THE JUST TRANSITION: TRANSFORMING THE FINANCIAL SYSTEM TO DELIVER ACTION

Launch report of the LSE Just Transition Finance Lab

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The London School of Economics and Political Science

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Just Transition Finance Lab

The Just Transition Finance Lab was launched in February 2024 with the goal of being a centre for experimentation and excellence in the financial solutions needed for a just transition. The Lab is grateful for the core support of its Founding Funders: Antin Infrastructure Partners, Barclays, HSBC and Laudes Foundation.
www.justtransitionfinance.org

The Grantham Research Institute on Climate Change and the Environment hosts the Just Transition Finance Lab. The Institute was established in 2008 at the London School of Economics and Political Science. It brings together international expertise on economics, as well as finance, geography, the environment, international development and political economy to establish a world-leading centre for policy-relevant research, teaching and training in climate change and the environment. It is funded by the Grantham Foundation for the Protection of the Environment, which also funds the Grantham Institute – Climate Change and the Environment at Imperial College London.
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About the authors
This report was written by Nick Robins, Brendan Curran, Oleksandra Plyska, Sangeeth Selvaraju, Sophia Tickell and Jodi-Ann Wang, all of whom hold positions at the Just Transition Finance Lab and Grantham Research Institute on Climate Change and the Environment. For more details see www.justtransitionfinance.org

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AN INVITATION

This report is an invitation to those who want to accelerate the global transition to a resilient, net zero and nature-positive economy in a socially inclusive and fair way. It is directed at leaders and practitioners who want to harness the power of finance to make this happen. The report marks the launch of the LSE's Just Transition Finance Lab, which has been established by the Grantham Research Institute on Climate Change and the Environment to support this shift.

Nick Robins
Executive Director
JUST TRANSITION FINANCE LAB
London, February 2024

Photo: Chris Watt Photography

The Lab's goal is to become a centre for experimentation and excellence in the financial solutions needed for a just transition. In essence, the Lab aims to show how the just transition can become both *possible* and *investable*. Success for us would be a global financial system that is transformed to achieve progress on climate and wider environmental goals through a people-centred approach, thereby making the just transition mainstream.

In Section 1 we outline the planetary urgency of the just transition and the growing number of initiatives seeking specifically to harness finance to address the challenge. The Lab's launch in February 2024 comes at a time of increasing acknowledgement of the imperative of the just transition. Countries are incorporating just transition into their climate strategies, development banks are drawing up just transition packages to support the process, new international partnerships are being formed, trade unions are negotiating just transition agreements in the workplace, leading companies are incorporating social factors into net zero plans, and some banks and investors are addressing the just transition as they finance decarbonisation in the real economy. Meanwhile, at the 2023 UN climate summit in Dubai, the world's governments agreed the first ever Just Transition Work Programme.

The raw reality, however, is that financing the just transition is still an emerging field and has yet to achieve critical mass – as shown in Section 2. The vast majority of financing decisions for climate action do not explicitly consider the social opportunities, social risks or social dialogue needed to ensure success. If this is not remedied, the world could miss out on the huge potential for social advancement in terms of more and better jobs, gender equality, community renewal and universal access to key goods and services (such as energy). A failure to achieve the just transition could also result in negative consequences for some workers, communities, enterprises and consumers, undermining trust and setting back progress.

Incremental changes to 'finance as usual' practices will not be enough. A transformation of the nearly US$500 trillion global financial system is needed to bring the just transition to life. This means moving beyond simply integrating social factors into existing approaches for financing climate action to a dynamic approach that seeks exponential change by focusing on deep innovation around critical leverage points.

Currently, several systemic obstacles are obstructing progress, as illustrated in the table below. The Lab's goals are designed to break down these barriers and stimulate irreversible change – as we set out in Section 3. The closing section provides details of the Lab's initial activities designed to realise these aims.

The Lab is designed to be a catalyst, bringing both theoretical and practical support to implement changes of the magnitude and pace required. Its working model is one of partnership with those seeking to put the just transition at the centre of financial decisions, make social dialogue and stakeholder participation the norm and supporting the policy and market changes needed to bring about system transformation. Collaboration between parties with a wide range of perspectives and experience will be essential. Partners include banks, investors and other financial institutions, trade unions and civil society, businesses and enterprise, along with policymakers, legislators and regulators. Activities will combine getting highly specific about how finance can support the just transition in particular places and sectors with broader efforts to upgrade the overall rules of the game.

Join us in this shared work to transform finance for the just transition.

Obstacles to financing the just transition	**Leverage point and Lab goal**
1. Limited traction in mainstream financing decisions	Design and deploy financial instruments and strategies focused on just transition outcomes
2. Uncertainty over what 'good' looks like and how to track progress	Establish effective metrics to measure performance at all levels: system, institution, activity, place
3. Inadequate policy rules and incentives to drive substantive action	Identify and achieve necessary policy reforms across the real economy and financial system
4. Insufficient real-world leadership to raise the bar of expected practice	Stimulate breakthrough innovation and generate case studies to demonstrate just transition realities

"The Lab's goals are designed to break down barriers and stimulate irreversible change."

Nick Robins, Executive Director, Just Transition Finance Lab

Photo: Wonderlane, Unsplash

1 INTRODUCTION: FROM RECOGNITION TO REALLOCATION

THE PLANETARY URGENCY OF THE JUST TRANSITION

2023 has been confirmed as the hottest on record,[1] and UN Secretary General Antonio Guterres has declared that "the era of global boiling has arrived".[2] The global economy is severely off course in terms of limiting average temperature rise to 1.5°C and the UNFCCC's Global Stocktake concluded in 2023 that a set of system transformations are urgently needed to get progress on track, including a transformation of energy, cities, land use and finance.[3] The climate crisis is also deeply intertwined with the degradation of ecosystems and extinction of species: a transformation of economic and social practices is needed to turn this around too.

Box 1.1. What is the just transition?

The International Labour Organization provides the following definition: "A Just Transition means greening the economy in a way that is as fair and inclusive as possible to everyone concerned, creating decent work opportunities and leaving no one behind. A Just Transition involves maximizing the social and economic opportunities of climate action, while minimizing and carefully managing any challenges – including through effective social dialogue among all groups impacted, and respect for fundamental labour principles and rights. Ensuring a just transition is important for all countries at all levels of development. It is also important for all economic sectors – by no means limited to energy supply – and in urban and rural areas alike."

Source: ILO, *Frequently Asked Questions on just transition*, www.ilo.org/global/topics/green-jobs/WCMS_824102

These sustainability transformations will only be successful if they are seen to be fair and inclusive. One of the reasons why action on climate and nature remains inadequate in all parts of the world is that it still largely fails to recognise the intrinsic human dimension. Addressing this oversight means fast-forwarding the just transition as a critical enabling factor for sustainability success. This recognition has been building for a while, particularly in terms of climate and energy. Most recently, it was underscored at the UN climate summit in 2023, COP28, with agreement on a new Just Transition Work Programme.[4] This takes the just transition into a new league, building on its one-line inclusion within the Paris Agreement of 2015 where the focus was on the role of workers in climate action.

Also in 2015, the International Labour Organization (ILO)'s just transition guidelines set out the key principles to be applied across all sustainability transitions, with an emphasis on public policy. Importantly, these guidelines were reaffirmed by all governments, as well as by employers and trade unions, in 2023, giving a strong and shared foundation for action.

1 https://climate.copernicus.eu/copernicus-2023-hottest-year-record
2 https://news.un.org/en/story/2023/07/1139162
3 See UNFCCC (2023a). See further the World Benchmarking Alliance's identification of seven system transformations needed for sustainable development: decarbonisation and energy, food and agriculture, nature, digital, urban, social and finance. https://www.worldbenchmarkingalliance.org/seven-systems-transformations/
4 UNFCCC (2023b); see, also, Robins (2023)

FOCUSING ON THE HOW: PROTECT, INVOLVE, CREATE

> "Procedural justice lies at the core of the just transition."

The just transition has been adopted by political, social, business and financial leaders as the way of putting people first in the race to a sustainable future. For example, if net zero is the *what*, then the just transition is the *how* in terms of the social dimension of transformation.

The just transition is thus the bridge between the often separate agendas around environmental sustainability and social justice. It links many of the Sustainable Development Goals (SDGs): limiting and adapting to climate change (SDG13), conserving biodiversity in water and on land (SDG14, 15), ending poverty (SDG1), achieving gender equality (SDG5), promoting decent work (SDG8) and reducing inequalities (SDG10). This 'joined up' approach does not come naturally for most decision-makers, however, which is why a dedicated focus on the just transition is required.

Experience shows the need to focus on three touchstones:

- **PROTECT.** The first touchstone is to implement the transition in ways that respect human rights in the fullest sense and protect people from harm. A holistic and indivisible approach is needed that does not cherry-pick rights but encompasses labour rights and the rights of Indigenous Peoples, the right to a clean environment and to development, the centrality of gender equality and the need for fairness within and between generations through intergenerational equity.[5] More broadly, social protection systems can cushion people from adverse climate impacts and provide skills plus access to decent work opportunities.

- **INVOLVE.** Procedural justice lies at the core of the just transition and this leads to the second touchstone: the involvement of people in the climate decisions that affect them. People need a voice in the transition through meaningful and effective social dialogue and participation of all stakeholders, including workers, Indigenous Peoples, local communities, women and youth. Involvement will vary, from collective bargaining to free prior and informed consent, from consultation to co-creation. Involvement is not an abstract obligation but has to be rooted in lived experience in real places.

- **CREATE.** The just transition is about how social innovation takes place to create new ways of providing energy, food, housing, transport, products, services and forms of value. This means that the just transition is a forward-looking strategy, bringing the social imperatives of the future into today's decisions. Too often, the just transition has been seen as an afterthought to technocratic decisions. Experience is showing that it has to be sequenced to be there from the outset.

Importantly, the just transition is beginning to shape industrial and climate policies along with key investment decisions from the Americas to Europe, Africa to Asia. New government policies, business plans, trade union strategies and community initiatives are emerging. For example, investors with trillions in financial assets are starting to incorporate the just transition into the assessment of net zero progress in the companies they own. But it is clear that the just transition is neither a given nor easy to achieve, with tough, often structural, issues emerging for governments, businesses, workers and communities at all levels. To avoid disorderly transitions from energy, industry, transport and agriculture, a new generation of solutions is urgently needed, not least from finance.

5 See UNFCCC (2023c)
Photo: SDI Productions, istock

DEVELOPING FINANCIAL SOLUTIONS FOR THE JUST TRANSITION

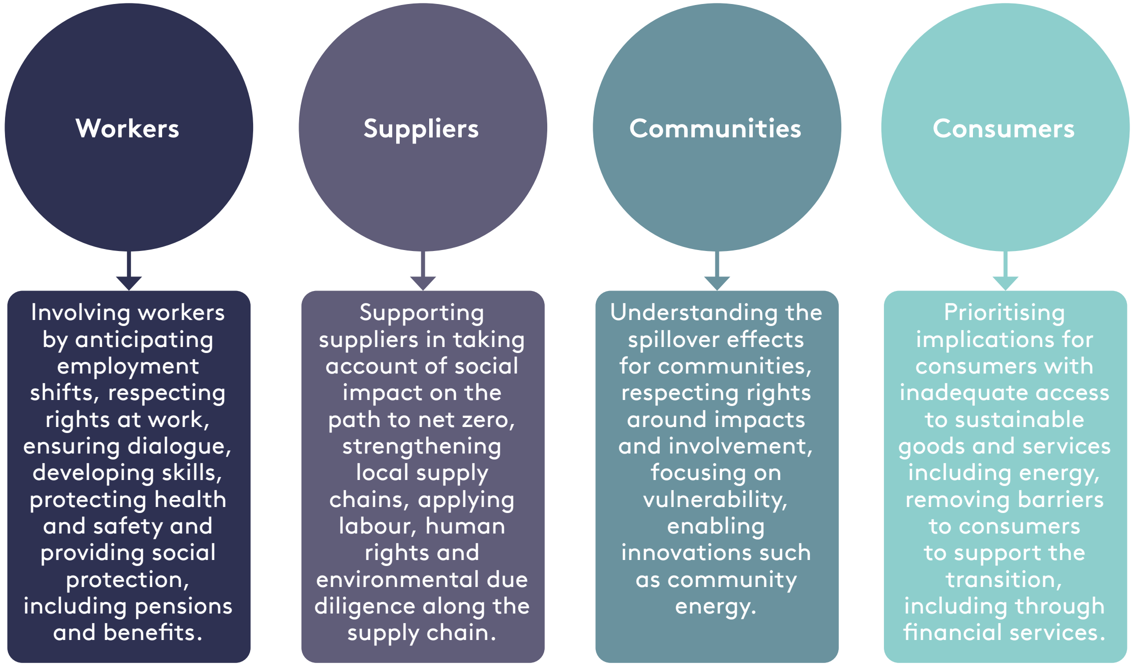
Finance has to be a key lever in making the just transition a reality. Since the Paris Agreement, a first wave of innovations has placed just transition finance on the map. These efforts have been prompted by a three-fold rationale for financial action: first, that just transition is the right and principled thing to do in terms of upholding human rights at a moment of disruptive change; second, that it is the necessary thing to do to win public trust; and third, it is the smart thing to do as a way of building the social and human capital needed to create long-term value. The task is now to move from this initial recognition towards practical strategies that result in the reallocation of public and private capital to achieve climate and social goals simultaneously.

The Lab is dedicated to promoting just transition finance not as a separate activity but as a core feature of green and climate finance, of environmental, social and governance (ESG) and of responsible and sustainable finance. Since 2018, the Grantham Research Institute has been working with banks and investors, business and trade unions, policymakers and regulators, civil society and academia across the world to show why and how the financial system can drive delivery of the just transition; the Lab will be extending this work.

The first phase of work to finance the just transition has focused on raising awareness and gaining recognition of its importance. This work has led us to identify three core priorities for the first generation of just transition finance: in the spirit of just transition acting as a bridge, it means making sure that finance for climate action addresses the social opportunities and social risks that are involved, and supports the social dialogue that is so essential. This approach then needs to be applied to four key stakeholder groups (workers, suppliers, communities and consumers), as illustrated in Figure 1.1.

Figure 1.1. A first-generation approach to financing a just transition

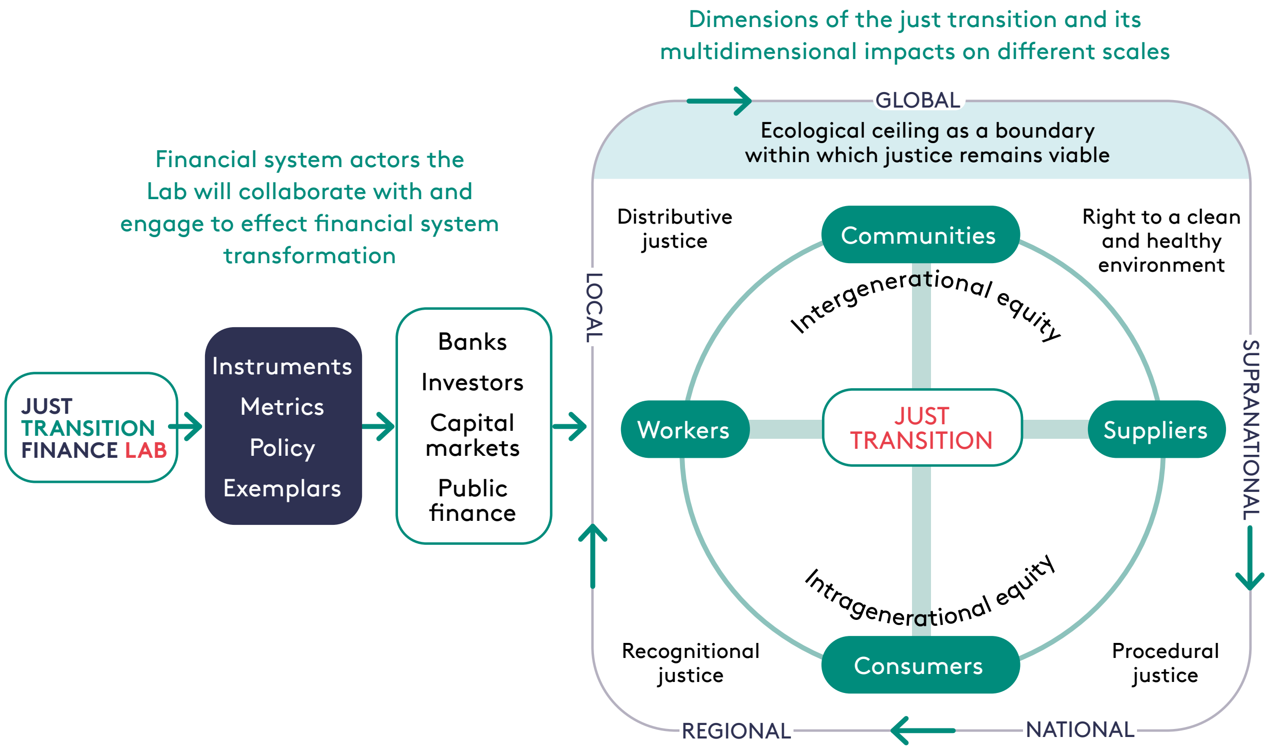
1. Anticipate, assess and address the social risks of the transition.
2. Identify and enable the social opportunities of the transition.
3. Ensure meaningful dialogue and participation in net zero planning.



Source: Curran et al., 2022

This phase is now drawing to a close: it is now time to move from conceptual acceptance to system transformation. The financial world needs to price in just transition requirements and allocate capital to achieve this goal. The structural role of finance needs to be refreshed. Fundamentally, finance is a service function and, as intermediaries, financial institutions exist to serve households, enterprises and the state to achieve climate and wider sustainability goals. This will require a change in both mindset and operating practices.

Figure 1.2. The Lab's approach to financial system transformation for the just transition



See 'What is meant by intergenerational climate justice?' for expansion on related themes in this figure.

Key challenges include:

- How can the just transition come alive in sustainable finance for specific sectors and places, and in key levers of change such as climate roadmaps, pathways and transition plans?
- How can financial institutions upgrade their ability to respond to the requirements of those impacted by the climate and nature agenda so that no one is left behind?
- How can financial institutions go further to reshape action on climate and nature so that it helps to overcome entrenched inequalities, notably around gender, income and race?
- What are the models of social innovation that can co-develop financial instruments with customers, clients and beneficiaries along with workers and communities?
- How can the financial system as a whole overcome the barriers that prevent investment getting to those who need it, especially in the Global South?
- How can all of this be done with integrity and transparency so that the just transition is not manipulated to slow down action on climate and nature?
- And thus how can the strategic prize of the just transition be realised in terms of measurable improvements in social justice, faster action on climate and nature and the creation of new sources of value?

Change at the scale necessary will require a willingness to experiment and innovate. The Lab will focus on identifying a few high-leverage areas where its mix of research, convening, catalytic interventions and knowledge exchange can enable the process of trial and error that will be needed. This imperative applies to every part of the global economy and the financial system that supports it.

The energy system has been the first to tackle the social implications of the transition out of fossil fuels and into clean and efficient technologies in energy supply, the built environment, industry and transport. The main 'just energy transition' issues and priorities for the Lab are explored on p11.

The principles of the just transition are also crucial for action at the nexus of climate and nature, notably the vital drive to end deforestation, establish sustainable agricultural and food systems and restore ocean ecosystems.[6] Here, the Lab will also build on emerging financial innovations, with a focus on upholding human rights for land workers and rural communities, ensuring access to finance for smallholders, making land tenure more inclusive (particularly for women), and advancing the rights of Indigenous Peoples.

The next section looks in more detail at the early signs of evidence of action on just transition and finance.

6 See Muller and Robins (2022)
Photo: Johnny Greig, istock

FINANCING THE JUST ENERGY TRANSITION: THE LAB'S APPROACH

The energy transition is generating profound social opportunities as well as risks for workers, suppliers, communities and consumers across the world, changes that will deepen and accelerate in the decade ahead.

The sector and its transformation provide a testing ground for how the Lab will pursue its goals. The Lab will focus on financial instruments that embed just transition principles, identify ways of measuring outcomes, support policy reform and produce case studies of emerging practice. To bring granularity, the Lab will look in detail at particular regions and sectors.

Key issues include:

- **A clean energy system will be more job-rich than a fossil-dependent one.** Already, clean energy jobs, at 35 million, exceed fossil fuel jobs, at 32 million, and job growth in the sector is now almost exclusively driven by renewables, electric vehicles (EVs) and batteries, heat pumps and critical minerals.[7] By 2030, following a net zero pathway could boost energy employment around the world to 90 million, up from 65 million today, according to modelling by the International Energy Agency (IEA).[8]
- **With countries agreeing at COP28 to triple renewables and double energy efficiency, there is a historic opportunity to make sure that the clean energy expansion produces decent work,** with social dialogue, shared value for communities, and universal access to clean energy for the 2.3 billion people worldwide without access to clean cooking facilities and the 760 million without clean electricity. These gains will not happen automatically: determined government policy is needed to enforce labour standards and human rights throughout the energy system, along with investment in the skills for the net zero energy workforce and resourcing the community empowerment that will be needed.
- **The mining of so-called 'critical minerals' – those needed for renewable energy and batteries, for example – particularly requires urgent transformational improvements in human rights and environmental performance.**[9] An investigation of how investors can support 'just mining' will be one of the Lab's first outputs. More broadly, the Lab will prioritise working with partners who seek to make financing the just transition core to clean energy expansion.
- **The just energy transition also means anticipating and managing the human consequences of the end of the fossil fuel age.** Phasing out fossil fuels is essential to controlling further temperature rise, as the 2023 Global Stocktake confirmed. This necessitates early retirement of existing assets and ending the financing for new fossil fuel supply, objectives re-emphasised by the IEA in its 2023 update of its Net Zero Roadmap.[10] COP28 also made a breakthrough, with governments agreeing on "transitioning away from fossil fuels in energy systems, in a just, orderly and equitable manner, accelerating action in this critical decade, so as to achieve net zero by 2050."[11] The just transition for workers, suppliers and communities affected by the phaseout of fossil fuels needs to be rooted in respect, with those impacted given a seat at the table so they can help to shape programmes of human and regional investment.
- **A growing number of domestic and international financing programmes are underway across the world to deliver a just transition away from fossil fuels, and additional efforts are needed as the pace of technological change intensifies.** Furthermore, it is important to counter efforts to misuse the just transition as an excuse to slow down fossil fuel phaseout, by deploying robust evidence and engagement. For the Lab, the priority will be to work with partners who seek to make the just transition central to ending financing for new fossil fuel supply, along with the progressive retirement of existing assets. For example, much of the first set of Lab case studies will be focused on the financing of a just fossil fuel phaseout.

7 IEA (2023)
8 IEA (2022)
9 BHRRC (2023)
10 UNFCCC (2023d)
11 UNFCCC (2023c)

2 EARLY MOVES TO FINANCE THE JUST TRANSITION

"The social justice dimension means ensuring that every financing decision takes people as well as climate into account."

THE $500 TRILLION JUST TRANSITION FINANCE CHALLENGE

Just transition principles have to shape the transformation of the financial system that is essential to getting climate performance on track. In 2023 at the COP28 climate summit, all governments agreed that "a transformation of the financial system and its structures and processes" is essential to delivering climate progress.[12] The reality is that there is no shortage of capital to deliver climate action and sustainable development. According to the Financial Stability Board, the global financial system holds nearly $500 trillion in assets across the globe, up from just under $300 trillion in 2013. This consists of the combined assets of commercial banks and central banks, insurance firms and institutional investors, public financial institutions and municipal finance.[13]

Much has happened in the past decade to make sustainability matter in financial decision-making. But the raw reality is that multiple market, policy and institutional failures continue to result in the structural misallocation of capital to activities that damage climate and nature and also undermine inclusive and shared prosperity. At COP28, governments signalled their recognition that 2024 would be the year when breakthroughs are required, not least by setting a 'new collective quantified goal (NCQG)' for climate finance.[14] From a just transition perspective, this transformation needs to involve three interlinked features:

1. **Climate alignment.** One of the three core goals of the Paris Agreement is "making financial flows consistent with a pathway to low-greenhouse gas and climate resilient development" (Article 2.i.c). This has spurred a plethora of financial alignment initiatives by central banks and regulators, banks, investors and civil society. One often overlooked part of Article 2.i.c is that the goal is not simply for finance to support net zero and resilience but to do this in ways that deliver development. Vital to the success of efforts to make this core goal of the Paris Agreement come to life will be to show how financing climate action leads to ending poverty, reducing inequality and creating decent work, especially in developing countries – in other words, a just transition. Doing this is the next step for Paris-aligned finance and will be a key theme for the 2024 climate negotiations.

2. **Social justice.** Access to finance is essential for sustainable development and a key feature of the just transition, not least because both achieving net zero and building climate resilience require upfront investments, posing challenges in terms of access to affordable capital. But beyond access, the social justice dimension of financial system transformation means ensuring that every financing decision takes people as well as climate into account. According to the Financial System Benchmark conducted by the World Benchmarking Alliance in 2022, the majority of the 400 largest financial institutions did not acknowledge their impact on the environment or society, human rights risk and impact reporting were almost non-

12 UNFCCC (2023c)
13 Financial Stability Board (2022)
14 UNFCCC (2023c)

existent, and financing to low-income countries, SMEs and other excluded groups was exceptionally low.[15] For the just transition, this means that many financial institutions looking to make the bridge between climate and people could be starting from a low base.

3. **Global inclusion.** Transforming the financial system to support the just transition also has a fundamental geographical element. As the Intergovernmental Panel on Climate Change (IPCC) has said, "climate finance in support of a Just Transition is likely to be key to a successful low-carbon transition globally."[16] Investment needs to be reallocated from the pools of capital that largely reside in the Global North to the climate and nature priorities that are disproportionately located in the Global South. Performance to date has been woefully insufficient. Industrialised countries failed to meet the target set in 2009 to mobilise $100 billion in annual climate finance flows to developing countries by 2020. International allocations of private climate finance into the Global South have been particularly weak, reaching a mere $9.7 billion in 2020.[17] Moreover, COP28 concluded that there is a growing gap between developing countries' needs and investments. Looking ahead, emerging and developing countries (excluding China) will need to invest $2.4 trillion a year in climate and nature by 2030, according to the Independent High-Level Expert Group (IHLEG) on Climate Finance, co-chaired by Vera Songwe and Nick Stern.[18] Of this, $1 trillion has to come from external public and private flows. All these investments will need to be aligned with just transition principles, and will require a ramping up of dedicated just transition funding, which the IHLEG estimates needs to reach $75 billion a year by 2030.

SIGNALS OF ACTION AND COMMITMENT

The scale of this challenge can appear overwhelming, but action to boost just transition finance is getting underway via domestic government policy, the efforts of the financial sector and international financial cooperation.

Government policy

The Paris Agreement gives governments the primary responsibility to deliver the just transition and the ILO's just transition guidelines from 2015 lay out a suite of relevant policy levers, from macroeconomic to industrial and regional, skills' development to social protection, promoting rights to social dialogue. The 2023 G20 summit held in New Delhi acknowledged this, with leaders pledging that "we will pursue development models that implement sustainable, inclusive and just transitions globally, while leaving no one behind."[19]

Looking globally, the UNFCCC has found that so far, only 31% of the 195 Parties to the Paris Agreement plan to address the socioeconomic impacts of climate action by including just transition in the implementation of their Nationally Determined Contributions (NDCs).[20] South Africa was the first country to make the just transition part of its NDC and has developed extensive policies and processes to implement this commitment, including through a Presidential Climate Commission, setting out a national framework for what the just transition means in its national context, including for finance. A growing range of countries, from Canada to Chile, the Philippines to Scotland and Spain are taking substantive action.[21]

15 World Benchmarking Alliance (2022)
16 IPCC (2022)
17 Lankes and Robins (2023)
18 Bhattacharya et al. (2023)
19 G20 (2023)
20 UNFCCC (2023e)
21 Scheer et al. (2023)
Photo: Dylan Gillis, Unsplash

In some countries and regions the just transition is also featuring as a key dimension of green industrial policies. In the US, for example, the $369 billion Inflation Reduction Act (IRA) is providing fiscal incentives for clean energy growth, with job creation, good working conditions and environmental justice at its heart.[22] In 2023, the Biden Administration announced a further $15.5 billion, for "more jobs and a just transition to EVs": this measure coincided with industrial action by trade unions to ensure that workers are central in the expansion of electric vehicle production.[23] Concerns have been raised, however, about the potentially protectionist impacts of the IRA, including for developing countries.

The European Union has made the just transition a key pillar of its Green Deal programme. The Just Transition Mechanism aims to provide €55 billion of targeted support from 2021–2027 to alleviate socioeconomic impacts in regions most affected by the transition, such as Poland's coal regions, where funds will be spent on local economic diversification, including equipping fossil fuel workers with the skills for job creation in renewable energy.[24] In addition, the just transition is beginning to become part of sustainable financial regulations in terms of corporate disclosure and due diligence frameworks in the EU and in transition planning in the UK.

Financial sector initiatives

Institutional investors were the first part of the financial sector to pledge to support the just transition, with more than 150 firms with over $10 trillion in assets committing to take action in 2019.[25] Five years on, the Climate Action 100+ investor initiative, representing 700 institutions with $68 trillion in assets, incorporated just transition expectations into its 2023 net zero benchmark of the world's 170 most carbon polluting companies.[26] Less than a quarter of these companies (24%) had made a commitment to the just transition, and only five (3%) had produced just transition plans with stakeholder involvement.

A growing number of banks have also started to signal commitment to just transition principles, supported by good practice guidance. Analysis of 26 global banks conducted in 2023 by LSE's Transition Pathway Initiative (TPI) Centre found that only 23% had made a clear commitment to align their climate strategy with transparently defined just transition principles.[27] Working across financial markets, the Glasgow Financial Alliance for Net Zero (GFANZ), which represents more than 500 firms with over $150 trillion in assets among investors, banks, insurers and other institutions, has incorporated some aspects of just transition into its recommendations for how businesses and financial institutions should draw up their climate transition plans.[28]

Public finance institutions are also making commitments and taking first steps. In 2021, eight of the world's leading multilateral development banks (MDBs), with combined assets totalling $579 billion, published high-level just transition principles. MDBs including the Asian Development Bank, European Bank for Reconstruction and Development, the European Investment Bank and the World Bank are now translating these into financial products for the public and private sectors.[29] These efforts urgently need to be extended to all finance, and move from statements of intent to actual changes to financial decision-making.

International financial collaboration

Financing the just transition has significant international dimensions, not least the imperative of increasing investments in the Global South, plus the need to develop

22 The White House (2022)
23 US Department of Energy (2023)
24 European Commission (n.d.)
25 In a statement by the Principles for Responsible Investment (PRI), initially released in 2018 further to investor guidance prepared with the Grantham Research Institute, Harvard Kennedy School and the International Trade Union Confederation (ITUC): see https://www.unpri.org/research/climate-change-and-the-just-transition-a-guide-for-investor-action/3202.article
26 See https://www.climateaction100.org/net-zero-company-benchmark/
27 Commarmond et al. (2023)
28 GFANZ (2022); see also Curran et al. (2022)
29 MDB Group (2021)

Photo: Howtogoto, iStock

shared frameworks to promote consistency and integrity, and to pool knowledge and capacity. An example of leading practice in this area, four Just Energy Transition Partnerships (JETPs) have been negotiated between countries in the Global South – South Africa, Indonesia, Vietnam and Senegal – and international partners. In South Africa's case, international partners will contribute $8.5 billion towards the country's overall $98 billion Just Energy Transition Investment Plan. In Indonesia, $10 billion of international public finance along with $10 billion in private finance will form part of the $96 billion in investment required by 2030. The JETPs are still relatively new, but it is already clear that they will only realise their promise if they result in the right type of financial flows – with an emphasis on grants and concessional capital – and involve affected workers and communities in the shift from a fossil fuel to clean energy system.

Box 2.1. South Africa: designing a context-specific approach

In South Africa, the just transition finance discourse is heavily focused on ensuring that the *quality* of just transition finance is fit for purpose. The finance needs to generate transition value at ground level and avoid becoming a volume-driven, tick-box exercise. To support this, South African think tanks, the Presidential Climate Commission and the Project Management Unit of the Just Energy Transition Partnership are working individually and jointly to provide concrete guidance and direction to investors about what qualifies as a just transition investment in the South African context.[30]

Several iterations of a context-specific transaction framework have been developed and tested against live and planned projects. Collected evidence has shown that a one-size-fits-all transaction framework is inappropriate given the range and complexity of projects necessary to deliver meaningful change in post-Apartheid South Africa. The most current thinking leads to an iteration of a framework that provides differentiated qualification requirements for investments, taking into account differences in their geographical parameters, the stage of project development and the ultimate project deliverable. This more granular approach is proving more conducive to supporting enabling projects (such as policy support and municipal capacity-building), which are vital in a developing country context. It is also helping to improve project pipeline volumes by allocating just transition funding to supporting projects at earlier stages of development than would be required in more developed countries.

The framework also accommodates 'Just Transition Plus' investments, designed to attract priority access to grant and concessionary funding. These investments aim to address the most blatant exclusions of Apartheid by delivering meaningful empowerment of vulnerable groups and communities through asset ownership or management representation.

Source: Sandy Lowitt, Research Fellow, Trade and Industrial Policy Strategies (TIPS) and Visiting Senior Fellow at the Lab.

30 For example, see TIPS (2023)
Photo: Getty Images

Beyond the JETPs, the 90-country Coalition of Finance Ministers for Climate Action has identified the just transition as a cross-cutting priority for action for economic strategy, fiscal policy and financial mobilisation.[31] The just transition is also featuring in global accountability and disclosure frameworks. In its 2022 *Integrity Matters* report, the UN's task force on net zero integrity, the High-Level Expert Group on the Net Zero Emissions Commitments of Non-State Entities, emphasised that the just transition had to be part of non-state efforts to climate action.[32] The International Sustainability Standards Board (ISSB) referenced the just transition as one of the themes in its 2023 consultation on harmonised corporate disclosure around human capital and human rights.[33] The just transition has also been explicitly included in the latest upgrade of the OECD's responsible business guidelines on multinational enterprises (MNEs), which provide the bedrock for many voluntary and mandatory programmes across the corporate and financial world to drive climate and environmental action, respect human rights and deliver sustainable development.[34]

System change happens when government policy, financial sector practice, stakeholder involvement and international cooperation come together. Boxes 2.1–2.3 profile examples of how this is beginning to happen in South Africa, the UK and the US.

Box 2.2. United Kingdom: integrating the just transition into net zero planning

The momentum for just transition finance in the UK has largely been bottom-up, with banks and investors working with trade unions, civil society and academia to make the case for innovation and systemic action. A key driver has been the imperative of overcoming the country's deep regional inequalities and the need for climate action to be shaped so it supports place-based prosperity. In Scotland, the government has shown leadership, integrating the just transition across climate policy and establishing a dedicated fund.

In the financial sector, work by investors and then banks resulted in the establishment of the multi-stakeholder Financing a Just Transition Alliance (FJTA, convened by the Grantham Research Institute. The Impact Investing Institute has developed dedicated criteria for investment funds.[35] In 2022, the FJTA set out the case for including just transition principles in the design and implementation of net zero transition plans.[36] This helped to prompt the UK government's Transition Plan Taskforce (TPT) to recognise the importance of the social implications of climate action. In 2023, the TPT published its framework for credible net zero planning with five pillars: ambition, implementation, engagement, metrics and governance. All of these include guidance on how business and finance could integrate the just transition.[37] The task is now to make sure that this guidance is adopted in ways that benefit communities across the UK and beyond.

Source: Authors/Grantham Research Institute on Climate Change and the Environment

31 Coalition of Finance Ministers for Climate Action (2023)
32 UN High-Level Expert Group on the Net Zero Emissions Commitments of Non-State Entities (2022)
33 ISSB (2022)
34 OECD (2023)
35 Impact Investing Institute (2023)
36 Curran et al. (2022)
37 TPT (2023)

Box 2.3. United States: Converging policy and market efforts

In the United States, impetus for just transition finance has come from public policy and public investment. Most prominently, the 2022 Inflation Reduction Act (IRA) included incentives for labour standards attached to federal financing for climate-related investment. The IRA set a framework for integrating climate and labour in both public and private investment decision-making and also included explicit commitments to climate justice. This came in the form of mandates for 40% of public funds to be invested in historically marginalised communities. The $27 billion Greenhouse Gas Reduction Fund, a part of the IRA, creates a focal point for public investments to integrate climate and community investment objectives, and is meant to catalyse the growth of state-level green banks that do the same.

Alongside this, a distinct focus of the investor approach to a just transition in the US is on embedding investors into broader stakeholder networks rather than acting alone. This builds on efforts to include the voice of affected workers and communities in just transition planning ('nothing about us without us'). It presents a more systemic approach to engagement and is illustrated in convenings organised by the Interfaith Center on Corporate Responsibility (ICCR) with energy utility companies,[38] from which three lessons emerged. First, investor engagement on the just transition needs to address interconnected decarbonisation, labour and energy justice issues; second, place-based engagement with stakeholders and companies is critical; and third, engagement needs to include the federal, state, local policy and regulatory contexts. US investors also filed shareholder resolutions in 2023, including one by the Teamsters pension plan for a just transition report at Amazon, which won support from almost a third of investors.

Source: Vonda Brunsting, Harvard Law School and Visiting Senior Fellow at the Lab

"Nothing about us without us"

This rapid review of early efforts in just transition finance shows that the issue is now on the financial leadership agenda – but as yet, it is far from being the norm it needs to be within financial system practice. For this to happen, a transformational approach is needed. This is the focus of the next section, which sets out the role that the Lab will seek to take in response.

38 ICCR (2023)

Photo: The Tampa Bay Estuary Program, Unsplash

3 BREAKING DOWN THE BARRIERS: HOW THE LAB WILL WORK

MAKING SYSTEM TRANSFORMATION HAPPEN

The recognition of the importance of the just transition for climate action has not yet been met by the required level of implementation by policymakers, business, finance or civil society. Action needs to be scaled up immediately to ensure that financial system support for a just transition materially helps to deliver the peak in greenhouse gas emissions by 2025 and a 43% cut by 2030 for the world to be on track to reach net zero by 2050. Doing this will require coordinated action across the financial system.

Each form of finance has different purposes and mandates and just transition expectations will need to be clearly assigned to avoid confusion and inaction. Driving an upward spiral of ambition will require the concerted efforts of all participants in the financial system and beyond, involving Finance Ministries and public financial institutions, central banks and regulators, commercial banks and institutional investors, insurance firms and capital markets, along with the billions of users of the financial system and those impacted by its activities, including workers, households, firms and communities.

"Action needs to be scaled up immediately."

Table 3.1. Systemic obstacles to progress on the just transition and the Just Transition Finance Lab's planned response

Obstacles to financing the just transition	Leverage point and Lab goal
1. Limited traction in mainstream financing decisions	Design and deploy financial instruments and strategies focused on just transition outcomes
2. Uncertainty over what 'good' looks like and how to track progress	Establish effective metrics to measure performance at all levels: system, institution, activity, place
3. Inadequate policy rules and incentives to drive substantive action	Identify and achieve necessary policy reforms across the real economy and financial system
4. Insufficient real-world leadership to raise the bar of expected practice	Stimulate breakthrough innovation and generate case studies to demonstrate just transition realities

Cutting across these four goals is a common priority: *make sure that affected stakeholders are at the table in this process of financial system transformation*. This means that the Lab's work will be global in inspiration and also context-dependent in application.

One of the exciting aspects of the just transition is that it is a form of social innovation. The question for the financial system is how to move from today's situation of growing but scattered practice to one of exponential and structural progress. As Laurens Speelman and Yuki Numata of the Rocky Mountain Institute explain, "the adoption rate of innovations is non-linear; it is slow at first, then rapidly rises before flattening out again."[39] These innovation trajectories are commonly known as S-Curves and have been used to explain the breakthrough growth in clean technologies over the past decade.[40] Alongside these techno-economic breakthroughs, we need breakthroughs on the human dimension of climate action. This means identifying the barriers to exponential progress and selecting the leverage points to move from the current phase of just transition pioneers and early adopters to mainstream uptake – and to the transformation of the financial mainstream itself.[41]

The Just Transition Finance Lab has identified four major obstacles to exponential progress, along with a corresponding set of leverage points and interconnected long-term goals for the Lab. These are set out in Table 3.1 and explained further on the following pages. Section 4 then discusses how the Lab will take forward these goals in 2024.

39 Speelman and Numata (2022)
40 Simons and Nijhof (2021); Mission Innovation (2023); Boehm et al. (2023)
41 IHRB (2023); IHRB et al. (2024, forthcoming)
Photo: Ivan Bandura, Unsplash

OBSTACLE 1: LIMITED TRACTION IN MAINSTREAM FINANCING DECISIONS

Currently, the lack of routine incorporation of the just transition into financial decisions is the biggest barrier, which will take a highly targeted approach to dismantle. How different financial institutions respond to the just transition will need to be as diverse as their range of purposes and mandates, with each carefully identifying how just transition factors can be incorporated into all financial decisions.

Assets held by private institutions such as commercial banks, institutional investors, insurance firms and capital market intermediaries (including stock exchanges, credit rating agencies, investment consultants and data providers) make up the bulk of the capital base that has to swing behind the just transition to net zero. Just transition will need to be woven into corporate purpose, product design, governance and fiduciary duties, and into stakeholder engagement and accountability. This means making sure that human rights and labour standards are at the heart of climate finance plans and also improving access to sustainable finance for clients and customers in the real economy so that they too can meet their climate goals.

The **banking sector** is the largest component of the financial system and has a particularly important role to play, given its pivotal role in the real economy. Some commercial banks are beginning to reflect a commitment to the just transition in their climate policies, but this needs to result in changes in actual practices. The geographical coverage needs to embrace more banks in the Global South. All parts of banking balance sheets need to be positioned for the just transition but not least housing finance, corporate lending and finance for micro-, small- and medium-sized enterprises (MSMEs), including targeted efforts for women entrepreneurs.

A larger number of **institutional investors** have made commitments to the just transition, but evidence on the impact of these initiatives remains limited. Forceful stewardship across all sectors and asset classes is needed through shareholder and bondholder engagement, building on existing initiatives such as Climate Action 100+ and the Transition Pathway Initiative. Alongside this, investors need to consider the conscious allocation of capital to dedicated funds and assets that actively promote the just transition, notably in private markets (such as infrastructure).

Public financial institutions have a relatively small share of financial system assets at around $25 trillion, but as policy banks they can be pivotal in system change through the expectations they set and types of capital they provide (including concessional capital and guarantees). Leading multilateral and national development banks and development finance institutions have been among the frontrunners on the just transition and will need to step up the pace to achieve system transformation.

The **capital markets** connect the different segments of the financial system, notably for listed and unlisted equity and debt. Demand is growing in the green, social, sustainable and sustainability-linked (GSS+) arena for bonds that join up climate and social priorities to support the just transition. The fact that the bond market encompasses both the public finance sector in terms of sovereign governments, municipalities and development banks, and the corporate and private finance sectors, marks it out as a key arena for just transition innovation.

Lab Goal 1: Design and deploy financial instruments and strategies

To help break down this barrier, the first Lab goal is to catalyse the design and deployment of financial instruments and strategies that show how just transition outcomes can be realised. The Lab will work with interested stakeholders on needs assessment, prototype development, elaboration of market frameworks and rapid adoption of tested results. The just transition imperative has to become routine practice in every financial institution, asset class and transaction, and so the Lab will be selective where it sees the potential for a catalytic stimulus.

OBSTACLE 2: UNCERTAINTY OVER WHAT 'GOOD' LOOKS LIKE AND HOW TO TRACK PROGRESS

It is a truism, particularly embedded in the culture of finance, that 'what gets measured gets done'. Financial institutions need to know what 'good' looks like and how it can be measured so that priorities can be identified and resources allocated. Furthermore, just transition standards and metrics need to have integrity so that they set the right level of ambition and avoid a new form of 'greenwashing' that could be called 'justicewashing'. This is where unsubstantiated claims are made about an organisation's commitment to delivering climate action with people at the heart.

Currently, generally accepted definitions of what constitute financial contributions to just transition actions are lacking. Standards, norms and metrics to measure progress need to be better identified and more widely disseminated to support action by the financial world. The active involvement of affected stakeholders in the design of these standards and metrics is essential, to make sure that they reflect real world conditions.

The ILO's original just transition guidelines from 2015, *Guidelines for a just transition towards environmentally sustainable economies and societies for all*, set out what the agenda involves, looking primarily at the needs of policymakers. Today's task is to translate these into generally accepted standards for financial institutions, combining global norms and the ability to take forward national priorities. Rather than being a work of invention, just transition finance is an exercise in the application of longstanding social and economic priorities to the delivery of climate action. Encouragingly, a growing body of principles, guidance, disclosure and assessment frameworks is now being established across the world (see Box 3.1).

"Just transition standards and metrics need to have integrity so that they set the right level of ambition and avoid 'justicewashing'."

Lab Goal 2: Establish effective metrics to measure performance

The second Lab Goal will therefore be to help establish effective metrics to measure just transition performance. The Lab is not a standard-setting initiative, but it aims to play a useful role in resolving how the just transition can be meaningfully communicated through robust metrics and also by encouraging adoption so that real change takes place. The intention is that this focus on metrics brings consistency from the system and geographical level through institutions, transactions and activities to specific places.

The ultimate goal of just transition finance is to make an impact and generate real world improvements for workers and communities, and along supply chains including consumers, particularly those in the Global South. Matching the imperative of getting clarity about 'what good looks like' is the need to ensure that the governance of finance responds to the context-dependent social risks and opportunities of net zero, and in doing so involves those affected in decision-making through social dialogue and stakeholder participation. With procedural justice being such a key pillar of the just transition, this could necessitate some rethinking of current ways of taking decisions and disclosing performance at all levels, from the national through to individual financial institutions, specific assets and communities.

All of this inevitably means that financial and security regulators will need to understand their role in bringing rigour and consistency.

Photo: C Wocintechchat, Unsplash

Box 3.1. Translating the just transition into guidance, disclosure and assessment frameworks

Guidance frameworks cover what should be done to finance the just transition in general thematic terms. Leading examples include the ITUC's Just Transition Centre's business guide,[42] the Council for Inclusive Capitalism's Just Transition Framework,[43] the Sharm El-Sheikh Guidebook for Just Financing,[44] the ILO and LSE Just Transition Finance Tool for banks and investors,[45] the Just Transition Resource Platform from We Mean Business,[46] and ILO and UNEP FI's pathways for banking and insurance.[47]

Disclosure frameworks provide more detailed advice on what entities could and should publish on the just transition as part of corporate reporting regimes. They can be both voluntary and mandatory. Examples include the International Sustainability Standards Board's sustainable reporting standard, the EU's Corporate Sustainable Reporting Directive (CSRD) and Corporate Sustainable Due Diligence Directive (CSDDD), and the UK's Transition Plan disclosure framework.

Assessment frameworks provide methodologies and indicators to evaluate the just transition performance of entities such as companies or financial institutions. Examples include the World Benchmarking Alliance and the Transition Pathway Initiative Centre, which developed the frameworks and provides data for Climate Action100+, Assessing Sovereign Climate-related Opportunities and Risks (ASCOR) and the Net Zero Banking Assessment Framework. Clearly, it is critically important that these three related approaches are consistent and reinforce one another, especially the disclosure and assessment frameworks, not least because evaluations need to be based on what is made publicly available through reporting.

OBSTACLE 3: INADEQUATE POLICY RULES AND INCENTIVES

Even if it is clear how the just transition can be financed and how performance can be measured, capital will not flow if this is not enforced through policy rules and incentives. **Governments,** as signatories of the Paris Agreement and architects of the global financial system, have the primary responsibility for setting the framework for the just transition. One clear lesson to date has been the urgent need to build a shared narrative on the just transition to overcome growing political polarisation around the fairness of the net zero transition. The just transition needs to be a bipartisan issue: even where there are political differences, the need to address the social dimension of climate action must not be in doubt. Creating this narrative needs to be done upfront, with technical expertise and social skill, to avoid manipulation by forces opposed to climate action. This will be a particular priority in 2024 with significant elections taking place, including in the EU, India, Indonesia, South Africa, UK and US.

Beyond the building of this political bargain on the just transition, detailed policy reform is needed to unlock capital as part of financial system transformation. **Finance Ministers** will be key to this, not least in the ways in which they allocate annual budgets and prioritise the 'fiscal space' that will be required. Some are starting to speak the language of just transition, but more is needed to bring a fair distribution of the benefits and costs of transition, build the social protection systems to lessen the impacts of climate shocks, support a skilled net zero workforce with fair work provisions, and incentivise regional revitalisation and place-based investment. Here, governments need to link fiscal incentives for climate action with social conditionalities to support the just transition (as the US is doing through the Inflation Reduction Act).

42 Just Transition Centre and the B Team (2018)
43 https://www.inclusivecapitalism.com/just-energy-transition-company-framework/
44 Egyptian Ministry of International Cooperation (2023)
45 ILO and LSE (2022)
46 https://www.wemeanbusinesscoalition.org/just-transition-resource-platform/
47 ILO and UNEP Finance Initiative (2023)

Photo: Zhouxing Lu, Unsplash

National and international development banks should also make the just transition a core part of their climate finance toolbox to shift the economic frontier. Given the public good aspects of the just transition, there will be a particular role for a new generation of so-called blended finance, where public funds are used not only to crowd in private capital to accelerate climate action, but also to do this in ways that foreground the needs of workers, communities, supply chains and consumers.

Central banks and financial regulators can also introduce measures to make sure that employment, regional and wider just transition aspects are part of their climate strategies, including within policies to promote financial inclusion (such as the US Community Reinvestment Act and India's Priority Sector Lending programme).[48]

Crucially, the public finance dimension of the just transition is not limited to the local and national. More broadly, sector transformations are having profound just transition implications for international trade and investment, particularly in terms of electric vehicles, critical minerals and foundation metals (such as steel), as initiatives such as the EU's Carbon Border Adjustment Mechanism (CBAM) come into force.

Current policy settings are insufficient to respond to the scale of the challenge. The **UNFCCC**'s new Just Transition Work Programme provides the forum for sharing experience, developing approaches and universalising good practice. In 2025, all governments need to submit their next round of NDCs, and this time the just transition has to be fully integrated, with credible measures in place.

48 E.g. see Robins and Monnin (2022)
49 ILO (2015)
Photo: Getty Images

Lab Goal 3: Identify and achieve necessary policy reforms

The third Lab Goal will therefore be to identify and then help to achieve the policy regimes that are needed for the just transition. Both real economy and financial system policies and regulations need to be upgraded to mobilise capital for a just transition. The ILO's just transition guidelines show how a range of government policies can and need to be reformed to advance a just transition, including: macroeconomic and fiscal policies (e.g. carbon taxes), industrial and regional policies, labour market, education and skills policies.[49] Working with others at the Grantham Research Institute and beyond, the Lab will help to establish credible and effective policy and regulatory packages that change the financial calculus in favour of just transition. These packages will also be designed to be used by financial actors and other relevant stakeholders to engage with governments on policy reform.

OBSTACLE 4: INSUFFICIENT REAL-WORLD LEADERSHIP

The combined result of these obstacles is insufficient leadership to overcome the constraints of existing mindsets that are preventing action on the just transition, notably in the financial system. Too often, climate action has been separated in people's minds from the human implications. The just transition can also appear challenging in terms of existing ways of doing business, how decisions are made, what rules are applied, and how value is created and shared. To break this deadlock, leaders are needed, both individuals and institutions, who can help create a new common sense and encourage others to follow and emulate. Leaders do not need to set out or achieve perfection, but rather to inspire and show that previously unimaginable efforts are in fact possible.

Across policy, business and finance, just transition leadership is currently a minority feature. So far, first-wave leadership has tended to come from financial institutions with social goals as part of their corporate purpose, including mutual financial institutions, philanthropic foundations, public pension funds and policy banks. Second-wave adopters have then involved a wider range of institutions who recognise the imperative of the just transition. The question is how to stimulate individuals and institutions to champion and undertake the path of innovation.

Lab Goal 4: Stimulate breakthrough innovations and generate case studies

The fourth goal of the Lab will therefore be to stimulate breakthrough innovations and generate case studies to enable decision-makers to learn what does and does not work, and under what conditions. The Lab will do this in two ways. Firstly, it will produce a set of case studies that analyse emerging examples. Secondly, it will work to catalyse the production of new examples of just transition leadership, in partnership with financial institutions, business and trade unions, governments and civil society.

Undertaking collaborative attempts to finance a just transition will not always be smooth and will, at times, be contentious. Bringing together trade unions, communities, planners, local government, business and finance means that conflicts of interest, misunderstandings and dispute are sometimes inevitable. It will be essential for the Lab to create a space in which it is possible to explore and experiment with different ideas, approaches, tools and mechanisms. Just transition is about changes taking place in specific geographical locations and sectors and with specific cultures. It will require local interests at a micro level to be harnessed towards fulfilling the macro-endeavour of system change. Learning practical lessons from specific projects will be an invaluable tool to achieve this goal, creating models of change that can be refined and adjusted by others developing their own transition plans. These lessons will generate bottom-up, decentralised learning that can inform and complement the equally important high-level policy framework initiatives.

The four goals of the Lab are interdependent

Effective financial instruments need good metrics as does credible policy reform; an enabling just transition policy framework is needed to provide the incentives and the guardrails to stimulate the deployment of financial instruments. We intend our case studies to be opportunities to explore how the different ingredients for success can come together. All of this will be rooted in the realities of specific regions and sectors.

Photo: Aleksandarlittlewolf, Freepik

4 INITIAL PRIORITIES FOR THE JUST TRANSITION FINANCE LAB

Transforming the financial system to deliver the just transition will require the ingenuity and resources of people across the globe. As a contribution to achieving this objective, LSE's Just Transition Finance Lab will focus on a small number of high-leverage areas where its mix of research, convening, catalytic interventions and knowledge sharing could make a difference and complement the work of others – as described in the previous section.

The Lab has identified the following priorities for its first year, 2024, to implement its four goals. Over time, these activities will be expanded and developed.

GOAL 1. DESIGN AND DEPLOY FINANCIAL INSTRUMENTS AND STRATEGIES

Both public and private finance will need a range of new financial tools and instruments to facilitate the just transition. In its first year, the Lab will focus on two priorities to support their development: transition plans and mobilising bond markets.

i) Realising the transformational potential of Transition Plans

Transition plans are becoming a key tool for governing net zero and in the process making sure that just transition principles are at their heart. As this report has shown, steps are already being taken to make sure that the just transition is featured with integrity in emerging frameworks, from GFANZ to the EU's CSRD and CSDDD, to the UK's Transition Plan Taskforce. Credible plans with just transition principles at their heart provide the basis for increasing flows of transition finance across every part of the economy.[50] Considerable work is still needed, however, to make sure that the inevitable employment and social dimensions are properly included in transition finance. Leadership should be shown here from the G20's Sustainable Finance Working Group downwards.

The Lab will launch a programme on how to design transition planning and finance with features that help realise their transformational potential. We will explore how to incorporate just transition principles into the design and implementation of key market and regulatory frameworks for transition plans and transition finance. A particular focus will be on how to encourage the development of just transition strategies as part of overall net zero plans and developing these with social dialogue, stakeholder participation and clear key performance indicators. We will also encourage the uptake of credible just transition approaches through focused learning sessions that will produce practical case studies for stakeholders to use.

ii) Mobilising bond markets for the just transition

The just transition needs to be embedded into the investment decisions of all asset classes. A good place to start is the green, social, sustainable and sustainability-linked (GSS+) bond markets, where total issuance now stands at over $3.7

50 GFANZ (2023)
Photo: Getty Images

trillion. There is growing market interest in the potential for these bonds to support a just transition, and integrating just transition into bond issuance can maximise the social co-benefits of green investments, ensure the transition does not exacerbate existing inequalities, and enable greater climate ambition.

Yet current market guidance does not show how this can be achieved at scale and with integrity. To fill this gap, the Lab has co-designed and launched the Mobilising Bond Markets for the Just Transition project with the Climate Bonds Initiative (CBI).[51] This collaborative research project will be taken forward by the Lab with CBI to identify and promote the role of bond issuance to drive a just and inclusive transition to net zero across the world. It aims to provide guidance to issuers and investors on how fixed income can proactively incorporate just transition principles and channel finance for just transition priorities. The project will look across different issuer types – sovereign, municipalities, development banks and corporates. One result of the programme could be the ability to understand how just transition factors might influence the risk–reward profiles of bonds for investors, as well as access to capital and its cost for issuers.

GOAL 2. ESTABLISH EFFECTIVE METRICS TO MEASURE PERFORMANCE

Financial decision-makers need to be able to measure just transition commitment, activities and performance if resources are going to be mobilised and progress made. What is now needed is a simple framework to show how first-generation metrics could be brought together. The Lab will seek to answer this need by initiating a programme of research and dialogue, consolidating existing practice, sounding out market and policy needs and suggesting ways of encouraging adoption. The aim will be to show that it is not necessary to 'reinvent the wheel' when it comes to measuring just transition performance but to do so, climate and social reporting frameworks need to be better connected. A central feature of the Lab's programme – often omitted from conventional reporting frameworks – will be to identify how important just transition stakeholders can be involved in the design of the metrics and in the evaluation of performance. In addition, the Lab will seek to understand the dynamic between globally convergent metrics and indicators that respond to particular local or national priorities (as illustrated by the case of South Africa). Rather than aspiring to set standards, the Lab will seek to take a catalytic role in showing 'what good looks like'.

51 The project's first output is by Robins et al. (2023).

Photo: SolStock, iStock

GOAL 3. IDENTIFY AND ACHIEVE NECESSARY POLICY REFORMS

Policy reform is essential to creating the right economic and financial frameworks for the just transition and there is growing recognition of its importance, including among some Finance Ministers. But there is no clear understanding of what just transition policies are needed, how to finance them or what the quality of design and delivery should be. Working with the Grantham Research Institute's Climate Change Laws of the World[52] project team, the Lab will produce a first state-of-the-world assessment of just transition policies, with a focus on those that are particularly relevant for mobilising finance, such as core public spending (e.g. for skills, regional revitalisation and social protection), the use of fiscal incentives and regional/local financing. This will cover both policies that are expressly labelled as 'just transition' and other policy instruments that do the job. The assessment will also include the emerging field of just transition litigation. Alongside this, the Lab will conduct an initial review of the role of development bank policy and practice on the just transition, particularly in the field of blended finance in the Global South.

GOAL 4. STIMULATE BREAKTHROUGH INNOVATIONS AND GENERATE CASE STUDIES

Each of these priorities will be designed to result in case studies to build confidence and greater adoption of just transition finance. The first set of case studies will address the energy transition, examining emerging examples of how both fossil fuel phaseout and clean energy scale-up can be just, covering:

- How the policy context in Scotland and investor engagement helped to trigger energy company SSE's just transition strategy in the UK.
- How the International Finance Corporation (IFC) attracted international investors to support a sustainability-linked loan that helped ENGIE Chile accelerate the shift from coal to renewables while making social factors central to the process.
- How British International Investment (BII) and the National Investment and Infrastructure Fund (NIIF) established the Ayana renewable energy platform in India and invested in training women to become solar engineers.

Of course, the transition happens in particular places, each with their own specificities, and so the Lab will undertake country programmes to explore how its four goals come together to deliver financial system transformation at the national and sub-national level. The focus in 2024 will be on two countries, the UK and India:

52 See https://climate-laws.org/

Photo: SSEN

- **In the UK,** the Lab will seek to shift the growing recognition of just transition in the financial system to scale. A first priority will be helping to catalyse the adoption of credible transition plans that have just transition at their heart. Here, the Lab will deploy its focus on metrics to overcome the measurement bottleneck. A second priority will be to work with communities and regions to develop place-based just transition investment plans that enable capital to deliver multiple objectives: decarbonisation, social co-benefits, community value and local economic development. And a third priority will be to drill down into the specifics in major sectors, building on previous work on agriculture,[53] housing, energy and industry.
- **In India,** the Lab will work with partners to develop sustainable finance innovations that support a just transition to achieve the country's 2070 net zero target.[54] The team will build a typology of just transition finance instruments and case studies. On the metrics track, the Lab will show how India's comprehensive Business Responsibility and Sustainability Reporting (BRSR) requirements can be used by companies to show how they are taking action on the just transition. With its partners, the Lab will seek to catalyse financial innovations that enable a just transition in specific sectors such as small-scale renewables, green hydrogen and steel. The Lab will engage key stakeholders in India in financial institutions, regulatory bodies and policymakers at sub-national, national and international bodies.

53 Ross et al. (2023)
54 Modak et al. (2023)
Photo: Fang Xia Nuo, iStock

TAKING OUR WORK FORWARD

The just transition is more urgent than ever before and achieving it is not straightforward. The reconfiguration of finance to support this process is also deeply complex. It will require systemic changes to purpose, service, governance and accountability structures that result in a new generation of financial practices.

The Just Transition Finance Lab will have a laser focus on the ways that financial practice can be redesigned and put to the task of serving change. It will be a space for both theory and practice, where innovative ideas and hypotheses can be explored, applying academic rigour and real-world expertise, and disseminating lessons about the application of these ideas drawn from specific places in real industries and affecting real people.

To succeed, the Lab must be a collaborative venture, where financial leaders come together with others to explore these knotty challenges and the crucial role their industry can play. This inaugural report is an invitation. We hope you will join us.

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Just Transition Finance Lab
c/o Grantham Research Institute on Climate
Change and the Environment
London School of Economics
and Political Science
Houghton Street
London
WC2A 2AE
UK
+44 (0) 207 955 6425

jtfl@lse.ac.uk
www.justtransitionfinance.org
X: @jtf_lab
LinkedIn: just-transition-finance-lab

THE LONDON SCHOOL OF ECONOMICS AND POLITICAL SCIENCE

Grantham Research Institute on Climate Change and the Environment

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