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BUILDING A JUST WORLD AND A SUSTAINABLE PLANET

Enhancing the social dimension in transition finance: towards a just transition

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The Paris Agreement on climate change acknowledged the importance of a just transition. Since, the concept of a just transition has gained prominence on the agendas of governments, companies, workers and financial institutions.

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. A just transition involves maximising the social and economic opportunities of climate and environmental action, including an enabling environment for sustainable enterprises, while minimising 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. Broad stakeholder engagement is equally important (ILO, 2023).

To mitigate climate change, high-emitting, hard-to-abate activities must transform and decarbonize. This includes restructuring or scaling down of these activities, which comes along specific risks and opportunities that impact employment, local economic development, skills availability and affordability for low-income households and vulnerable populations.

This report reviews how social dimensions are incorporated in frameworks that guide transition finance. It includes an overview of socio-economic challenges faced by the steel and cement sectors, and how financial institutions can become enablers of shifting from transition finance to just transition finance.

The transition finance ecosystem comprises a variety of stakeholders, including financial institutions, regulators, standard setters, market-led platforms and coalitions. Transition finance frameworks and initiatives led by the different stakeholder groups focus primarily on climate targets and do not always include or sufficiently articulate how social considerations are to be included in transition finance activities. However, tools supporting the assessment of social risks and opportunities in financing exist and, even if not specifically designed with a just transition objective in mind, can be used for this purpose during the low-carbon transition. In addition, new tools are emerging with that specific objective.

Transition finance stakeholders can contribute to financing a just transition through multiply entry points. They can enhance sustainable and transition finance frameworks to improve considerations of social risks and opportunities in corporate transition strategies. They can use financial instruments and other levers to incentivize positive change both on environmental and social fronts.

This report provides information and action-oriented recommendations in the context of the G20 Sustainable Finance Working Group, with the aim to support stakeholders in the transition finance ecosystem to accelerate a transition that is just.

1. From transition finance to 'just' transition finance

With global CO2 emission levels still rising in 2024, the window for climate action to achieve the 1.5-degree scenario is narrowing further. It is urgent that we realize the low-emission transition, and in order to succeed we need a whole-of-economy approach (Tandon, 2021). This approach means not just amplifying the deployment of zero and near-zero emitting technologies and fostering sustainable businesses, but also actively aiding the gradual reduction of emissions in high-emitting and hard-to-abate sectors.

The transition to a low-carbon economy requires deep, transformative changes at multiple levels. Without considering the social implications or adopting an inclusive, consultative, and cooperative approach to distribute transition benefits and burdens equitably, the transition is likely to fail. Unintended negative consequences of the low-carbon transition could undermine social cohesion, weaken support, and slow climate action, resulting in severe environmental, social and economic repercussions (ILO and UNEP FI, 2023).

A just transition is the process of greening the economy in a manner that is fair and inclusive, ensuring that all stakeholders have access to decent work opportunities and that no one is left behind. Ensuring a just transition is a crucial enabler of ambitious climate action and an engine of sustainable development. Delivering a just transition means maximising positive employment and socioeconomic outcomes and avoiding and mitigating any negative impacts (ILO, 2022a).

The ILO Guidelines for a Just Transition towards Environmentally Sustainable Economies and Societies for All, henceforth 'the ILO's Just Transition Guidelines' provide the key international framework on just transition. The ILO's Just Transition Guidelines outline principles and entry points across different policy fields. They were formulated by governments, workers', and employers' representatives from across world and are endorsed as the central reference for policymaking by 187 member states. They also enjoy broad-based support across other stakeholder groups.

The ILO Just Transition Guidelines acknowledge that the transition presents economic and social opportunities while also bringing about challenges. Promoting a transition that is just is about acting on both fronts. This means identifying and maximising win-wins: optimising employment gains, leveraging opportunities for job upgrading and skills development, and ensuring benefits of the transition are widely and equitably shared. It also means addressing challenges arising from potential negative impacts: minimising and mitigating employment losses, protecting vulnerable groups, offsetting the implications for households, especially those living in poverty (ILO, 2022d).

While recognising that no-one-size-fits-all approach exists, the ILO Just Transition Guidelines set out elements that are central to a just transition: strong social consensus, rights, gender and policy coherence. The ILO Just Transition Guidelines highlight the relevance of alignment in macroeconomic policies, sectoral strategies, employment, enterprise development, skills and other labour market policies, social protection, occupational health and safety, rights, and social dialogue. In addition, social dialogue and consultation with social partners, employers' and workers' organisations, are essential in developing just transition frameworks. This inclusive approach ensures that policies take into account different perspectives and social impacts, it fosters broad acceptance and cooperation, and promotes fairness and equity in the transition to a low-carbon economy.

While coherent public policy led by governments is a driving force for a just transition, sustainable development is only possible with the active engagement of a broad base of stakeholders, including those in the financial sector.

Financing is crucial to all the pillars of the low-carbon transition: expanding green and low-carbon activities, transforming environmentally and socially unsustainable practices and activities, and developing society's resilience to adapt to the physical impacts of climate change and transition pathways. Despite recent growth in climate finance, estimates suggest that to avoid the worst impacts of climate change, at least US$4.3 trillion in annual finance flows is needed by 2030 (Climate Policy Initiative, 2022). Regarding sources of funds, public finance is not the contributor for a just transition: there is significant scope for leveraging private sector finance, particularly for the financing of enterprises engaged in sustainable and low-carbon economic activities, undertaking decarbonization pathways or strengthening their resilience (ILO, 2023b). Private sector capital can cover up to two thirds of the climate transition needs (GFANZ, 2021).

There are multiple definitions of transition finance. According to the G20 Transition Finance Framework (G20 TFF), developed by the G20 Sustainable Finance Working Group (SFWG) members in 2022, transition finance refers to financial services supporting the whole-of-economy transition, in the context of the Sustainable Development Goals (SDGs), towards lower and net-zero emissions and climate resilience, in a way aligned with the goals of the Paris Agreement (G20, 2022). However, most of the existing definitions limit the scope of transition finance to funds committed to improve economic activities that currently are not green (transitional activities) and to support innovation and infrastructure that will enable economic activities to achieve net zero[1] (enabling activities) (Cesaro, 2023).

Triggered by the varying definitions of transition finance and different activities, mandates and objectives of organizations in the financial sector ecosystem, multiple types of transition finance frameworks exist. Transition finance frameworks or other frameworks that are relevant for transition finance have been developed by different entities, for example:

- *Regulators* put forth sustainable taxonomies[2] or transition finance guidelines, transition finance plan frameworks for corporate sector actors and for financial institutions.
- *Financial sector standard setters and platforms* created frameworks for labelling of financial instruments or guidance for members. This includes the Climate Bonds Initiative (CBI), the International Capital Markets Association (ICMA) and the Glasgow Financial Alliance for Net Zero (GFANZ).
- *Financial institutions* developed transition finance frameworks guiding their approach to transition finance.

Transition finance frameworks and initiatives present a valuable opportunity to leverage the momentum around climate finance and its potential for mobilizing capital to deliver a shift to carbon neutrality that generates positive social and employment outcomes. However, these frameworks and initiatives do not always include or sufficiently articulate how social considerations are to be included in transition finance activities. To promote a just transition, it is important that transition strategies of governments, real economy actors and financial institutions are based both on credible decarbonization targets as well as on a sound understanding of and meaningful measures to address all relevant, salient and locally specific social risks and impacts.

International fora, including the G20, have acknowledged the need to consider social aspects as an integral part of the transition. The G20 SFWG recognizes this opportunity and calls for action. For example, Pillar 5 of the G20 TFF considers "Assessing and Mitigating Negative Social and Economic Impacts of Transition Activities and Investments" and one of the SFWG's 2024 objectives aims at "exploring the concept of a 'just' transition while offering guidance for financial institutions and corporations to enhance the 'just' aspect within transition plans" (G20, 2024). The G20 SFWG member-countries are instrumental in this process by promoting the development of clear guidance on social and employment factors and how they interact with climate goals (G20, 2022) and by mandating the execution of appropriate practices.

This report reviews how social dimensions are being incorporated into frameworks that guide transition finance. It includes a brief overview of challenges faced by the steel and cement sectors, and how financial institutions can accelerate a just transition through transition finance. The document is structured as follows. Section 2 describes key social considerations associated with the transition, with a focus on the steel and cement sectors. Section 3 reviews transition finance frameworks and initiatives by regulators, standard setters and financial institutions, as well as tools supporting the assessment of social risks and opportunities in the financial sector. Finally, section 4 provides recommendations for transition finance stakeholders for adding the just dimension in the transition finance ecosystem.

[1] The OECD defines transition finance as finance intended for high-emission and hard-to-abate economic activities important for future socio-economic development for which viable green alternatives are either not available or are not ready to be widely deployed. The objective of the transition is emissions reduction (OECD, 2021). According to LSE (2022), transition finance is focused on the objective of supporting emissions-intensive and hard-to-abate sectors to decarbonise, rather than on allocating capital to activities that already meet green standards.

[2] In sustainable finance, a "taxonomy" is a classification system identifying activities, assets, and/or project categories that deliver on key climate, green, social, or sustainable objectives with reference to identified thresholds and/or targets. Taxonomies may incorporate different approaches towards green eligibility. Some introduce eligibility criteria that can be quantitative (e.g., absolute, and relative performance thresholds) or qualitative and process based. Others only list and describe the projects, assets, activities based on an assessment of their sustainability (ICMA, 2021).

2. Key social considerations associated with a low-carbon transition

There is no doubt that the energy sector is central to the climate change debate due to the urgent need to reduce reliance on fossil fuels and embrace clean energy alternatives. However, the climate transition has far-reaching implications for various industries and sectors, requiring significant changes in operations and practices (ILO and UNEP FI, 2023). This chapter highlights the importance of considering social implications of the low-carbon transformation of high-emitting, hard-to-abate sectors, with a particular focus on steel and cement sectors. The following sections explore the transition dynamics affecting the steel and cement sectors and identifies prominent social considerations.

2.1. Social impacts of the transition in high-emitting sectors

Transitions dynamics in high-emitting sectors can generate positive and negative impacts. The greening of the economy provides an opportunity to promote social justice and address poverty, inequality, and gender gaps, while also promoting sustainable enterprises and enhancing society's ability to manage natural resources sustainably, increase energy efficiency and accessibility, and reduce waste. The shift towards clean energy and green transformation of economic activities is expected to lead to employment opportunities, with ILO research indicating that the employment created in a just transition scenario will offset the job losses and result in a net gain in jobs (ILO, 2018) . Moreover, the climate transition has the capacity to enhance sustainable enterprise creation and skill development, thereby leading to more resilient economic growth and higher standards of living. However, an equitable distribution of the social and economic benefits of the transition, with no one left behind, is not automatically guaranteed (ILO and UNEP FI, 2023).

Systematically factoring in positive and negative impacts is central to a just transition approach (ILO, 2022d). The table below describes examples of social and employment aspects that need to be considered in this approach:

▶ Table 1: Examples of social and employment aspects of the climate transition (Adapted from ILO,2022d)

Dimension	Elements to be considered
Rights	Risks/gaps related to respect of human rights Risks/gaps related to respect of labour rights Impacts on indigenous peoples' rights
Working Conditions	Wages, working conditions, social protection in newly created jobs and sectors undergoing transformation Risks/gaps in terms of occupational health and safety
Employment Impacts	Jobs created and displaced (direct, indirect, induced)
Skills Development	Changes within occupations (content, skills)
Affordability	Impact on low-income groups (e.g. via employment impacts, increases in prices)
Local Economic Development Impact on Communities	Geographical impacts (e.g. regions that stand to disproportionally gain or lose from the transition) Impacts in terms of public services/ infrastructure (e.g. via losses in local government revenues) Impacts on the local environment and community health
Gender	Gendered impacts across dimensions (e.g. job created, job losses, skills development, wages and working conditions)

Potential negative impacts of the transition can affect stakeholders differently, as described below:

- **Businesses** are directly engaged in defining and executing climate change mitigation and adaptation measures. In this endeavour they can be subject to sudden market shifts that impact their operations and prospects, and depend on the availability of green technologies, infrastructure, and access to finance and renewable energy as well as the transition of the workforce and availability of skills to enable the transition.
- **Workforce,** including indirect employees, can be affected by impacts such as: displacement of jobs and job losses in high-emitting sectors and their supply chains; lack or mismatch of skills and available training to enable the transition to greener technologies; potential issues of labour and human rights violations in green and transitioning economic activities, including in renewable energy supply chains (such as lack of freedom of association and the right to collective bargaining; lack of decent wages and working time; lack of occupational safety and health measures); gender inequality in workforce transition and access to skills development, and non-inclusion of other underrepresented groups.
- **Communities** may face impacts such as an economic decline due to negative spillover effects on communities dependent on high-emitting sectors; loss of land, natural resources and livelihoods (e.g. in the framework of major green infrastructure and energy projects); impacts on indigenous peoples' rights and traditional livelihoods; and other impacts due to maladaptation.
- **Consumers,** and in particular low-income households and vulnerable populations, can be confronted with issues of affordability of energy and basic goods as well as ability to access clean technologies, green housing and mobility, and resilience measures.

2.2. Transition dynamics in the steel and cement sectors

Steel sector

The steel sector is one of the world's largest carbon emitters, relying largely on energy generated by coal (WEFORUM, 2023). The sector's CO2 emissions amount to approximately 2.8 gigatons, representing estimated 8-10% of global greenhouse gas emissions (IEA, 2023). At the same time, enterprises in steelmaking are a significant source of employment, providing jobs to over 6 million people, with industrial plants often being central to local economies (MPP, 2022).

Demand for steel closely follows the growth of an economy, particularly for countries in the early stages of industrialization. In addition, steel plays a vital role in the energy transition, given its use in several renewable technologies, such as electric vehicles, wind turbines and solar photovoltaic structures (IRENA, 2024a). To cut emissions while meeting the growing global demand, the industry will have to shift towards low-carbon forms of production.

According to the IEA's Net Zero by 2050 scenario for 1.5-degree, direct emissions from the iron and steel industry would need to fall to 1.8 gigatons by 2030 and 0.2 gigatons by 2050. Technologies that are currently on the market can deliver around 85% of the emissions savings from steel production needed by 2030 (IEA, 2021) .

A successful low-carbon transition of the steel sector will require strong political will, clearly defined industrial policies, an enabling environment for sustainable enterprises, public and private investment, and improved operational practices at company level, using a mix of approaches that include:

- the use of cleaner sources of energy, including renewables, green hydrogen and bioenergy sources;
- increased recycling and scrap-based production, which requires only around one-tenth of the energy of primary steel production;
- improved production process, such as usage of electric arc furnaces, and enhanced materials efficiency;
- use of Carbon Capture, Utilisation and Storage (CCUS) technologies (IRENA, 2023).

However, the transition is challenged by the high costs and uncertainties associated with the use of technologies like CCUS and insufficient capacity of renewable energy sources, such as green hydrogen.

Cement sector

The cement sector has a large economic and employment impact, directly and through its long and diverse supply chain. It contributes 5.4% of global GDP and 7.7% of world employment (IFC, 2020). Cement is the second most-consumed resource in the world; it is a crucial input for many industries, mainly construction and infrastructure. The demand for cement and concrete is expected to increase by more than one-third by 2050 (IAP, 2022).

Cement is one of the major contributors to global CO2 emissions, accounting for approximately 8% annually (Chatham House, 2018). In addition, it is among the most difficult and expensive sectors to decarbonize. CO2 is released both from the chemical transformation of the raw materials (50%), from the energy used (40%) and the remaining 10% from related indirect activities (Vilella and Arribas, 2016). Fossil fuels, mostly coal, currently account for 90% of thermal energy needs in cement production (IEA, 2021).

The Global Cement and Concrete Association, a platform for the cement and concrete sector across the world, developed a 2050 Net Zero Roadmap presenting the sector's path to net-zero (GCCA, 2021). This transition involves:

- technological innovation, such as blending of alternative materials into cement to replace a portion of clinker, the most emission-intensive ingredient, reducing the clinker-to-cement ratio;
- shifts towards more energy-efficient production processes;
- shifts in energy sources, away from coal and into natural gas, biomass, renewable waste, hydrogen and direct electrification;
- usage of CCUS technologies that are currently under development, expected to capture up to 50% of the annual plants' emissions (Heidelberg Materials, 2024).

The industry can unlock economic and environmental benefits while advancing the circularity of cement and concrete materials. There is potential in recycled cement and concrete materials that can be incorporated into new constructions, either as reusable modules or as components broken down and integrated into new building materials.

2.3. Social considerations of the transition in the steel and cement sectors

The steel and cement sectors face significant changes in the transition to a low-carbon economy. Several social aspects need to be considered to move the sector towards a just transition:

Employment impacts: While there are generally risks of job displacement in high-emitting industries (INDUSTRIALL, 2023), transition dynamics in the steel and cement sectors require a more nuanced assessment (IEA, 2020). As an example, in the case of cement, although its production requires little direct labour, its indirect labour requirements are high in the areas of procurement and transportation of the raw materials and the marketing and distribution of the final product.

As the industries introduce technological innovations, the profile of the workforce will evolve and require higher levels of education and training. Digitalization and the use of new production technologies, which are gradually transforming the industry, will result in employment needs mostly in the fields of engineering and data analysis, while potential job losses would affect primarily operators and technicians in the sector. Social protection measures, such as unemployment benefits, redeployment and retraining programmes, and other forms of support are required to help workers adapt to the changing job market.

The positive and negative employment impacts also have a significant geographical component, as the transition will also be accompanied by a geographical relocation of activities. In the steel sector, areas close to sources of iron ore and green hydrogen production are expected to see a rise in steelmaking activities. Ironmaking will increasingly be located close to abundant renewable energy (Nicholas, 2024) and countries with supportive regulatory frameworks and incentives for green technology adoption.

Skills development: Transitioning to green steel and cement production and the adoption of new technologies will necessitate specialized employees. While greener jobs will be created due to the usage of clean technologies,

workers employed in traditional production processes may face challenges in adapting to changing job requirements. Companies in transition need a skilled workforce supporting the adoption of new technologies, including in fields of engineering, chemistry, energy efficiency and waste management. In addition, there are concerns about the workers' ability to adapt to vastly different technologies, such as when transitioning from coal-powered facilities to renewable energy-powered ones.

Skills development and lifelong learning, including up- and re-skilling initiatives, are crucial to prepare the workforce for new technologies and processes. Investments in skills development can contribute both to making the technological transition happen and helping disadvantaged and affected groups such as displaced workers transition to new roles, thus enhancing productivity and economic gains, benefiting communities, workers, and companies. To be effective, skills development must be accompanied by employment services and other active labour market policies, as well as effective social protection programmes.

Social dialogue: To ensure the transition becomes just, it is essential to include both employers' and workers' organizations in the planning and implementation of policies and measures to decarbonize steel and cement production (ILO, 2022b). A survey with steel workers identified awareness of the challenges their sector is facing and increasing concerns about the impact of the transition to a greener and more digital industry (Trappmann and Cutter, 2023). Unless workers and employers are engaged in the process of transforming their sectors, there is a heightened risk of labour unrest and strikes in many countries.

Gender: Both sectors are characterized by a notable gender disparity. Based on a sample of 147 publicly traded cement companies with market capitalization of greater than USD 100 million data suggests that women constitute approximately 13% of the workforce in the cement industry (Africa Ahead, 2023). In the global mining and metal sectors, women represented 12% of the workforce in 2022 (EYGM, 2022). Although women are not the majority of workers directly employed in these sectors, they can experience impact through the supply chains and local economic impacts. The transition in these sectors also presents opportunities for policies to further increase women participation, including through skills development and inclusive policies and practices at company level.

Affordability: The production of green hydrogen, essential for green steel, requires significant capital investment and a reliable supply of renewable energy, which is currently insufficient. As of today, green hydrogen production costs are higher than traditional fossil fuel production (IRENA, 2024b). The demand for green steel production can increase pressure on energy markets and cause price volatility for consumers (Attwood, 2023). In the cement sector, the expected cost increase for green cement is 40–120%, driven mainly by CCUS investment. However, such increase translates to a 1.5–3 % cost increase for construction as cement is a relatively small portion of total construction costs (Chen, Lalit and Skinner, 2024).

Local economic impacts of geographical relocation: As technologies and operational practices change, access to raw materials, infrastructure for carbon storage and utilization, as well as access to clean energy plays a key role in strategic decisions about where to locate operating plants. For example, the geographical relocation of ironmaking to regions with abundant renewable energy resources will stimulate local economies through increased industrial activity, job creation and infrastructure investments.

Conversely, the low-carbon transition may present challenges, especially in regions with limited economic diversification and where firms operating in the steel and cement sectors provide for a large share of employment and economic activity. Traditional steel and cement production areas may experience economic downturns due to reduced industrial operations, requiring targeted economic diversification and support measures to mitigate these impacts. In both sectors, public policy, including a conducive environment for sustainable enterprises, can mitigate negative impacts and also be a driver for local economic development and the creation of decent jobs.

Despite the significance of the impacts described above, plans developed by most leading companies in the steel and cement sectors on how they approach the low-carbon transition are not integrating a just transition in their scope. A World Benchmarking Alliance (WBA) assessment of 91 influential heavy industry companies globally, including 34 in cement, and 45 in steel production, found that 28% of companies had transition plans. Half of the companies score 0 on all WBA just transition indicators, putting their workers and the communities around the companies' production sites at risk. Four companies score over 20% of the available points, and the top performer scores 50% on just transition (WBA, 2024).

3. Review of transition finance frameworks and initiatives

When shaping their approach to transition finance, financial institutions are influenced by a complex ecosystem of mandatory and voluntary frameworks. For example, several jurisdictions have developed taxonomies or guidelines to provide clarity within their markets on what assets or economic activities can be considered sustainable. Moreover, standard setters typically develop criteria allowing users to determine whether a specific financial instrument, activity or security can receive a specific label (such as sustainable or transition).

In parallel and sometimes mandated by the regulator, financial institutions and companies are developing transition plans. The aim of transition plans is to translate the net-zero commitments of companies and financial institutions into a coherent implementation strategy to reduce greenhouse gas emissions following clear objectives and targets. For financial institutions, this includes decisions about providing finance to high-emitting sectors. Transition plans also provide room to integrate just transition elements to anticipate, assess and address the social risks of the transition as well as identify and enable the social opportunities of the transition, and promote meaningful dialogue and participation (Curran et al., 2022).

This section first assesses how selected frameworks developed by regulators and standard setters include social aspects. It then looks at sources available for financial institutions when developing their transition plans. Lastly, the section describes tools which support assessments of social risks and opportunities for financial institutions.

3.1. Frameworks and initiatives led by regulators

Regulator-led taxonomies and guidelines can support transparency, reduce the risk of green and transition washing and deepen the market for sustainable assets. This section describes selected initiatives related to transition finance activities and examines the inclusion of social considerations therein.

Sustainable finance taxonomies are developed to guide the financial sector in distinguishing economic activities that contribute to sustainability from those that do not. When well-designed, taxonomies offer several benefits. They enhance market clarity by providing precise and consistent criteria for labelling investments (e.g. as “green” or “sustainable”) thereby instilling confidence and assurance in investors and facilitating transactions. Additionally, they simplify the tracking of sustainable finance flows, enabling measurement and facilitating policy actions such as setting incentives. However, the analysis of existing and emerging taxonomies, combined with stakeholder interviews, indicates challenges in embedding social factors in sustainable finance taxonomies. They include the perception of lower levels of consensus on common social objectives (when compared to climate targets such as reduction of CO2 emissions) and the complexity of defining comprehensive social criteria.

Our analysis finds that sustainable finance taxonomies frequently lack explicit and clear social performance objectives. In cases where regulators formulate social objectives, they often prioritize mitigating negative social impacts by adopting a “do no significant harm” (DNSH) approach, rather than actively seeking to identify activities that generate positive social outcomes. Some taxonomies might refer to principles such as “responsible and equitable” phaseout processes, as seen in the Singapore-Asia taxonomy[3] (Singapore, 2023).

The 2020 European Union taxonomy for sustainable activities (EU Taxonomy), with significant influence in global financial markets, requires economic activities to make a substantial contribution to environmental objectives, while ensuring that these activities do not cause significant harm for other environmental objectives and meet minimum social safeguards. The safeguards include compliance with the ILO Declaration on Fundamental Principles and Rights at Work, the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on

[3] The ASEAN Taxonomy has drawn on learning from and intends to be interoperable with the EU Taxonomy, as well as other taxonomies (i.e., national taxonomies in ASEAN). These respective taxonomies have also been under development prior to and in parallel with development of ASEAN Taxonomy. Moreover, social aspects, including but not limited to poverty reduction, job creation, and human capital development, are expected to be considered in future versions of the ASEAN Taxonomy (ATB, 2024).

Business and Human Rights (EC, 2024). The attempt of the EU to develop a social taxonomy has not yet reached completion and hence the gap between green and social definitions remains.

Mexico's Sustainable Finance Taxonomy stands out incorporating not only DNSH principles and minimum safeguards, but also placing a significant emphasis on promoting gender equality (GFL, 2023). Despite the positive example of explicitly including a social objective, the taxonomy does not encompass the breadth of social elements relevant to promoting a just climate transition.

The UK Transition Plan Taskforce (TPT), established to develop standards for corporate transition plans, published in 2023 a Transition Plan Disclosure Framework and accompanying implementation guidance resources. The TPT guidance embeds aspects of the just transition across the relevant transition plan elements and sub-elements (TPT, 2023). This includes, for example, adding a recommendation on how an entity has identified, assessed and taken into account impacts and dependencies of transition plans on various stakeholders (e.g. workforce and communities), as well as referencing internal policies on human rights, labour rights and social equity among those which can be used to support transition plans.

Some governments have developed specific guidance and criteria on transition finance. The Japanese government issued in 2021 its "Basic Guidelines on Climate Transition Finance" (Japan, 2021), with the objective to guide companies in raising funds for investments in initiatives towards decarbonization via bonds and loans labelled as "transition". The guidelines classify investments as transition finance as long as they are aligned with Green and Social Bonds Principles of ICMA Sustainability Bond Guidelines and Sustainability-linked Bond Principles. They have little guidance on social aspects but recommend disclosing how considerations of a just transition are incorporated into the transition strategy of the investment.

3.2. Frameworks and initiatives driven by standard setters

Several standard setters in the sustainable finance ecosystem have also issued transition finance guidance or frameworks. Standard setters have been more active in their initiatives regarding transition finance in debt markets, which currently represent the majority of instruments in the transition finance universe. Green, social and sustainability (GSS) bonds, which focus on use of proceeds, as well as several emerging bonds including sustainability-linked, blue, and transition bonds (collectively known as GSS+ bonds) are a set of evolving debt instruments that can play a part in the low-carbon transition and contribute to social outcomes (Robins et al, 2023).

The Climate Bonds Standard of the Climate Bonds Initiative (CBI) is a voluntary labelling scheme for investments and entities that are aligned with the goals of the Paris Agreement, focused primarily on climate impacts. Designed to facilitate decision-making by certifying compliant green debt instruments, the latest version of the standard explicitly mentions the notion of a just transition. The requirements for the activities or entities to be financed via certified debt instruments include:

- alignment between environment and social goals;
- evidence of assessment of negative environmental and social externalities and existence of a mitigation strategy;
- description of the contribution to a just transition in the area of operations (CBI, 2023a).

CBI also developed sectorial criteria supporting certification of financing instruments per the Climate Bonds Standard, including for the steel and cement sectors (CBI, 2023b and 2023c). However, these criteria do not include details on social aspects of the transition in such sectors.

Another organization providing standards for debt instruments is the International Capital Market Association (ICMA). In its Climate Transition Finance Handbook, ICMA provides guidance and expectations for issuers raising funds for their climate transition strategy via Use-of-Proceeds bonds or Sustainability-Linked Bonds. The handbook explicitly mentions projects linked to just transition as one of the use cases and recommends disclosing how issuers incorporate just transition considerations in case of potential negative social impacts. The handbook connects the notion of a just transition to the impacts of financed climate transition strategies and associated green expenditure on workers, communities and surrounding environments (ICMA, 2023). However, it does not provide any further guidance.

Beyond standards for specific instruments, an influential sustainability standard-setting organization is the International Sustainability Standards Board (ISSB), which aims to create a global baseline for climate and sustainability disclosures. Following the publication of standards on general requirements for disclosure of sustainability-related financial information and climate-related disclosures, the ISSB has identified human capital as one of its key focus areas of work (IFRS, 2022).

With the goal of supporting standard setters, such as the ISSB, a multistakeholder working group is preparing the launch of the Taskforce on Inequality and Social-related Finance Disclosures (TISFD). Together with existing disclosure recommendations on climate and nature-related issues, the future TISFD's recommendations could become a tool to facilitate efforts towards a just transition, in which climate-, nature- and social- and inequality-related risks and impacts are addressed in a coherent and complementary way (TISFD, 2024).

3.3. Frameworks and initiatives led by financial institutions

Financial institutions have also launched collective and individual initiatives in transition finance. Increasingly, these initiatives acknowledge the social implications of the climate transition. However, the level of granularity of the guidance originating from the initiatives varies.

Collective initiatives: several collective financial sector initiatives focus on developing transition plans of financial institutions. Among them is the Glasgow Financial Alliance for Net Zero (GFANZ), which is a leading coalition of financial institutions committed to transitioning the global economy to net-zero greenhouse gas emissions. The GFANZ Financial Institution Net-zero Transition Plans report explicitly identifies the objectives of a just transition (GFANZ, 2022a). The Net Zero Banking Alliance Transition Finance Guide (NZBA, 2022) is another initiative that encourages member banks to prepare their own transition finance frameworks and consider how they intend to review DNSH and just transition implications in the context of transition finance. Additional guidance on this topic by the alliance is yet to be prepared.

Particularly in the steel sector, a working group of banks engaged with the steel industry and stakeholders in developing the Sustainable STEEL principles (2023), which aim to facilitate the transition of the steel industry by providing a methodology for banks to measure and report the emissions associated with their loan portfolios compared with net-zero pathways. However, the initiative does not explore social elements of the transition.

Individual initiatives: the contribution of a financial institution to just transition is affected, among other factors, by the extent to which the institution has a development mandate. However, both purely commercial and development-oriented institutions have roles to play. For example, private financial institutions can support a just transition by: (i) engaging in decarbonization and discussions about just transition at various levels; (ii) partnering with governments, clients, and allies to create supportive financial products and services; (iii) allocating more capital for transition efforts and rallying additional resources for transitioning communities; and (iv) encouraging client companies to effectively adopt just transition-aligned practices through assessments, planning, and implementation. In addition to that, mandates and operations of Multilateral Development Banks often touch upon core aspects of a just transition and some have begun to explicitly target a just transition. (ILO, 2022a). Some examples of transition finance approaches of financial institutions with a link to just transition are described in Box 1.

▶ Box 1: Examples of financial institution approaches to transition finance with a link to just transition

The European Bank for Reconstruction and Development (**EBRD)** is one of the pioneers of financial sector strategies to support just transition. The EBRD's Just Transition Initiative aims to help share the benefits of a green economy transition and to protect vulnerable countries, regions and people from falling behind (EBRD, 2020). The initiative builds on the EBRD's experience of fostering a transition towards sustainable, well-functioning market economies, and focuses on the link between the green economy and economic inclusion. The initiative emphasizes policy and investments across three key areas: supporting a green economy transition, assisting workers (particularly those whose livelihoods are directly and indirectly linked to fossil fuels) in accessing new opportunities and promoting diversification of local economies (ILO, 2022c). As an example, in 2020, the EBRD invested EUR 56 million in a transition bond to support Polish energy company Tauron in its decarbonisation. The proceeds of the bond are used to expand solar photovoltaic and onshore wind capacity, and to improve the distribution grid. In addition, Tauron has committed to develop a programme to address the social impacts of closing its coal-powered plants in Silesia, one of Poland's most carbon-dependent regions.

The **Sumitomo Mitsui Banking Corporation (SMBC)** Transition Finance Playbook documents internal definitions as well as procedures for identifying and assessing transition finance transactions. SMBC's approach is underpinned by four principles: do no significant harm, no carbon lock-in, best available technology and just transition. 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 projects or their main sponsors address employment-related issues stemming from project implementation (ILO and UNEP FI, 2023).

The **Standard Chartered** 2023 Transition Finance Framework defines that assets and activities which qualify for labelling as 'Transition' need to be compatible with a 1.5-degree trajectory, established by science; not hamper the development and deployment of low-carbon alternatives or lead to a lock-in of carbon-intensive assets; and meet the minimum safeguards as defined in Environmental and Social Risk Management Framework, making a references to objectives of a just transition (Standard Chartered, 2023).

3.4. Guidance and tools supporting financial institutions in embedding social risks and opportunities in transition finance

There is an increasing number of resources and tools available for financial institutions to help embed social transition considerations at various levels of their operations. The tools provide recommendations on how to improve practices and range from guidance for setting-up an institutional strategy and drafting a transition plan to assessing social risks and opportunities for individual clients and transactions, as well as engaging with clients and investees. Some tools specifically target achieving just transition objectives, while others contain guidance for assessing social risks and opportunities. Even though not all explicitly focus on transition finance, they can be effectively applied in this context.

At a global level, the UN Guiding Principles for Business and Human Right (UNGPs) provide guidance to address business impacts on all human rights, applicable to both States and businesses. The UNGPs call on all businesses, including financial institutions, to respect, at a minimum, the rights contained in the International Bill of Rights and international labour rights as referred in the ILO Declaration on Fundamental Principles and Rights at Work. The respect of human and labour rights covers some of the major social elements of a just transition and is applicable to impacts related to the climate transition on people (UNGP, 2011). Regarding the world of work specifically, the ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (ILO MNE Declaration) provides direct guidance to multinational and national enterprises, governments of home and host countries, and employers' and workers' organizations. The guidance covers social policy and inclusive, responsible and sustainable workplace practices, relevant and applicable in a just transition context.

Concerning transition plans, several organizations have published guidance for corporates and financial institutions. The 2022 LSE Grantham Research Institute report on "Making transition plans just" guides financial institutions on how to embed just transition into their net-zero plans. It helps financial institutions align with

existing frameworks as it structures its recommendations along the GFANZ transition planning framework. For designing financial sector transition plans, the report provides guidance and recommends to:

- anticipate, assess and address the social risks of the transition;
- identify and enable the social opportunities of the transition;
- ensure meaningful dialogue and participation in net zero planning (Curran et al., 2022).

Another relevant tool to support financial sector transition plans is the TPT Transition Planning Sector Guidance (TPT, 2024a) for Banks, Asset Owners and Asset Managers. The guidance specifically acknowledges the impacts and dependencies of the activities arising from the implementation of transition plans of financial institutions on stakeholders, society, and the economy as well as related social risks and opportunities. A dedicated Just Transition Working Group (TPT, 2024b) provided advice to the TPT on how to further integrate just transition into the TPT Disclosure Framework and sector guidance. The working group also mapped a list of just transition metrics from existing disclosure frameworks that are relevant to transition planning.

Other tools, such as the ILO-LSE Just Transition Finance Tool for banking and investing activities (ILO, 2022c) and the ILO-UNEP FI (2023) Just Transition Finance Pathways provide an overview of the social considerations of a just transition, their implications for the financial sector and guide banks, investors and insurers in embedding them in their strategy and operations. The Just Transition Criteria published by the Impact Investing Institute serve as a tool for investment managers to design and align investment strategies with environmental, social and inclusivity objectives (III, 2023).

For assessing specific clients and transactions, the World Benchmarking Alliance (WBA) developed a Just Transition methodology. It includes a set of indicators that can be used to assess and monitor the progress of implementing just transition strategies and practices of corporate actors along 6 pillars (WBA, 2021a). The WBA also integrated just transition criteria in all its sector assessment benchmarks, which allows comparing corporate climate and social practices within each sector. These assessments identified a lack of correlation between a company's relative performance on climate and just transition (WBA, 2021b).

Focusing on one key aspect of transition finance, the GFANZ Managed Phaseout of High-emitting Assets report highlights the just transition dimension of phaseout processes. The report recommends considering and disclosing how just transition and continuity of service considerations have been considered in managed phaseout plans. In particular, it looks at cases where the phased-out assets provide significant local employment or have environmental obligations, or where re-training and other just transition actions are associated with the phase-out plan (GFANZ, 2022b). The GFANZ also published guidance encouraging financial institutions to consider social key performance indicators when operating in managed phaseouts, such as loss of employment (GFANZ, 2023).

Finally, although not tailored to address just transition or transition finance, the International Finance Corporation's Performance Standards on Environmental and Social Sustainability cover a comprehensive set of social and environmental elements relevant for the climate transition. The standards provide guidance on how to identify environmental and social risks with the objective to avoid, mitigate, and manage them (IFC, 2012). Therefore, they can support the identification and assessment of social risks and impacts of client operations and their transition strategies. However, in line with their risk management focus, compliance with the Performance Standards does not automatically imply intentional targeting of positive social outcomes, including related to a just transition.

Overall, the review of existing frameworks and initiatives concludes that the transition finance ecosystem still places a relatively low, although increasing, importance on the social aspects of the low-carbon transition. Moreover, detailed guidance and considerations around proportionality of requirements according to local development context are often not reflected. However, financial institutions can use existing tools, accompanied by internal capacity development, to meaningfully integrate social impacts and opportunities that will result in making transition finance (more) just.

4. Entry points for strengthening the social dimension of transition finance

The financial sector has widely acknowledged that environmental, social and governance (ESG) factors can be material to the performance of financed companies and therefore need to be thoroughly considered by capital providers. Incorporating just transition into strategic thinking is imperative for robust risk management that empowers financial institutions to effectively address and mitigate a spectrum of financial and non-financial risks inherent to their portfolios (ILO and UNEP FI, 2023). Climate-induced weather events as well as pushbacks to the climate transition if the transition is not perceived as just, all can lead to business disruptions, negative impacts on health and livelihoods, impacting financial institutions' portfolios and leading to direct financial implications. In addition, the concept of double materiality, increasingly discussed in the financial sector, expands this idea: it's not just the sustainability-related impacts on the companies that matter, but also their own impacts on different stakeholders.

However, the review of existing transition frameworks and initiatives showed that they lack elements for identifying and assessing the social impacts of the low-carbon transition. This gap provides for entry points to strengthen the social dimension of **transition finance frameworks**:

- Creating consistency via common definitions of socio-economic risks and impacts (both positive and negative) relevant for and aligned with just transition priorities (IRSG, KPMG, 2021).
- Enhancing mandatory corporate sustainability reporting and disclosure by including social metrics (including on labour) in project, company-level and financial institutions' disclosure requirements alongside environmental indicators.
- Promoting inclusion of relevant social objectives and criteria aligned with just transition principles in sustainable finance taxonomies, in addition to "do no harm" requirements and social safeguards.
- Incentivizing or mandating thorough due diligence of social risks and opportunities as well as company-level approaches in the framework of transition finance transactions, such as but not limited to: respect of human rights, labour rights and standards, specific implications of phasing-down of high-emitting activities and restructuring of business operations on workers, communities and vulnerable populations, impacts on land rights in the framework of large-scale infrastructure projects.
- Promoting materiality assessments and disclosure of relevant and salient social impacts, opportunities and mitigation strategies in the framework of corporate net-zero transition plans. In addition to making such assessments common practice, such disclosures would improve transparency and facilitate the assessment process of financial institutions.

As a consequence of being able to assess and understand social impacts of the climate transition strategies, **financial institutions** have multiple entry points for enabling and influencing the change within the real economy:

- Financial sector transition plans can support both environmental and social targets of a just transition. Understanding the social implications of their own climate transition strategies and considering the impacts and opportunities when defining and reporting on the net-zero transition plans of financial institutions would contribute to a risk-conscious decision-making as well as increased accountability.
- In addition, when aware of the impacts on affected and vulnerable populations, financial institutions' transition strategies can further exploit opportunities to share the benefits of the low-carbon transition by engaging with their clients and offering financial products and solutions that cater to their client needs, including energy efficiency loans, green mortgages, climate risk management solutions.
- Financial instruments used in the context of transition finance, such as GSS+ bonds, offer another path to integrate social aspects. To date, just transition remains a nascent theme for both issuers and investors.

  Use-of-proceeds bonds and their labelling standards can be instrumental for directing funds towards projects and activities that align with just transition objectives. Clauses of specific debt instruments and sustainable

debt standards could support compliance by referencing social performance standards. Beyond minimising risks, they could be used to promote social impact by defining types of projects and activities that align with just transition objectives in their eligibility criteria. Criteria could include requirements that the funded projects create decent jobs, promote fair labour practices, offer training and upskilling opportunities for affected workers and populations. General purpose financing instruments and their related labelling standards, such as sustainability-linked bonds (SLBs) and sustainability-linked loans (SLLs), can be used to promote just transition objectives by including social targets to incentivize borrowers to improve practice.

These entry points can enable the financial sector to play an even more important role to accelerate the shift to a low-carbon, resource-efficient, and resilient society. However, enabling conditions need to be in place to accelerate the flow of finance towards a just decarbonisation of high-emitting, hard-to-abate sectors. These conditions include the creation of an enabling policy environment, providing for the development of skills needed for a just transition, ensuring social dialogue, access to adequate social protection and supporting the groups affected by the transition. The G20 can catalyse changes that will bring the direction and support for engagements of financial institutions with their clients, paving the way for increasing financing to a transition that is just.

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