantified metrics where possible.

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