United Nations Global Compact

FINANCING A JUST TRANSITION

A BUSINESS BRIEF

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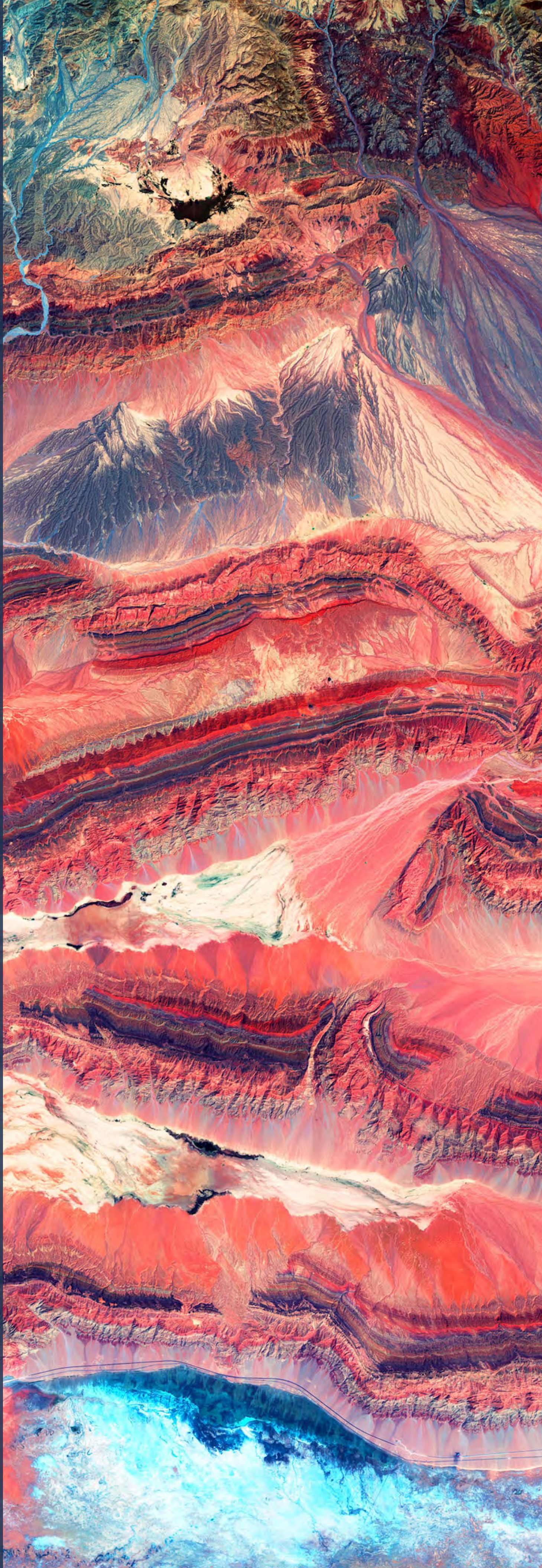


KEY MESSAGES

This Business Brief addresses the roles of finance in advancing a just transition. It draws from recent developments to illustrate what is possible, while calling on key financial actors to develop and realize this potential, including financial institutions, the Chief Financial Officers and finance functions of corporations, investors, Chief Investment Officers, Chief Risk Officers and policymakers.

1. Just transition is an enabling agenda for scaled-up climate action, and it depends on expertise that goes beyond environmental and climate issues to include labour standards, social dialogue, consensus-building, Government relations and community impacts. Financial decision-making cuts across these domains, within and across institutions, opening doors to a leadership role for finance in the just transition.

2. Finance can leverage its cross-cutting position in the real economy to advance a just transition by partnering with Governments, labour, business and civil society; allocating capital; managing related risks and harnessing opportunities; and contributing to a robust informational infrastructure.

3. Financial functions and institutions can advance a just transition by addressing four core elements of operations — strategy, governance, risk management, and metrics and targets — and by engaging policymakers to support an enabling environment, particularly on fiscal policies, financial regulations and transition plans.

REALIZING THE POTENTIAL OF FINANCE TO ADVANCE A JUST TRANSITION

THE CROSS-CUTTING INFLUENCE OF FINANCE

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. As the main globally endorsed framework in this area, the ILO's *Guidelines for a just transition towards environmentally sustainable economies and societies for all*[1] outline principles and potential policy entry-points to promote and manage a just transition. Governments, businesses, workers, communities, civil society and citizens have distinct but complementary roles. Achieving a just transition also depends on financial systems that work in the interest of society and the environment and operate synergistically with the Governments, labour unions and businesses that share these objectives.

Achieving net-zero emissions, ensuring accelerated action to adapt to climate change — and related goals around pollution and waste, biodiversity, the ocean and water systems — require a shift away from unsustainable assets, technologies and products towards green processes and products. This transformation will shape — and be shaped by — financial flows. The associated changes in production and consumption, investments, innovation and productivity growth — underpinned by finance — have direct consequences for decent work, social inclusion and economic resilience.

Opportunities to advance a just transition through finance range from the general (e.g. embedding high social and environmental standards including decarbonization and human rights due diligence across financial processes) to the specific (e.g. dedicated investment strategies in priority regions). Many opportunities also exist in the middle of this spectrum (e.g. blended or sustainability-linked finance).

In the same way that financial institutions provide services across economic sectors, corporate finance functions play a cross-divisional role within companies.[2] Financial actors both within and outside the financial sector are therefore well positioned in their sphere of influence to bring a cross-cutting perspective to just transition strategy design and execution, improve decision-making through data and analytics and propel sustainability strategies by leveraging valuable ties to internal and external stakeholders. Moreover, corporate finance functions are also significant investors in their own right. (The Glasgow Financial Alliance for Net Zero (GFANZ) estimates that corporations could contribute about 30 per cent of direct capital expenditures for decarbonization.)[3] This creates the opportunity for financial actors in both financial and real-economy sectors to contribute to managing the socioeconomic risks of climate action; harnessing opportunities to advance decent work and social inclusion; and embedding social dialogue, stakeholder engagement and respect for rights across decision-making.

1. International Labour Organization, Guidelines for a just transition towards environmentally sustainable economies and societies for all (ILO Just Transition Guidelines).
2. McKinsey & Co., The new CFO mandate: Prioritize, transform, repeat, 2018.
3. Glasgow Financial Alliance for Net Zero, Net Zero Financing Roadmaps.

HOW CAN FINANCE ADVANCE A JUST TRANSITION?

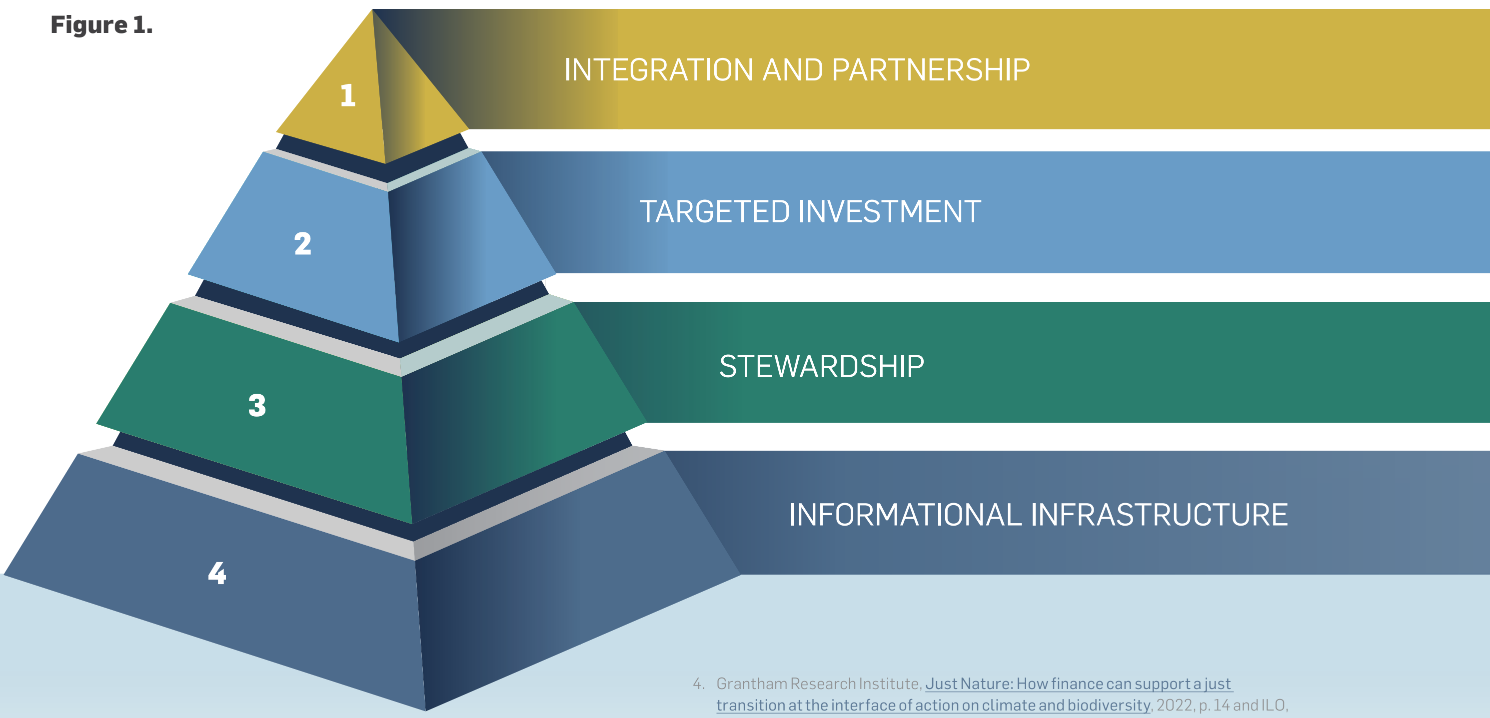
Financial institutions and decision-makers influence flows of financial capital and also social and intellectual capital. This creates a multifaceted opportunity,[4] mapped here to four key contributions, which build on each other.[5]

1. ENGINEERING THE INFORMATIONAL INFRASTRUCTURE FOR A JUST TRANSITION

Financial systems depend critically on effective data systems, which serve both internal decision-makers and external stakeholders. Sustainability factors are increasingly reflected in reporting standards and practices. Many corporate finance functions oversee both financial and nonfinancial data systems and reporting. This gives them a central position not only in strategic decisions related to growth and sustainability but also in broader stakeholder relations in connection to ESG risks and impacts.[6]

Financial institutions and finance functions, together with financial regulators, standard setters and 'finance-adjacent' industries such as IT/consulting, contribute to the informational infrastructure that underpins sustainable development. This includes the data, metrics, analytical tools and platforms that support decision-making, promote transparency and accountability, facilitate learning and inform policymaking. However, many gaps remain. These range from the standardization and collection of data related to just transition to the uptake of comprehensive sustainability reporting to more complex issues of modeling integrated climate-economic scenarios at the local level and identifying sectoral pathways with the power to align Government, financial and corporate actors.

Figure 1.



4. Grantham Research Institute, Just Nature: How finance can support a just transition at the interface of action on climate and biodiversity, 2022, p. 14 and ILO, Finance for a Just Transition and the Role of Transition Finance, 2022.
5. Adapted from Deloitte, Four Faces of the CFO, 2016.
6. Greater transparency and accuracy around sustainability risks and impacts also depend on innovations in governance. UN Global Compact, Transformational Governance.

Civil society organizations and research institutions generate key parts of the evidence base supporting alignment between finance and just transition principles:

- The **World Benchmarking Alliance** (WBA) benchmarks financial institutions and real-sector companies in several dimensions, including alignment with the Paris Agreement, human rights and decent work.[7] WBA also assesses companies in high-emitting sectors on specific practices related to just transition.
- The **Global Impact Investing Network** IRIS+ impact management system incorporates metrics to measure investment strategies' contribution to Quality Jobs and Decent Work,[8] including job security and stability, health and well-being, skills development, earnings through employment, respect of rights and cooperation.
- The **Workforce & Organizational Research Center Worthwhile** Jobs Framework combines employee voices, scientific evidence and company perspectives to assist investors and companies in diagnosing job quality gaps, designing action plans and monitoring impact.
- The **Council for Inclusive Capitalism**'s Commitment Platform enables companies to publish commitments related to just transition.

Financial markets and other stakeholders use sustainability disclosures to inform investment decisions, engagement strategies and policy advocacy. Mandatory and voluntary reporting frameworks are critical for an effective data ecosystem:

- The **Grantham Research Institute** published a map of just transition-related disclosure topics within established reporting frameworks.[9]
- The **Global Reporting Initiative** (GRI) announced in 2022 a project to revise and develop its Labour Topic Standards to improve alignment with intergovernmental instruments.
- The **ShareAction** Workforce Disclosure Initiative is an investor coalition that uses a survey and engagement to improve corporate transparency and accountability on workforce issues.
- Organizations including **Principles for Responsible Investment** (PRI) and the **Human Capital Management Coalition** (HCMC) have raised the profile of human capital disclosures, including with the U.S. Securities and Exchange Commission.[10] HCMC also provides investors with a corporate engagement toolkit to encourage better reporting of human capital data.
- The **Johannesburg Stock Exchange** has developed Sustainability Disclosure Guidance — aligned with key global initiatives such as GRI and TCFD — to support understanding and build alignment among market stakeholders in relation to sustainability disclosures.

7. World Benchmarking Alliance, Financial System Benchmark; Social Transformation Framework and Baseline Assessment; Just Transition Assessment.
8. Global Impact Investing Network, Understanding Impact Performance: Quality Jobs Investments, 2021.
9 Appendix (p. 36–38) of Grantham Research Institute, From the grand to the granular: translating just transition ambitions into investor action, 2021.
10. The U.S. SEC decided in 2020 to require principles-based human capital reporting, and more recently there have been developments towards more concrete requirements, including defined metrics. Principles for Responsible Investment, Investor action on decent work would receive boost from SEC-mandated disclosures, 2022; Harvard Law School Forum on Corporate Governance, The Current State of Human Capital Disclosure, 2021; Human Capital Management Coalition, Letters and Statements.

2. STEWARDING ASSETS TO REDUCE RISKS AND ENHANCE VALUE

Supported by robust information systems, financial actors act as stewards to protect and enhance the value of assets including economic, environmental and social assets and as custodians of the financial system itself. Forward-thinking risk management addresses the risks that lie at the intersection of climate, the workforce, society and the economy.[11] Integrating just transition criteria[12] — and processes including social dialogue and stakeholder engagement — in risk assessments, investment/divestment decisions and operational/oversight practices can have far-reaching effects for workers, communities and value chains and reduce risk for companies, investors and the financial system.

A just transition also creates opportunities to enhance the value of financial, social, human and natural capitals,[13] particularly through social dialogue and partnership. Achieving a high standard of stewardship depends on the actions of corporate finance functions, financial institutions[14] (for example, in investor engagement with companies, loan covenants and underwriting practices) and financial gatekeepers including regulators, sustainable finance standard setters and stock exchanges.[15]

11. These include operational, market, legal, regulatory, technology and reputational risks, which in turn generate market, credit, legal and reputational risks for financial institutions. Moody's, Rising focus on just transition will raise risks for most exposed companies, 2021 and The B Team and Just Transition Centre, Just Transition: A Business Guide, 2018.

12. UN Global Compact, Introduction to Just Transition - A Business Brief, 2022.

13. For example, CFOs and finance functions are increasingly seen as 'talent factories', giving them an important position in a key dimension of just transition: workforce skills development. McKinsey & Co., The evolution of the CFO, 2019.

14. Clifford Chance, CDC Group, IHRB, Just Transactions: A White Paper on Just Transition and the Banking Sector, 2021.

15. Jouffray, Jean-Baptiste *et al*, Leverage points in the financial sector for seafood sustainability, 2019.

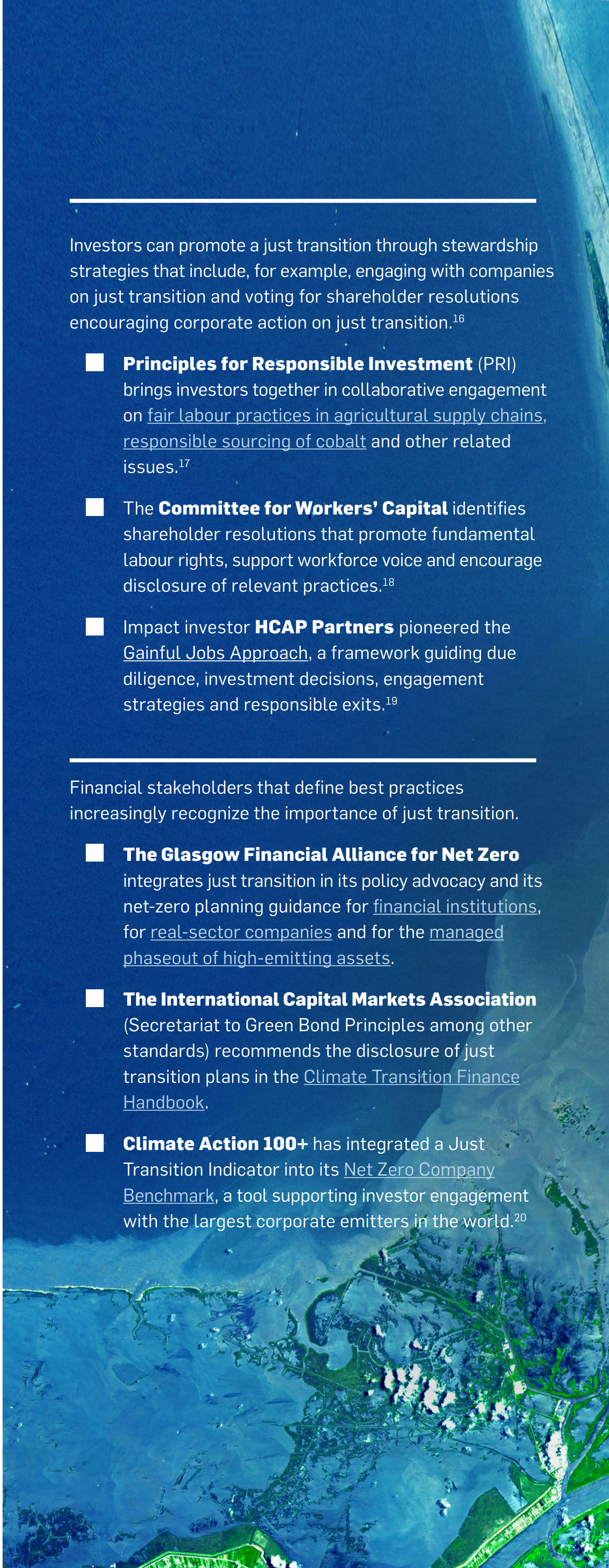
16. Additional examples can be found in UN Global Compact, Introduction to Just Transition - A Business Brief, 2022.

17. Principles for Responsible Investment, Advance: A stewardship initiative for human rights and social issues. See also the Investor Statement and Sector and Company Selection Methodology.

18. Committee on Workers' Capital, Proxy Voting.

19. Profile on page 20 of Global Impact Investing Network, Understanding Impact Performance: Quality Jobs Investments.

20. The indicator's first results were published in 2022. Climate Action 100+, A Need for Robust Transition Planning, 2022.



Investors can promote a just transition through stewardship strategies that include, for example, engaging with companies on just transition and voting for shareholder resolutions encouraging corporate action on just transition.[16]

- **Principles for Responsible Investment** (PRI) brings investors together in collaborative engagement on fair labour practices in agricultural supply chains, responsible sourcing of cobalt and other related issues.[17]
- The **Committee for Workers' Capital** identifies shareholder resolutions that promote fundamental labour rights, support workforce voice and encourage disclosure of relevant practices.[18]
- Impact investor **HCAP Partners** pioneered the Gainful Jobs Approach, a framework guiding due diligence, investment decisions, engagement strategies and responsible exits.[19]

Financial stakeholders that define best practices increasingly recognize the importance of just transition.

- **The Glasgow Financial Alliance for Net Zero** integrates just transition in its policy advocacy and its net-zero planning guidance for financial institutions, for real-sector companies and for the managed phaseout of high-emitting assets.
- **The International Capital Markets Association** (Secretariat to Green Bond Principles among other standards) recommends the disclosure of just transition plans in the Climate Transition Finance Handbook.
- **Climate Action 100+** has integrated a Just Transition Indicator into its Net Zero Company Benchmark, a tool supporting investor engagement with the largest corporate emitters in the world.[20]

3. CATALYZING A JUST TRANSITION THROUGH INVESTMENTS AND FINANCIAL SERVICES

Building on data infrastructure and stewardship activities, financial agents can also allocate capital toward investment needs of the just transition. These range from infrastructure, technology and nature-based solutions[21] that advance climate and social objectives to SME development, workforce development and social protection.[22] Just transition investment strategies are undertaken at many levels, including by Governments and businesses, but execution of these plans depends on adequate financing. Creative ways of sourcing and structuring capital, including sustainable[23] and blended[24] finance and innovative uses of carbon markets and carbon fees,[25] offer opportunities to fund just transition initiatives for firms, Governments and global partnerships.[26]

Effective investment also requires actively developing the pipeline of investable projects. Economic planning, principally led by Governments, can facilitate the identification and cultivation of promising projects. Often acting as intermediaries for Governments, multilateral development banks[27] can perform important functions on a global scale: catalyzing private capital through financial structuring and de-risking; developing investment strategies in dialogue with policymakers; and setting investment standards for the broader ecosystem.[28] At a more local level, local climate finance hubs, local green banks and community development lenders build a critical link between local and national Governments, investors and communities, building capacity and increasing access to finance for local projects.

In addition to lending and investment, financial services such as insurance are also important enablers of a just transition. Insurance can be used by people, communities and business as a tool to protect or restore livelihoods and to move up the value chain.

21. Resources for the Future, Environmental Remediation and Infrastructure Policies Supporting Workers and Communities in Transition, 2020; World Wide Fund for Nature and Boston Consulting Group, Beyond Science-Based Targets: A blueprint for corporate action on climate and nature, 2020.

22. Just transition, which centers decent work, is also instrumental to global climate justice efforts, which are rooted in human rights.

23. BBVA coordinates Iberdrola's first sustainable credit facility aligned with the just transition principles totalling €1.5 billion, 2019.

24. Blended Finance Taskforce and Centre for Sustainability Transitions, Making Climate Capital Work: Unlocking $8.5bn for South Africa's Just Energy Transition, 2022.

25. Responsible Investor, Use carbon pricing revenues to fund Just Transition, says Net Zero Asset Owner Alliance, 2022; Pricing Nature, Tax Ourselves? Why Companies and Institutions Are Pricing Their Own Emissions, 2022. The Taskforce on Scaling Voluntary Carbon Markets Final Report, 2021, recommends establishing a taxonomy of additional attributes, including SDG impacts, in addition to core carbon principles in voluntary carbon markets, to elevate projects with high social impacts.

26. Climate XChange, Carbon Pricing in a Just Transition, 2019; EU Social Climate Fund and Just Transition Mechanism; South Africa's Just Energy Transition Partnership. See also Institute for Human Rights and Business, One Year On – 5 Takeaways from South Africa's Just Energy Transition Partnership (JETP), 2022.

27. Many MDBs finance both the climate and decent work agendas. A number of these have adopted the MDB Just Transition High-Level Principles to guide their work.

28. IFC Performance Standards; Environmental, Health, and Safety Guidelines; Impact Principles; Equator Principles.

Sustainable and impact investors, banks and companies can be active investors in a just transition:

- Organizations including **PRI** and the **Grantham Research Institute** have developed practical guides for investing in a just transition.[29]
- Members of the **UK Financing a Just Transition Alliance**, including financial institutions and companies, have undertaken innovative investments in just transition, with a strong focus on place.[30]
- Building on its work on mobilizing capital for a just transition, the **UK Impact Investing Institute** is pioneering a Just Transition product label.[31]
- Through its Futur-E Project, **Enel** invests in the redevelopment of disused industrial sites, simultaneously contributing to circular economy, just transition and climate adaptation goals.[32]

Development finance institutions (DFIs) leverage public and philanthropic capital to de-risk investments in just transition and use financial structuring (e.g. aggregation and securitization) to catalyze private capital flows, often in coordination with local Governments and communities.

- The **African Development Bank Group** just transition initiative develops a network of relevant stakeholders, partners and experts; produces resources and guidance for member countries; and contributes to the Bank's external engagement on just transition.
- The **European Bank for Reconstruction and Development** has launched a just transition initiative, encompassing both investment and policy activities, and issues bonds to make these opportunities available to investors.
- **Blended finance facilities** use financial tools to mobilize a wide range of capital sources toward just transition investment needs.[33]
- **Community development institutions** source public, commercial and impact capital to invest in climate action while responding to local policies and community needs.[34]
- **Local climate finance hubs** build bridges between financial institutions, policymakers and communities to develop and finance a just transition project pipeline.[35]
- **Green banks** have begun integrating social objectives in order to achieve more robust outcomes in climate finance.[36]

29. PRI, Climate change and the just transition: a guide for investor action, 2018; Grantham Research Institute, From the grand to the granular: translating just transition ambitions into investor action, 2021; PRI, How investors can advance decent work, 2022.

30. Grantham Research Institute, Just Zero: 2021 Report of the UK Financing a Just Transition Alliance, 2021.

31. Impact Investing Institute, Just Transition Finance Challenge.

32. Enel, Sustainability Report 2021, p. 120. For more on just transition and adaptation, see UN Global Compact, Just Transition for Climate Adaptation: A Business Brief, 2022.

33. See for example the profile of the AGRI3 Fund in Grantham Research Institute, Just Nature: How finance can support a just transition at the interface of action on climate and biodiversity, 2022, p. 20.

34. Opportunity Finance Network, What Climate Change and Banks' Net Zero Targets Mean for CDFIs, 2022.

35. The UK Place-based Climate Action Network is one example. For more information, see Grantham Research Institute, Just Zero: 2021 Report of the UK Financing a Just Transition Alliance, 2021, p. 41.

36. Rathbone Greenbank Investments outlines their approach in their report Financing a Just Transition.

4. HARNESSING THE POTENTIAL OF FINANCE THROUGH INTEGRATION AND PARTNERSHIP

The transformative potential of finance in a just transition can be realized by integrating the range of its capabilities and acting as a strategic partner alongside Governments, labour, other businesses and civil society. For both financial and nonfinancial businesses, integration means communicating a clear commitment to a just transition; aligning financial policies and strategies with this commitment; catalyzing internal and external decision-makers through engagement, negotiation and financial incentives; and contributing to an information-led transformation through robust impact management and reporting practices.[37]

In addition to their own financial strategies and practices, businesses should also work to facilitate broader collaborative strategies. Social dialogue and broad-based engagement are critical for this process, as they improve alignment around desired outcomes and build understanding of the roles of various stakeholders.[38] Finance functions and financial institutions can be instrumental to broader efforts by contributing to robust and interoperable data systems; staying ahead of related risks on behalf of stakeholders; adhering to high social and environmental standards in decision-making; ensuring just transition and other sustainability strategies are underpinned by adequate financial resources; and investing in a just transition through conscious allocation of capital, in coordination with broader climate initiatives.

37. Grantham Research Institute, Just Nature: How finance can support a just transition at the interface of action on climate and biodiversity, 2022, p. 5.

38. Intellidex, Financing South Africa's Just Energy Transition, 2022.

39. The Just Transition Finance Tool for banking and investing activities, developed by the ILO and LSE Grantham Research Institute and launched at COP 27, is structured according to financial institutions' organizational processes, providing concrete entry points to integrate social aspects within existing and emerging sustainability and net-zero alignment strategies as well as Environmental, Social and Governance (ESG) organizational policies and practices.

HOW CAN MY FIRM'S FINANCIAL PRACTICES ADVANCE A JUST TRANSITION?

Corporate finance functions and financial institutions can advance a just transition by addressing four core elements of operations: strategy, governance, risk management, and metrics and targets.[39]

> **The Just Transition Finance Tool for banking and investing activities, developed by the ILO and LSE Grantham Research Institute and launched at COP 27, is structured according to financial institutions' organizational processes, providing concrete entry points to integrate social aspects within existing and emerging sustainability and net-zero alignment strategies, as well as Environmental, Social and Governance (ESG) organizational policies and practices.**

STRATEGY

LEVERAGE THE FINANCIAL ECOSYSTEM to propel the integration of just transition in business strategy, for both real-sector companies and financial institutions.

- **Sustainable finance**, including sustainability-linked finance,[40] can support corporate investments in just transition and incentivize sustainable business models, creating opportunities for both providers and recipients of capital.
- **Blended finance**[41] can improve alignment between public and private sector ambitions and increase the financial resources available to fund projects which support a just transition.
- **Mandatory and voluntary sustainability disclosure** practices can be used to create competitive advantage, attract capital and drive internal sustainability imperatives. **Forward-looking disclosure frameworks** such as the TCFD Recommendations and GFANZ guidance on net zero planning can support conscious internal engagement on long-term risks and opportunities.
- **Long-term equity and debt holders** enable financial institutions and corporations to adopt a long-term strategic horizon; conversely long-term business plans attract committed investors. These relationships can galvanize commitment to a just transition, including around short- and long-term trade-offs.
- **Investor, customer and other stakeholder interests** are finding new and more dynamic forms of expression,[42] providing a financial framing for proactive just transition plans.

TRANSLATE JUST TRANSITION PRIORITIES into financial practices.

- **Investment decision-making should integrate** social dialogue and stakeholder engagement,[43] adherence to social and environmental standards, human rights due diligence, ESG risk assessments and other practices outlined in key instruments.[44]

40. UN Global Compact CFO Coalition, Scaling the Market for Outcome-based Finance.

41. UN Global Compact CFO Coalition, Realizing the Potential of Blended Corporate Finance.

42. BSR, Dynamic Materiality: How Companies Can Future-Proof Materiality Assessments, 2021.

43. Just Transition Initiative, Worker's Voice and Investing in a Just Transition: The Fonds de Solidarité FTQ, 2022.

44. For example, IFC Performance Standards; Environmental, Health, and Safety Guidelines; Impact Principles; Equator Principles.

In 2019 Think Lab participant Enel issued the first sustainability-linked bonds. This opportunity depended on a pioneering mindset, internal coordination among several teams, proactive investor engagement and strategic alignment with the Global Goals. In this process, Enel leverages the financial ecosystem to incentivize sustainable business strategy, creates tools to steer capital toward the SDGs and contributes to the broader sustainable finance markets by demonstrating the opportunity of results-based finance.

Taking advantage of a long-term strategic horizon, Think Lab participant AIA takes a synergistic approach to link its insurance business, investment portfolio and sustainability goals. Investing in the health and wellbeing of its customer communities simultaneously promotes social and economic resilience, reduces medical inflation and helps make health insurance and healthcare more accessible, more affordable and more effective.

In 2020, Think Lab participant Microsoft announced commitments to be a carbon negative, water positive, zero waste company that protects more land than it uses. The first carbon commitment was announced by three members of senior management: the President, the CEO and the CFO. This included an expansion of Microsoft's internal carbon fee to all of the company's Scope 3 emissions and included a science-based target. Execution of this goal has included projects that embed racial equity and environmental justice principles in their design, supporting a just transition. One example is the Climate Innovation Fund, which centers climate equity as one of its investment prioritization principles.

- **Investment analysis should assess opportunities** for synergy between people, planet and business value. Just transition investments can add portfolio-level value through indirect effects, over and above Return on Investment (ROI), including as an enabler of more transformative outcomes in climate strategies.[45]
- **Operational expenditure can also be mobilized** for a just transition. Education and training, healthcare and R&D have a demonstrated financial and social ROI.

SEEK BUSINESS OPPORTUNITIES THAT ADVANCE A JUST TRANSITION.

- **New financial products and services** aligned with environmental and social frameworks can encourage sustainability among business partners, clients and customers;[46] channel capital to affected stakeholders including households;[47] and promote risk-sharing for resilience, for example through climate insurance.[48]
- **Underserved markets offer opportunities** to improve economic resilience and equitable customer access, including to financial and/or green products and services.

STRENGTHEN NET-ZERO STRATEGIES by integrating social risk assessments and safeguards and engaging a wide range of stakeholders and experts. Leverage the centrality of finance to support knowledge-sharing and strategy across multiple domains, accelerating climate action.

ENGAGE POLICYMAKERS, LABOUR, BUSINESS ASSOCIATIONS AND OTHER STAKEHOLDERS to socialize the concept of a just transition, identify socioeconomic risks and opportunities in the net-zero transition, develop sectoral pathways and define community-led regional plans. Leverage this engagement to increase coordination around capital flows and risk sharing, technical capabilities, law and regulation and economic planning (Figure 2). **Plan for early interventions** to reduce costs and increase effectiveness.

> **Think Lab participant National Australia Bank advances a just transition through its approach to lending. The Bank uses in-house analytics to assess any gaps between Paris-aligned sectoral pathways and its clients' climate targets. The results inform engagement and data exchange with clients, with whom the Bank also seeks opportunities to discuss the social considerations of their climate transition.**

> **Think Lab participant Mahindra Group's investments in skills development are designed in alignment with skills-related objectives and targets set by the Indian national Government and are undertaken cooperatively with the national and local Governments. This creates new financing opportunities, including access to both public and impact capital.**

45. Vivid Economics, Transformative Climate Finance, 2020.
46. Tesco, Tesco set to become first UK retailer to offer sustainability-linked supply chain finance, 2021.
47. Grantham Research Institute, Financing a just transition to net-zero emissions in the UK housing sector, 2020.
48. ILO, Climate change and financing a just transition.

Figure 2.

HOW CAN THE PRIVATE SECTOR ENGAGE PUBLIC POLICY TO ADVANCE JUST TRANSITION FINANCE?

GOVERNMENTS ARE INVESTORS AND CONSUMERS:	ENCOURAGE ALIGNMENT IN **FISCAL POLICY**	Fiscal policies direct public resources to target industries, regions and populations to stabilize economic demand or build productive capacity and economic resilience. Fossil fuel subsidies distort energy markets and drive the climate crisis. Reforming these subsidies to create a level playing field for renewables can not only reduce emissions but also generate funds to support a just climate transition for workers, households vulnerable to price shocks and the communities most exposed to climate change.[49] Carbon pricing is an important tool for advancing decarbonization and can raise funds for public investments in just transition.[50] Procurement policies can be used to ensure public spending on goods and services is aligned with social and environmental goals. Blended finance mechanisms between Governments and the finance sector can be cost effective for governments and simultaneously build capability in the private sector to effect systemic change.
GOVERNMENTS REGULATE FINANCIAL INSTITUTIONS AND MARKETS:	ENCOURAGE ALIGNMENT IN **MONETARY POLICY AND FINANCIAL REGULATION**	Regulatory corporate disclosures are a critical policy lever to promote transparent and efficient markets, including with respect to sustainability risks and opportunities. Partnerships between the public, financial and corporate sectors to develop metrics and taxonomies related to a just transition can support systems-level decision-making, accountability and learning. As macroprudential regulators of financial systems (banks in particular), many central banks have begun assessing systemic risk related to climate change through mandatory disclosures, scenario analysis and stress-testing. Some central banks are exploring more active policies related to asset purchases, collateral frameworks and/or refinancing rates. The Network for Greening the Financial System coordinates monetary authorities on related issues. The political viability and risk profile of these policies can be improved by linking social and environmental factors in risk analysis, ensuring robust social risk management among banks, embedding social safeguards in macroeconomic policy decisions and coordinating with fiscal policy to support affected populations.[51]
GOVERNMENTS ARE PLANNERS:	CONTRIBUTE TO THE DESIGN AND IMPLEMENTATION OF **DEVELOPMENT STRATEGIES**	Regional and sectoral transition pathways, based on credible climate scenarios, give economic and financial agents confidence in the strategic direction of development, improving risk and return of related investments. Governments can increase broad-based coordination and remove policy risk for companies and investors by improving policy coherence across levels of Government, across policy areas and between policy and planning. Economic plans should coordinate with fiscal policies, financial regulation, industrial regulation, trade and other policies including education and health. This promotes a comprehensive strategy, including for the renewable energy transition and industrial decarbonization.[52] Economic diversification strategies are an important tool for supporting regions affected by the transition, particularly through early interventions.

49. International Institute for Sustainable Development, Fossil Fuel Subsidy Reform and the Just Transition: Integrating approaches for complementary outcomes, 2017.

50. See Footnote 26.

51. Grantham Research Institute, Just Zero: 2021 Report of the UK Financing a Just Transition Alliance, 2021, Section 4: Policy frameworks for systemic change.

52. The Sida-ILO Systems Change Initiative uses a market systems development approach to create decent work and employment opportunities for the working poor, including in the context of environmental sustainability. Sovereign Governments' capacity to devise Paris-aligned economic pathways, implement supporting policies and adequately finance related initiatives is assessed by the Transition Pathway Initiative ASCOR project.

GOVERNANCE

ELEVATE OVERSIGHT OF JUST TRANSITION-RELATED RISKS AND OPPORTUNITIES to the level of the board, which has a duty to shareholders to oversee effective management of the transition.[53] Board oversight improves firm-wide alignment, including across corporate governance mechanisms:[54]

- **Risk, Audit, Remuneration**: Integrate management of just transition issues in business risk management. Ensure proper oversight of disclosures related to ESG and just transition by the audit committee.[55] Link executive remuneration to ESG performance.[56]
- **Strategy and investments:** Use KPIs, targets and internal controls to oversee just transition-related strategies and investments.[57]

DESIGNATE CLEAR ROLES, RESPONSIBILITIES AND KPIS OF THE CHIEF FINANCIAL OFFICER (CFO), CHIEF INVESTMENT OFFICER (CIO) AND/OR CHIEF RISK OFFICER (CRO) in managing risks and opportunities related to a just transition. This can include responsibilities related to:

- Systems for identification/analysis of related risks and opportunities
- Insightful information platforms
- Cross-divisional coordination of objectives, expertise and budgets
- Value-creation lens brought to sustainability and vice versa[58]
- Integration of human rights, labour standards and social dialogue in decisions
- Translation of related investor, policy and client/customer incentives into business imperatives

ENSURE REPORTING PRACTICES stay ahead of regulation and compliance risks; integrate just transition in Task Force on Climate-Related Financial Disclosures (TCFD) reporting; and leverage disclosure frameworks and investor expectations to incentivize internal alignment around just transition.[59]

Think Lab participant Maersk has fully integrated sustainability (ESG) KPIs into strategic decision-making, which is endorsed by the Board. Connected to its decarbonization ambitions, Maersk uses a just transition to identify risks and opportunities for the business and potentially affected stakeholders.

Think Lab participant Ørsted appointed its CFO as Chair of its Sustainability Committee, recognizing the value potential of close coordination between these parties.

53. World Economic Forum, The Chairperson's Guide to a Just Transition, 2022. For more on just transition-related risks and opportunities, see Introduction to Just Transition - A Business Brief.
54. UN Global Compact CFO Coalition, Governance of SDG Investments.
55. Parker, Stephen G., *et al*, The Audit Committee's Role in Sustainability/ESG Oversight, 2021.
56. Moats, Maria Castañón, *et al*, The Evolving Role of ESG Metrics in Executive Compensation Plans, 2022.
57. UN Global Compact CFO Coalition, Governance of SDG Investments.
58. There is a 20- to 30-percentage-point higher alignment between sustainability and strategic goals when CFOs are actively engaged in ESG topics. McKinsey & Co., In conversation: The new CFO mandate, 2022.
59. Accenture, ESG Reporting – A High Tech CFO's Imperative, 2022.

RISK MANAGEMENT

ENGAGE AND LEVERAGE CIOs, CFOs AND CROs in the management of just transition-related risks and integrate relevant responsibilities across the organization.

- **Undertake a social and economic risk analysis** of financial assets and liabilities in the transition to a net-zero carbon economy. Engage stakeholders including Governments, workers, customers, suppliers and communities to understand their plans and assess social risks.
- **Charge financial and investment functions** to uncover opportunities to simultaneously mitigate social, environmental and financial risks.
- **Institute robust human rights practices** in investment activities and financial products/services. These practices, outlined in the UNGPs[60] and emerging legislation,[61] contain Fundamental Principles and Rights at Work within their scope.[62]
- **Establish good labour, community and Government relations** to enhance social value and de-risk strategic decisions. Corporate CFOs can serve as a gatekeeper to ensure strategic decisions actively manage ESG risks, including material interdependencies between financial, social and environmental issues.
- **Undertake portfolio-level risk assessments** with a just transition lens.

> **Moody's ESG Solutions, a business unit of Moody's, published a report on just transition-related risks in the corporate sector. The research leverages Moody's ESG data capabilities to assess corporate practices related to just transition across different regions, uncovering vulnerabilities in sectors materially exposed to just transition-related risks.**

60. United Nations Guiding Principles on Business and Human Rights.

61. Mishra, Subodh, *et al*, The Rapidly Changing World of Human Rights Regulation: A Resource for Investors, 2022.

62. Fundamental Principles and Rights at Work include freedom of association and the effective recognition of the right to collective bargaining; the elimination of all forms of forced or compulsory labour; the effective abolition of child labour; the elimination of discrimination in respect of employment and occupation; and a safe and healthy working environment. All 187 ILO Member States have a duty to protect Fundamental Principles and Rights at Work, irrespective of whether they have ratified the relevant conventions. ILO, ILO Declaration on Fundamental Principles and Rights at Work, adopted in 1998 and amended in 2022 to include the right to a healthy and safe working environment.

METRICS AND TARGETS

USE METRICS AND TARGETS TO

- Facilitate strategy design and execution
- Support risk management
- Improve transparency and accountability

SET TARGETS THAT ARE

- Informed by social dialogue and stakeholder engagement
- Aligned with Science-Based Net-Zero Targets
- Aligned with best practices on just transition planning[63]
- Aligned with relevant transition pathways
- Timebound

SELECT METRICS THAT

- Are relevant to the organization's impact and influence and reflect strategic priorities
- Seek alignment with existing frameworks[64]
- Measure direct (operations), indirect (value chains) and induced impacts (local communities and Governments)
- Measure impacts by gender and on poor/vulnerable populations

MEASURE (WHERE RELEVANT) AND DISCLOSE THE FOLLOWING DIMENSIONS OF JUST TRANSITION: [65]

Strategy and governance

- Human rights commitment and aligned practices
- Social dialogue and stakeholder engagement
- Just transition plans aligned with the Paris Agreement relevant transition pathways
- Risk assessments and mitigation actions for workers and communities, including in divestments and reorganizations
- Responsible tax practices
- KPIs/targets used to monitor and incentivize action on just transition

Workers

- Jobs created and displaced (direct, indirect, induced)
- Labour rights risks/gaps
- Wages, pay gaps and social protection
- Gendered impacts
- Skills development
- Health and safety
- Voice, respect and cooperation
- Composition and DEI

Communities

- Engagement and due diligence practices
- Human rights incidents
- Economic impacts of operations and strategic decisions
- Free, prior and informed consent

Value chains

- Indirect (value chain) jobs displaced
- Risk assessments and human rights due diligence
- Responsible sourcing
- Engagement activities
- Financial activities

Consumers

- Affordability of green products/services
- Equitable access
- Health and safety impacts

Policy and partnerships

- Political advocacy
- Trade association memberships

Financial metrics, e.g.:

- CapEx aligned with just transition
- OpEx aligned with just transition, including human capital investments[66]
- ROI of just transition investments
- Sustainable financing (issued, invested or underwritten)
- Savings, operationally or through improved financing terms
- Internal carbon price

> **Think Lab participant Accenture works with clients and platform providers across the financial ecosystem to design and deploy technology solutions for centralizing and efficiently managing financial and non-financial data. These tools are critical to designing sustainability strategies, measuring their impact and informing more transparent decision-making.**

63. GFANZ, Publications and Grantham Research Institute, Making transition plans just: How to embed the just transition into financial sector net zero plans, 2022. For corporate plans, see for example the GFANZ Expectations for Real-economy Transition Plans and the UK Transition Plan Taskforce Disclosure Framework and Implementation Guidance, 2022.

64. For example, GRI Standards, UNGP Reporting Framework, Workforce Disclosure Initiative, IRIS+, as well as the Global Goals targets and indicators.

65. For a map of just transition-related metrics in established reporting frameworks, see Appendix (p. 36–38) of Grantham Research Institute, From the grand to the granular: translating just transition ambitions into investor action, 2021. See also p. 15 of ILO, Finance for a Just Transition and the Role of Transition Finance, 2022.

66. World Bank, Human Capital Project.

ABOUT THE THINK LAB ON JUST TRANSITION

The **Think Lab on Just Transition** aims to shape and define business and thought leadership on critical areas linked to just transition; address key business challenges; identify policy advocacy opportunities and good business practices; and scale-up learnings through the network of the UN Global Compact. Company participants include A.P. Møller – Mærsk, Accenture, AIA Group, CEMEX, DP World, Enara Capital, Enel SpA, Garanti BBVA, Iberdrola, Johnson Controls, Lenovo Group, LONGi, Mahindra Group, Majid Al Futtaim, Meta, Microsoft, Moody's Corporation, National Australia Bank, Nestlé, Novozymes A/S, Ørsted, ReNew Power Pvt. Ltd., Sappi Southern Africa Ltd., TriCiclos, Unilever, Wipro Ltd. and Woolworths Holdings Limited.

Created in collaboration with the participating companies and partner organizations of the United Nations Global Compact Think Lab on Just Transition, this Business Brief addresses the roles of finance in advancing a just transition. It draws from recent developments to illustrate what is possible, while calling on financial actors to develop and realize this potential. It includes guidance for incorporating just transition in private sector financial practices and identifies key points for public policy engagement.

The author of this brief is Aaron Cantrell, Future Nexus.

In collaboration with:

UN Global Compact CFO Coalition for the SDGs
UN Global Compact Just Transition Maritime Task Force

The Think Lab on Just Transition thanks the partners and company participants for their input and contribution to develop this brief. The Think Lab also thanks the following organizations for their additional contributions to this brief: Asian Development Bank, Carbon Pricing Leadership Coalition, Council for Inclusive Capitalism, Grantham Research Institute on Climate Change and the Environment at the London School of Economics and Political Science, Initiative for Responsible Investment at Harvard University and World Benchmarking Alliance.

The partners of the United Nations Global Compact Think Lab on Just Transition include:

THE TEN PRINCIPLES OF THE UNITED NATIONS GLOBAL COMPACT

HUMAN RIGHTS

1 Businesses should support and respect the protection of internationally proclaimed human rights; and

2 make sure that they are not complicit in human rights abuses.

LABOUR

3 Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

4 the elimination of all forms of forced and compulsory labour;

5 the effective abolition of child labour; and

6 the elimination of discrimination in respect of employment and occupation.

ENVIRONMENT

7 Businesses should support a precautionary approach to environmental challenges;

8 undertake initiatives to promote greater environmental responsibility; and

9 encourage the development and diffusion of environmentally friendly technologies.

ANTI-CORRUPTION

10 Businesses should work against corruption in all its forms, including extortion and bribery.

The Ten Principles of the United Nations Global Compact are derived from: the Universal Declaration of Human Rights, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development, and the United Nations Convention Against Corruption.

Design: Lyubava Kroll

ABOUT THE UNITED NATIONS GLOBAL COMPACT

As a special initiative of the UN Secretary-General, the United Nations Global Compact is a call to companies everywhere to align their operations and strategies with Ten Principles in the areas of human rights, labour, environment and anti-corruption. Our ambition is to accelerate and scale the global collective impact of business by upholding the Ten Principles and delivering the Sustainable Development Goals through accountable companies and ecosystems that enable change. With more than 17,000 companies and 3,000 non-business signatories based in over 160 countries, and 69 Local Networks, the UN Global Compact is the world's largest corporate sustainability initiative — one Global Compact uniting business for a better world.

For more information, follow **@globalcompact** on social media and visit our website at **unglobalcompact.org**.

United Nations Global Compact

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