CLIFFORD CHANCE

CDC Investment works

IHRB

JUST TRANSACTIONS
A WHITE PAPER ON JUST TRANSITION AND THE BANKING SECTOR

This White Paper, a joint project undertaken by Clifford Chance LLP, the Institute for Human Rights and Business and the CDC Group, considers how banks are addressing and can support a just transition through their climate-related financing activities, and the challenges and opportunities this presents. The authors are grateful for the support and participation of colleagues from financial institutions, international organisations and other initiatives who shared their valuable time and expertise. Special thanks to Professor Deanna Kemp, Director of the Centre for Social Responsibility in Mining, Sustainable Minerals Institute at the University of Queensland, who contributed the case studies at Annex A.

To find out more about this White Paper please speak to your regular contact at Clifford Chance, CDC Group or the IHRB.

www.cliffordchance.com/justtransactions

CONTENTS

TABLE OF CONTENTS

BOXES

EXECUTIVE SUMMARY

Access to finance is crucial to catalysing the measures needed to achieve net zero targets. Banks and other institutions across the financial system are making their own commitments to net zero and are dedicating significant sums to accelerating the transition to a low-carbon global economy. The Paris Agreement and more recently the Glasgow Climate Pact emphasise the importance of delivering a just transition to net zero – putting people at its centre. This means that the transition – both, out of high carbon sectors and, into sustainable ones must be accompanied by a focus on workers – employment and livelihood impacts – as well as on communities and consumers. This offers an opportunity to ensure that the transition brings about a more inclusive economy. The challenge presented is how to ensure that transition activities and related financing not only tackle climate change but do so in a way that contributes to a just transition.

The interviews conducted for this White Paper revealed that banks recognise the importance of achieving an equitable, inclusive and sustainable transition. Many of them have not yet adopted specific just transition policies or strategies and are considering how to deploy existing frameworks and tools to do so. This White Paper summarises the findings of our research and identifies how existing policies, principles, standards and bank practices regarding climate change, human rights and sustainability can support banks in developing a sound approach to the just transition. It also identifies the gaps to be bridged to ensure that financing for the transition coherently links up climate change and just transition goals.

Key findings include

Just transition considerations are highly relevant to the provision of finance for transition activities. The pathway to net zero requires a wholesale transformation of the economy, which will touch a wide range of sectors, regions and communities that banks finance. Leadership and action are needed to integrate just transition considerations systematically into bank governance and strategy, management systems and client relationships and transactions.

A challenge for banks is the lack of clear policy direction from governments and regulators about the role of banks in securing a just transition and the principles and practices they should follow. Nevertheless, 2021 has seen a heightened focus on just transition at the international policy level and the crucial role of both public and private sector financing to support these major economic and social transformations. There are indications that banks will be increasingly expected to consider environmental and social issues both as external risk factors for their business, and from the perspective of the impacts on the environment and society that their provision of finance for particular activities may entail.

Just transition represents both opportunity and risk for banks: certain commercial banks are starting to consider how to incorporate just transition dimensions into their businesses. There are no dedicated policy frameworks and tools designed to help banks address both the opportunity and risk sides of the just transition proposition (from the bank's perspective) and both the positive outcomes versus the adverse impacts side of the equation (in terms of those affected by the clients and activities financed). At its most basic level, this requires considering how to align existing climate and sustainability policies, strategies and practices with the social and human rights imperatives of the just transition. The experience of Development Finance Institutions (**DFIs**") in addressing just transition considerations is instructive for commercial banks and collaboration among DFIs and commercial banks can leverage this experience.

Existing frameworks provide many of the foundational principles that can underpin just transition strategies, but further work is needed to identify bridges between these and any gaps to be addressed to identify appropriate pathways to address just transition in the provision of finance. Effective market practice warrants the development of bespoke common principles to assist banks to implement appropriate strategies, policies, governance and risk management across all areas of bank activity, taking account of all relevant stakeholders. Regulatory alignment is also key to ensuring a uniform and coherent approach to climate change and just transition issues in bank financing. Some current trends of innovation in regulation and financial products within sustainable finance can be adapted to incorporate a just transition lens but coherent approaches to this are crucial. Principled approaches will be key to meet just transition objectives effectively.

Given the volume of financing required to transition to net zero, support from commercial banks is essential but not sufficient for a just transition to flourish. The private sector is key to financing a just transition but cannot do so alone. Success will involve not only the banks, but also other investors, governments and international, regional and domestic public financial institutions, as well as experts across a range of subject areas, including climate change, human rights, transition industries and economic development.

INTRODUCTION

I. INTRODUCTION

The Glasgow Climate Pact agreed at COP26 in November 2021 expresses alarm and utmost concern "*about the impact of human activities on global warming and the impacts that are being felt in every region*."[1] The Pact underlines the "*urgency of enhancing ambition and action in relation to mitigation, adaptation and finance in this critical decade*."

The pathway towards stabilising greenhouse gas concentrations "*at a level that would prevent dangerous anthropogenic (human induced) interference with the climate system*"[2] requires a wholesale transition of the global economy, encompassing both a "*transition out*" of carbon-intensive activities and a "*transition in*" to new sectors, including renewable energy and green innovation and technology. These transitions – both "in" and "out" – will disrupt existing forms of economic activity and create new ones, with consequent impacts on people and jobs.

Box 1:

Paris Agreement and the Just Transition

> *The Parties to this Agreement... [t]aking into account the imperatives of a just transition of the workforce and the creation of decent work and quality jobs in accordance with nationally defined development priorities...*[3]

The Glasgow Climate Pact – like the Paris Agreement before it – recognises the importance of "*just transitions*" that "*promote sustainable development and eradication of poverty, and the creation of decent work and quality jobs.*"

At its core, achieving a just transition is about putting people at the centre of the climate change transition.

Prioritising the achievement of a just transition is ultimately a political issue. Effective measures to combat climate change can only be achieved through co-ordinated international action based on agreed policy objectives such as those encapsulated in the Paris Agreement and the Glasgow Climate Pact. At both the international and domestic levels, governments play an essential role in steering people-centred transitions by providing clear strategic policy signals, an appropriate regulatory framework and public finance to ensure that transition outcomes are achieved in socially inclusive ways.

Alongside governments and public sector institutions, there is a vital role for private sector business and, of course, finance. The Global Financial Alliance for Net Zero ("**GFANZ**") has highlighted that achieving Paris Agreement goals requires a whole-of-economy transition – one in which "*every company, bank, insurer and investor will have to adjust their business models, develop credible plans for the transition and implement them*."[4]

Incentivised by government policy (and funding), the private sector can promote and participate in just transition activities that: focus on economic diversification in regions dependent on fossil fuels; create decent jobs in green industries; reskill or upskill workers; and improve infrastructure (such as transport, communication and education) to increase opportunities for communities in carbon-intensive regions to access areas of transition opportunity.

All of this will require funding on a massive scale. When it comes to decarbonising the global economy, financial institutions have a vital role to play by supporting clients to shift (responsibly) out of carbon-intensive industries while also directing capital to clients engaged in developing and implementing low-carbon solutions. As an International Monetary Fund ("**IMF**") report puts it: [*a*] *successful transition demands a deep economic transformation, requiring the mobilisation of private finance on a large scale. … The global financial sector can play a crucial role in catalysing private investment and accelerating the transition."*[5]

During 2021, the financing of a just transition has been identified as a current major gap that needs to be addressed.[6] The Glasgow Climate Pact calls for a continued increase in the scale and effectiveness of climate finance from all sources globally. The G20 Sustainable Finance Roadmap issued in October 2021, makes "*scaling up finance to support a just and affordable climate transition, and further integrate other aspects of sustainability, including nature and biodiversity, and social issues such as energy access and poverty reduction*," a core G20 priority. The G20 Sustainable Finance Working Group will work with international organisations to develop high-level principles for a credible and consistent framework for financing a just transition, including mitigating negative economic and social impacts of the energy transition on local communities and SMEs. While some attention has been paid to investment approaches that support a just transition, relatively little specific consideration has yet been paid to the role of banks operating in the debt finance markets. This White Paper aims to explore some of the opportunities and challenges for commercial banks in this area.

The purpose of this White Paper is three-fold: (1) to explore the key reasons why just transition is relevant to commercial banks; (2) to map the state of play in the banking sector in addressing the social and human rights dimensions of climate action in their financing activities; and (3) to offer suggestions for how banks can incorporate just transition considerations into their internal structures and systems, as well as across their relationships with clients and their transactions. While just transition considerations are relevant across the full span of the banking sector's activities, this Paper focuses specifically on the relevance of just transition to bank financing, and how banks can marry climate and just transition goals in providing finance linked to the transition. The Paper concludes that it would be useful to undertake further work to identify a framework set of principles to guide banks in enabling a just transition lens to be integrated into banking practices.

This White Paper is based on desk-top research, contributors' practical experience and interviews with representatives of eleven banks who offered insights on their emerging approaches. Banks represented in the survey include three (national and multilateral) Development Finance Institutions and the UK, European or African offices of eight commercial banks, many of which lend to and / or invest in entities across or in different regions of the globe. All of the banks interviewed have committed to net zero-emissions and recognise the importance of achieving an inclusive and sustainable transition.

WHAT IS MEANT BY A JUST TRANSITION?

II. WHAT IS MEANT BY A JUST TRANSITION?

A. The Just Transition Concept

Central to the just transition is the achievement of effective climate action by transitioning away from emissions-intensive activities and towards a sustainable global economy, by means that fairly and inclusively share the benefits of the transition while supporting those who will be negatively impacted by it. The concept highlights the imperative to ensure that the shift to net zero is fair, and seen to be fair, across regions, sectors, the socio-economic spectrum and generations. In the words of the UN Sustainable Development Goals ("**SDGs**"), it is about ensuring that no-one is left behind.[7]

At its heart, the just transition concept conveys the message that the imperative of addressing climate-related risks to the planet is inextricably linked with addressing risks to people and their human rights, and doing so in a way that gives meaning to the "just" in just transition. Set within the wider context of climate justice, just transition marries the broader conceptual concerns for those vulnerable to climate change impacts with concrete actions to provide outcomes and opportunities for workers and communities.

Box 2:

Just Transition as a Vital Connector

> *"The just transition is rising to the top of the agenda as the connective tissue that binds together climate goals with social outcomes.[8]"*

Concerns about the employment impacts of the transition out of high-emitting sectors such as coal were critical to establishing just transition as part of policy debate and actions. Alongside growing recognition that assets in high-emitting sectors may become stranded, the transition may also result in stranded workers and stranded communities, absent a socially-inclusive decarbonisation and regeneration process. The Paris Agreement and, more recently, the Glasgow Climate Pact, recognise that it is essential to achieve a just transition of the workforce and to create decent work and quality jobs,[9] objectives that have been championed by the International Labour Organization ("**ILO**").[10] Indeed, the ILO's 2015 Guidelines for a Just Transition Towards Environmentally Sustainable Economies and Societies for All are credited with having *established a global understanding for the term 'just transition'.*"[11]

The message was reinforced at COP26 in Glasgow in a Declaration agreed among 15 governments and the European Union on Supporting the Conditions for a Just Transition Internationally.[12] The Declaration recognises the signatories' "*role in working to ensure that no one is left behind in the transition to a net zero and climate resilient future*" and that "*the transition towards net zero will affect, most acutely, those in workforces in sectors, cities and regions relying on carbon-intensive industries and production*."[13] It also establishes a set of principles to be implemented across international financial and technical assistance programmes when supporting developing and emerging economies, which include providing support for workers in the transition to new jobs and the creation of "*local, inclusive, and decent work*."

Box 3

ILO Leadership on Just Transition

The ILO laid the early groundwork for the just transition with its 2015 Guidelines for a Just Transition Towards Environmentally Sustainable Economies and Societies for All. The guidelines are based on the premise that, managed well, transitions to environmentally and socially sustainable economies can become a strong driver of job creation, job upgrading, social justice and poverty eradication. The guidelines outline principles and nine concrete policy areas for government action to promote and manage a just transition.

The Climate Action for Jobs ("**CA4J**") initiative is a multi-stakeholder partnership managed by the ILO to develop national just transition policies and measures, and to create decent, green jobs while pursuing ambitious climate action and advancing social justice.

In addition to the need to take concrete steps to protect and create more and better jobs as part of the transition, it has been acknowledged that it is important to include in the debate those communities, workers and consumers most affected.[14] Some commentators argue that attention to social concerns may lead to a drag on the need for urgent climate action;[15] or provide an excuse for reducing climate ambition or delaying it.[16] But without buy-in from workers and communities affected by transition strategies, especially vulnerable ones, the political impetus to bring about necessary climate action is likely to falter.[17]

Importantly, as the Grantham Research Institute on Climate Change and the Environment notes: *not only is there a principled need to connect climate action with questions of social justice, but there is also a powerful economic case. ... The prize is a more resilient economy, one that is fairer and more capable of withstanding shocks."*[18]

B. IMPACTS AND RESPONSES

In the transition that is required to achieve net zero economies, workers and jobs will be significantly affected. (See Box 4 below).

Box 4

Key Transition-related Impacts on Global Employment

The ILO has done extensive work on the employment dimensions of just transition, highlighting the following dimensions:[19]

Job elimination
The energy transition will lead to the loss of approximately 6 million jobs and the elimination or shrinking of certain industries, in particular, the extractive industries and energy sector, with potentially greater impact in low-income countries.

Job creation
An estimated 24 million new jobs will be created, including in sectors such as renewable energy, low carbon-intensive manufacturing, infrastructure projects and environmental goods and services.

Job transformation
Many existing jobs will not be replaced, but will require workers to upskill to adapt. The lack of necessary skills among workers may pose challenges for job transformation in low-income countries.

Job substitution
Some jobs will be substituted with similar roles that require updated or new skills relevant to energy transition and decarbonisation. For example, workers in the automotive sector may require retraining to work on electric vehicles for existing employers.

There is growing recognition that, beyond the world of work, the shift to a net zero economy will have substantial impacts on communities more broadly, including consumers. (See Box 5 below). Transition activities may affect not only local workers and communities, but may also potentially have direct and indirect impacts on workers and communities located in other regions or countries, including through supply chains.

Box 5

Examples of Other Transition-related Impacts

Transition – in activities can have human rights and social impacts

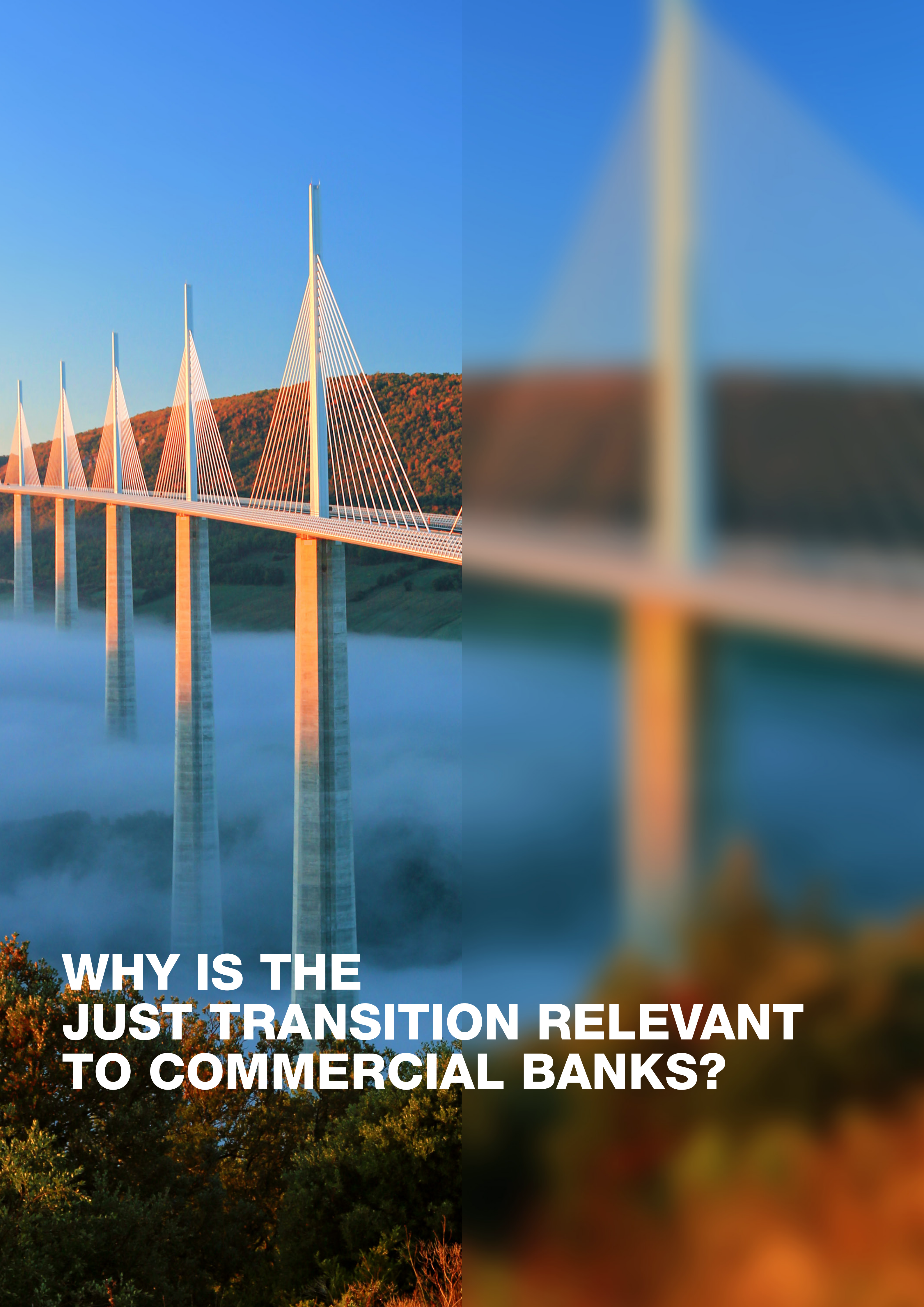
The renewable energy sector can have similar impacts as traditional extractive industries with respect, e.g., to land access and use, requiring consultation and negotiation with local communities. The sharp increase in demand for raw minerals may have profound environmental, social and human rights impacts on local communities. (See Annex A).

Transitions may price out low-income consumers

Low-income households and small and medium-sized enterprises ("**SMEs**") may not be able to access the upfront capital required to invest in transition products – electric vehicles, energy efficient home conversions, higher green energy costs – thereby effectively pricing them out of the transition unless support is available.

Pressure on land and other resources will increase

Climate change mitigation approaches could increase competition for land and exacerbate land conversion, thereby disrupting communities and livelihoods.[20]



WHY IS THE JUST TRANSITION RELEVANT TO COMMERCIAL BANKS?

III. WHY IS THE JUST TRANSITION RELEVANT TO COMMERCIAL BANKS?

Private sector investment and finance is key to mobilising the trillions of dollars necessary to transition to a net zero economy.[21] Analysis commissioned by the United Nations High-Level Champions for Climate Action finds that the private sector could deliver 70% of total investments to meet net zero goals.[22]

But what is the rationale for commercial banks to embrace just transition elements into their lending practices? This section identifies three key motivations for banks to apply a just transition lens to their climate transition-related lending activities: (i) the bank's own commitments alongside stakeholder expectations; (ii) the risks of not doing so, especially regulatory drivers and litigation exposure; and (iii) business opportunity.

A. Just Transition Considerations are Inherent in Expectations of Banks and The Commitments They Make

This section proposes that applying a just transition lens to their provision of finance is consistent with existing expectations on banks and, in many cases, their own commitments to: (i) address climate change; (ii) promote sustainable development goals; and (iii) avoid adverse impacts on people.

1. Banks are Expected to Align With or are Publicly Committed to Relevant Internationally Recognised Principles and Standards

International sustainability, climate and human rights standards set expectations for both the public and private sectors. Many banks have made express commitments to align their business with the Paris Agreement, as well as to support the SDGs. All businesses, including banks, have a responsibility to respect human rights and many already reference the UN Guiding Principles on Business and Human Rights (**UNGPs**") and the OECD Guidelines for Multinational Enterprises (**OECD Guidelines**"). Combined, these standards provide a platform to integrate just transition elements into their business operations and relationships.

a. The Paris Agreement

The core aim of the Paris Agreement is to bolster the global response to climate change through substantial reductions in greenhouse gas emissions with the goal of limiting global temperature increase this century to 2 degrees Celsius above pre-industrial levels and to pursue efforts to limit it even further to 1.5 degrees Celsius. The Glasgow Climate Pact includes a stronger commitment to the 1.5 degrees Celsius target. The Intergovernmental Panel on Climate Change has concluded that – to remain consistent with 1.5 degrees Celsius – [*g*]*lobal net human-caused emissions of carbon dioxide (CO2) would need to fall by about 45 percent from 2010 levels by 2030, reaching 'net zero' around 2050*."[23] This science is expressly recognised in the Glasgow Climate Pact.

Achieving this goal demands a whole of economy transition and importantly requires that finance flows be made consistent with a net zero and climate-resilient pathway. Many financial institutions have committed to align their businesses – including their lending – with net zero goals through initiatives, such as the GFANZ and the UN-convened Net Zero Banking Alliance.[24]

b. Sustainable Development Goals

The SDGs focus on key global challenges and represent a call for action to end poverty and to promote policies that create economic prosperity, while protecting the planet and tackling social needs. Although countries are chiefly responsible for developing strategies for fulfilling the SDGs, the private sector is recognised as a vital partner in achieving their goals.

The objectives of the Paris Agreement and the SDGs are mutually reinforcing and co-dependent.[25] The just transition concept interlinks with several of the SDGs, bringing together, in particular, SDG 13 (climate action), SDG 8 (decent work and economic growth), SDG 10 (reduced inequalities) and SDG 7 (affordable and clean energy).

For banks, a just transition objective provides opportunities to pursue climate change activities aligned with multiple goals of the SDGs. Instead of treating climate action and the SDGs as two separate agendas to grapple with, just transition concepts can serve as a bridge. Conversely, when thinking about how to address just transition considerations, the SDGs provide a framework for linking together climate and social considerations.

c. Human Rights

Climate change and climate action directly impact a wide range of substantive human rights (e.g., the right to life, health and food) and implicate procedural rights that are a pillar of sound environmental governance (including the right to information, participation and to a remedy, originally set out in the Rio Declaration).[26] The Paris Agreement (reaffirmed by the Glasgow Climate Pact) explicitly acknowledges the importance of states considering their human rights obligations when addressing climate change. Indeed, the just transition concept is underpinned by international human rights principles.

Banks, like other businesses, have a responsibility to respect human rights. There has been an increasing acceptance among bank regulators, and banks themselves, that banks should "*know and show*" that they do so within their financing operations.[27]

The UNGPs are based on a "*do no harm*" concept that is operationalised through human rights due diligence processes to identify and address (avoid or mitigate), and account for, adverse human rights impacts of financing and the client activities that financing supports. The OECD Guidelines incorporate the UNGP due diligence approach across a broad range of responsible business areas that includes human rights and the environment.

Although the UNGPs and OECD Guidelines do not provide a comprehensive framework for banks to incorporate just transition dimensions into their practices, they serve as a key foundational pillar. Through implementing these standards, and making due diligence in respect of climate-related lending transactions a key element of a human rights approach to climate change, banks can address the adverse impacts of these activities on people and their rights. (See Sections IV(A)(6) and IV(C)(3) below on due diligence). New sustainable finance regulation reinforces the importance of these approaches. (See Section III(B)(1)(a) below).

2. Banks are Committing to Initiatives Relevant to the Just Transition

Several initiatives explicitly explore the role of the banking sector in the just transition. These are developing important concepts, guidance, tools and case studies that provide guidance to banks and highlight opportunities for further work in the sector (see Box 6 on Just Transition Initiatives).

Box 6

Initiatives in or for the Banking Sector

Grantham Institute – Financing a Just Transition Alliance

This initiative explores a banks' role in achieving a just transition in the UK. Although place-based, it usefully draws out principled approaches that may be applied more widely. The Just Zero: 2021 report of the UK Financing a Just Transition Alliance emphasises that financial institutions can play a significant role in a just transition by fully integrating the environmental and social dimensions of the transition into their policies and decision-making.[28]

CDC Group, et al

The CDC Group, Grantham Institute, Harvard Kennedy School, Trade & Industrial Policy Strategies (**TIPS**"), European Marketing Federation and individual contributors have developed Just Transition Finance Roadmaps in India and South Africa to identify "*priority actions that can be taken by financial institutions to support climate action that also delivers positive results in terms of livelihoods and sustainable development*."

ILO Social Finance Programme

Building on the ILO Just Transition Guidelines, the ILO Social Finance Programme and Green Jobs team are working on developing practical tools with, and for, the financial sector, particularly banks and investors, to align their strategies and operations with just transition objectives, and help them to optimise the impacts on people and communities.

Business for Inclusive Growth (B4IG")[29]

This partnership between the OECD and major corporations from across the globe is not finance-specific, but has a Finance Forum that has chosen work on a just transition as a priority theme for action for its financial sector members.

UN Global Compact Think Lab on Just Transition[30]

The UN Global Compact has announced the launch in 2022 of the Think Lab on Just Transition to "*shape and define business leadership on critical issues such as the inequalities deepened by climate change and potential opportunities. It will engage with companies on resilience, health, and a just transition; social dialogue, good jobs and social implications for workers*", and seek to identify key business challenges and good practice across sectors and regions. Although not finance-specific, bank participants in the UN Global Compact may have the opportunity to engage in this initiative.

Several broader sustainability and climate change initiatives in the banking sector do not (yet) specifically address transition impacts on people; however, some do lay relevant groundwork. For example, the United Nations Environment Programme Finance Initiative ("**UNEP FI**") Net Zero Banking Alliance Commitment includes a commitment that, in taking action to transition emissions from lending and investment portfolios to align with net zero by 2050 (or sooner), banks will "*give consideration to associated social impacts.*"[31] UNEP FI's Principles for Positive Impact Finance require an assessment of negative social impacts when pursuing economic or environmental goals.[32]

B. Regulatory Drivers and Litigation Risks Related to the Just Transition

The focus of climate risk management in the banking sector to date has been squarely on the risks to banks and to the financial system. This section briefly considers regulatory developments that support or require banks to take into account and address the social dimensions of climate change, and risk that may emerge from litigation in this area.

1. **Regulatory Drivers**

Regulatory drivers play a crucial role in fighting climate change, particularly as recognition grows that the free market alone will not address the issue.[33] A recent survey of banks found that the most important external drivers of climate risk management are climate-related regulatory and supervisory requirements.[34]

Private sector financial institutions have called for international alignment on climate-related regulation[35] and in doing so have invoked references to just transition in the context of a number of policy goals.[36] The Institute of International Finance ("**IIF**") Board of Directors' 2021 Statement on Climate Finance emphasised that: "[*t*]*o support this transition to a sustainable, low carbon economy, it is essential to promote consensus and seek international alignment in sustainable finance policy and regulation*."[37] The IIF's Statement identified that: "[*a*] *'just transition' to a low-carbon and ultimately net zero economy will require policies that aim to reduce GHG emissions while promoting economic growth and job creation*.

At COP26, multiple central banks, financial regulators and supervisors from around the globe committed to address climate-related risks and to integrate climate issues into their decision-making processes. Additionally, the creation of an International Sustainability Standards Board ("**ISSB**") was announced,[38] to develop global sustainability disclosure standards, including climate-related financial disclosures. These standards may evolve to embrace the social dimensions of the transition to net zero.

a. **Bank Regulation and Supervision**

Central Bank supervisory expectations around climate risk focus on risks to the banks and the financial system as a whole, rather than on impacts of bank financing activities on people or the planet. An increasing number of Central Banks recognise the financial stability implications of climate change. The Network of Central Banks and Supervisors for Greening the Financial System ("**NGFS**") is working on integrating climate-related risks into bank management supervision and financial stability monitoring.[39] Some Central Banks have launched climate or green stress tests to assess how financial institutions are exposed to climate change.[40]

In November 2021, the Basel Committee on Banking Supervision published a public consultation on 18 principles for the effective management and supervision of climate-related financial risks. These have a focus on assessing the materiality of climate-related financial risks to banks. They do not address just transition, social impacts or human rights or, indeed, the concept of double materiality (discussed at Section III(B)(1)(c) below).

The European Central Bank ("**ECB**") recently indicated a shift in its supervisory approach that begins to lay the groundwork for a more inclusive assessment of risks. (See Box 7 below on ECB). At least one regulatory authority – The European Banking Authority ("**EBA**") – has signalled that the social dimensions of the transition are on its radar. In August 2021, the EBA noted that [*w*]*hilst the EBA gives particular prominence to climate and environmental risks in the development of the ESG risk-related banking regulatory framework, it is nonetheless essential that institutions also take measures to advance their identification and management processes for social and governance risks, in light of their potential significant impact.”*[41]

Box 7

European Central Bank Expectations
Requiring Banks to Address Outward Facing Impacts on Climate and the Environment as part of Due Diligence

The ECB’s Guide on Climate-Related and Environmental Risks includes 13 supervisory expectations for banks for managing and disclosing such risks. Banks were asked to submit action plans detailing how they would bring their practices into line with the Guide. Most of the 13 expectations focus on risks to the banks, but Expectation 7.5 signals an important shift:

Institutions are expected to conduct a proper climate-related and environmental due diligence, both at the inception of a client relationship and on an ongoing basis. This should be understood to include the collection of the information and data needed to assess the vulnerabilities of exposures and investments to climate-related and environmental risks, notably at their inception. … Institutions are expected to be aware of their clients' impact on and vulnerability to climate-related and environmental aspects and of their approach to managing this impact and risk. Moreover, proper environmental due diligence, when appropriately acted upon, is likely to reduce reputational and liability risks. ... Institutions are advised to ensure compliance with the OECD Guidelines for Multinational Enterprises, for example. Any findings from due diligence assessments are expected to be considered in the decision on whether and how to engage, or continue to engage, with a client.” (internal citations omitted)

The ECB's approach incorporates several important innovations that other Central Banks could potentially embrace:

- First, banks are expected to assess and manage risks relating to their clients’ impact *on climate-related and environmental aspects*”, evidencing an expansion of supervisory perspectives beyond financial risk to banks. This begins to align with the double materiality approach that is important to the just transition.
- Second, the new supervisory expectation specifically references compliance with the OECD Guidelines and its due diligence approach, laying the regulatory groundwork to prompt banks to also consider the human rights and social impacts of the activities that they finance, to the extent they do not already do so.

b. Sustainable Classification Systems / Taxonomies

Steering capital flows towards sustainable investments is an important objective of sustainable finance. Governments and other initiatives around the world are developing classification systems – "taxonomies" –

to define what is sustainable and by implication, what is not. Separating investments that provide genuine contributions to sustainability from those that only claim to do so (often referred to as "*greenwashing*").[42] Taxonomies set performance thresholds for economic activities across a wide range of industries that must be met to be considered "sustainable."

The EU has led the way with the EU Taxonomy for sustainable activities.[43] Under the EU Taxonomy Regulation, to qualify as "environmentally sustainable", an economic activity must make a *substantial contribution"* to at least one of six environmental objectives, while ensuring that the activity will *do no significant harm"* to any of the five other objectives and meeting certain *"minimum safeguards."* (Art. 3)

The EU's Taxonomy approach is relevant to the evolution of just transition policies and practices for several reasons, including:

- First, the minimum safeguards that an economic activity must meet to qualify as *environmentally sustainable*" include alignment with specified international human rights standards, including the OECD Guidelines, the UNGPs, core international human rights treaties and ILO Conventions (Arts. 3(c) and 18). This sets the important precedent that, to qualify as sustainable, any human rights impacts related to the activity must be identified and addressed. By linking the Regulation's environmental objectives to human rights and responsible business conduct standards, the Taxonomy presents an approach that can be drawn on when implementing transition policies that take account of social impacts.[44]
- Second, in summer 2021, the EU launched a consultation on developing a *social taxonomy*"[45], which explicitly refers to the need for investment in a just transition. Notably, qualifying investments under the social taxonomy could support activities relevant to the just transition (e.g., providing training and development opportunities and economic infrastructure for regions affected by transitions out, etc.).[46]
- Third, there is an increasing focus on ensuring that taxonomies are "*transition enabled*".[47] The EU launched a consultation in summer 2021 on extending the taxonomy to cover transitions, in order to counter the perception of some that its existing taxonomy creates a binary system (in or out), that could limit the availability of finance for non-green but important transition activities.[48] The goal is to make financing more available to support businesses that are transitioning towards a more sustainable business model, but whose activities fail to meet the current test of "*significant contribution*" to environmental objectives and, consequently, may now experience restricted access to capital. The idea is to make transition finance more widely available, whilst not diluting incentives to "go green". The very purpose of this more nuanced approach and the effect of taking these considerations into account should be to extend access to finance to a much

wider range of businesses whose activities may directly support a just transition.

c. Double Materiality is of Emerging Importance

The EBA addresses double materiality in its Report on Environmental, Social and Governance ("**ESG**") risks management and supervision, which focusses on *the resilience of institutions to the potential financial impact of ESG risks across different time horizons."*[49]

Box 8:

What is Double Materiality?

"Financial materiality (outside-in) – *which may arise from the impact of ESG factors on a company's* [or bank's] *economic and financial activities throughout their entire value chain (both upstream and downstream), affecting the value (returns) of such activities; and*

Double materiality captures both

Environmental and social materiality (inside-out) – *which may arise from the impact of a company's* [or bank's] *economic and financial activities on ESG factors, which could in turn become financially material when this impact affects the value (returns) of the company's activities*." (emphasis added)[50]

The EU guidance on climate-related disclosure addresses both financial materiality and environmental and social materiality and states that: "[*t*]*hese two risk perspectives already overlap in some cases and are increasingly likely to do so in the future. As markets and public policies evolve in response to climate change, the positive and/or negative impacts of a company on the climate will increasingly translate into business opportunities and/or risks that are financially material.*"[51]

Double materiality disclosure is becoming a reality. For example, France introduced a law in 2016 requiring institutional investors, but not banks, to report annually on both their climate related exposure and climate change mitigation policy.[52] Switzerland has announced that it will adopt mandatory climate disclosure rules with a double materiality approach.[53] The European Commission initially introduced the double materiality concept as part of the Non-Binding Guidelines on Non-Financial Reporting Update to its Non-Financial Reporting Directive.[54] More recently, the EU Sustainable Finance Disclosure Regulation ("**SFDR**") and proposed draft Corporate Sustainability Reporting Directive ("**CSRD**") that will revise the existing Non-Financial Reporting Directive requirements that focus on non-financial as well as financial data and outward-facing issues important to scrutinise the sustainability of business models.[55]

These current and proposed laws are important for just transition discussions:

- First, double materiality requirements are an important complement – or counterpoint – to the more limited disclosure requirements under the Financial Stability Board Task Force on Climate-related Financial Disclosures ("**TCFD**") Framework and several of the other emerging climate or sustainability disclosure frameworks that focus solely on financial materiality.[56] As a just transition involves addressing the impacts of climate change measures on people, the double-materiality approach is crucial.

- Second, they mandate disclosure on how businesses are handling climate change and social matters, including human rights. This lays the groundwork for businesses to manage and report on impacts that are central to worker and community rights in an integrated and coherent way.[57]

d. Mandatory Human Rights and Environmental Due Diligence

Mandatory human rights and environmental due diligence requirements are becoming a key feature of the regulatory landscape when it comes to identifying and addressing human rights and climate-related risks. Crucially, these requirements aim to give binding effect to core aspects of the responsibility to respect human rights reflected in the UNGPs, and the OECD Guidelines' expectations of human rights and environmental due diligence. Due diligence undertaken in accordance with these frameworks – whether as a reflection of banks' existing commitments and stakeholder expectations or in anticipation of mandatory measures – should support policies on just transition.

Several jurisdictions, including Belgium, France, Germany, the Netherlands, Norway and Switzerland have adopted, proposed or are considering mandatory human rights and environmental due diligence laws.[58] Importantly, the EU is expected to issue draft legislation in February 2022 mandating human rights and environmental due diligence throughout a company's value chain.[59] It is expected that the legislation will apply to all large undertakings governed by EU law or established in the European Union, and to non-EU entities providing goods or services into the EU market, including those that provide financial services.[60] While it may not take effect for some years, banks within scope may be expected to start adapting their processes now to ensure that they are compliance-ready.

These legislative measures are significant:

- they provide important regulatory underpinnings for a just transition by requiring attention to both the environment and human rights;
- they also reinforce the importance of addressing impacts on the environment and people – the inside-out dimension of double materiality; and
- they point businesses and banks towards due diligence as the tool for identifying, assessing and devising responses to climate transitions that are consistent with community and worker concerns.

Due diligence will not be the only approach banks will need to use, but it is an important one.

It remains uncertain what the enforcement and liability consequences relating to the due diligence requirements under the new EU regime will be, but EU-wide mandatory human rights and environmental due diligence requirements that extend to banks will certainly affect both market practice and accountability around social and environmental risks associated with financial services, including those purporting to support a just transition.

2. Litigation Risk

Climate change litigation is increasing across many jurisdictions and raises the spectre of litigation (and even liability) risk for financial institutions and others.[61] To date, there have been over 80 climate change-related claims against corporates worldwide, including about 10 claims against financial institutions.[62] Corporations including financial institutions also face increasing human rights litigation risks.[63] This trend is gaining momentum on the back of codification into hard law of previously "soft law" standards (e.g., the UNGPs and OECD Guidelines)[64] (see Section III(B)(1)(d) above on due diligence) and some courts' willingness to draw on these standards as a source to inform the existence, scope and nature of companies' duties towards third parties who may be affected by their operations.[65] It is now clear that climate change is a human rights issue, and these two strands of litigation risk are converging to create a two-pronged exposure for corporations, including banks.

Litigation (and regulatory enforcement) risk may be associated with both failure to disclose or misrepresentation of climate change risk exposures or impacts. Greenwashing is emerging as a key focus of regulators and similar bases for scrutiny may well arise across areas of financial activity and product development. Social washing, transition washing and just transition washing may not lag far behind. NGOs and other civil society organisations and activists seek opportunities to use litigation as a lever to drive increased business accountability as well as more rapid regulatory change.

To date, there has been limited reference to the concept of the just transition or its principles in climate change-related litigation. However, commentators suggest that this will become more prominent as action to meet climate targets under the Paris Agreement increasingly impacts workers and communities.[66] There are clear intersections with broader scrutiny of the human rights impacts associated with renewable energy: just because a project is green does not imply broader sustainability, or that it contributes to positive social outcomes for some without human rights impacts on others.[67] Such risks are important factors to consider when creating just transition frameworks and governance structures. Institutional policy coherence accompanied by effective due diligence practices that are consistent with stated commitments on both climate and human rights could serve as important mitigants.

C. Just Transition Considerations are Central to New Business Opportunities and Banking Products

While the financial resources needed to fund the transition to net zero are enormous,[68] it has also been called *the greatest commercial opportunity of our age.*"[69] The market is beginning to recognise the scope of this opportunity. Demand is growing for green, social, sustainable and other forms of ESG financing; products carrying these labels are becoming important sources of capital for corporates and other borrowers.[70] Their important role in supporting just transitions is discussed in Section V(B)(1).

The need for "transition finance"– i.e., financing specifically designed to support companies in high-emitting, hard-to-abate sectors (e.g., aviation, shipping, cement and steel) in their transition towards net zero emissions – is also clear.[71] It is important for these sectors to transition rapidly and effectively, and they need financial support to get there. Transition financing can provide a bridge as they take steps to become low carbon emitters. The EU Platform on Sustainable Finance has noted that it is *critical that banks encourage their clients to undertake the necessary steps – including investing in upgrading their plants and assets – to transition to sustainable activities and voluntarily disclose these plans and increase their transparency to attract private investments.*"[72] (See Section V(B)(1)).

Other types of finance will also play a crucial role. Public sector funds, including those channelled through DFIs (see Section IV below), will be important to achieve just transition outcomes, as these will be required to address large-scale transformation of regions reliant on high-emitting industries. Products offered by investors, such as specific transition funds, that are now offered to the commercial market,[73] and impact investing, are likely also to play a role in financing just transition activities in specific sectors and contexts.

For the banking sector, these developments offer an opening both to build on existing products designed to finance climate-related activities, and to develop new innovative just transition financial products that respond specifically to the social challenges and opportunities inherent in the transition towards net zero. Some emerging financial products and services that could support a just transition are set out in the table at Annex B.

WHY ARE DEVELOPMENT FINANCE INSTITUTIONS IMPORTANT?

IV. WHY ARE DEVELOPMENT FINANCE INSTITUTIONS IMPORTANT?

A. Mobilising Climate Finance and Championing the Just Transition Agenda

DFIs play a key role in driving capital flows and investment towards achieving net zero goals. DFIs' mandates frequently direct them to promote sustainable and inclusive growth while protecting the environment, positioning them to champion integration of social considerations in financing and creating the potential for collaboration with commercial banks to achieve just transition goals.

During 2021, DFIs were called on by governments to prioritise mobilising private capital towards supporting developing countries in the transition.[74] For example, the G20 Sustainable Finance Roadmap in October 2021 called on DFIs to support "*just climate transition of their clients*" and to mobilise private finance.[75]

DFIs themselves are embracing their role in contributing to a just transition. In 2020, 450 public development banks have pledged to "*take into account the imperative of a just, inclusive and rights-based transition*" as part of their strategy to build back better from COVID-19.[76] The European Development Finance Institution's ("**EDFI**") Statement on Climate and Energy Finance commits to "*invest strategically and provide assistance to our clients to support the development of Paris-aligned projects, and to promote green growth, climate adaptation and resilience, nature-based solutions, access to green energy, and a just transition to a low-carbon economy.*"[77] At COP26, several multilateral DFIs took the commitment an important step further, issuing a more specific set of *MDB Just Transition High-Level Principles"* that articulate how they will support a just transition.[78]

B. Leading by Example Through Developing Programmes and Strategies Around a Just Transition

Some DFIs have started to develop specific strategies and programmes around a just transition. Given the dependence of many countries in the wider European region on high-carbon energy production and energy-intensive industries, it is not surprising that both the European Bank for Reconstruction and Development ("**EBRD**") (see Box 9) and the European Investment Bank ("**EIB**") have among the most advanced, publicised approaches.

Box 9

EBRD's Just Transition Initiative Aligns With its Green Economy Transition Approach and Economic Inclusion Strategy

The EBRD works with clients with high-carbon assets to transition to a low-carbon economy, including through targeting the reconversion of high-carbon assets, as well as on remediation and rehabilitation of land, and green investments that create opportunities for employment. It also supports workers affected by the transition process through reskilling and enhancing entrepreneurship, as well as regional economic development.

The EIB is integrating social dimensions into its ambitious plan to become the EU's climate bank. The EIB Group's Climate Roadmap establishes a framework for supporting transitions, including through the EU Just Transition Mechanism for countries inside the EU (Box 10). For countries outside the EU, its Climate Roadmap envisages, the EIB investing in projects that simultaneously support the transition and improve socio-economic development.

Box 10

EIB's Integration of Just Transition Factors into its Climate Roadmap[79]

The EIB is undertaking a comprehensive review of its Environmental, Climate and Social Framework including revising its Environmental and Social Policy and its Environmental and Social Standards, which outline requirements that a promoter must meet in developing and implementing EIB-financed projects. Alignment with the "Do No Significant Harm" and "Minimum Social Safeguards" principles of the EU Taxonomy Regulation will be an integral part of this revision.

Another prominent example is the United Kingdom's CDC Group which made just transition one of the three pillars of its climate change strategy and is integrating this approach into its investment processes. CDC has committed to direct 30% of its investments towards climate finance, and to take action towards a just transition by ensuring gender diversity, skills development, social inclusion and respect for workers' rights and promoting the creation of new jobs.[80] (See Box 11).

Box 11

CDC's Just Transition Initiatives

In early 2021, CDC and its partners launched the Just Transition Finance Roadmap ("**JTFR**") in South Africa and India with the goal *to mobilise capital aligned to the just transition in South Africa and India by signalling where future investment and financing is needed (e.g. coal-dependent regions) and how these investments and financing should be undertaken to maximise social and economic benefits."* (See Box 6 above)

As an example of its approach, CDC's $230m total equity investment in Ayana Renewable Power, a green energy infrastructure company in India, included funding for training and skills development for local women and youth to upskill them for jobs in renewable power plants in Rajasthan at Ayana and other local green energy projects.

C. DFI Collaboration with Commercial Banks Presents Opportunities for Learning and Access to Funds

While appreciating the different status and role of DFIs (which are mandated to achieve specific purposes with either multilateral, bi-lateral or single government backing), commercial banks may be able to benefit from, and draw on both, funding and best practices developed by these institutions to address just transition issues.

1. DFI Approaches and Tools to Address a Just Transition May Contain Useful Examples for Commercial Banks

DFIs are pursuing various practical approaches to promote a just transition, including: developing just transition roadmaps that address both transitions out and transitions in; providing technical assistance to governments on financial inclusion, decent work and employment creation; and developing tools and approaches that take account of transition-related social impacts. Where documentation is available to commercial banks, DFI approaches can set examples for commercial banks or generate information that commercial banks could use when building their own just transition strategies and initiatives.

DFI Assessments, Analyses and Roadmaps. DFIs have developed specific country-based diagnostics and plans that can provide an important starting point for banks operating in the markets covered. As a baseline, they can establish the just transition approach in client countries and identify financing needs.[81] (See Box 12 below on Just Transition Diagnostics and Financing Roadmaps).

One strength of DFI just transition plans and roadmaps is that they are typically developed through multi-stakeholder approaches so that the analysis of trade-offs and findings have been tested with those most likely to be impacted, providing legitimacy to suggested approaches.

Box 12:

Just Transition Diagnostics and Financing Roadmaps

The EBRD's Just Transition Diagnostic requires a regional assessment involving:

The Diagnostic also comprises a Just Transition Action Plan setting out policy and investment activities to address transition challenges, disaggregated between those that the EBRD can lead and those for other actors.

DFI Due Diligence Standards and Risk Management Tools. Many DFIs have environmental and social policies ("**E&S Policies**") and accompanying risk management systems ("**E&S Risk Management Systems**") that cover environmental and social due diligence of clients, and typically a set of environmental and social ("**E&S**") performance standards and requirements for clients. Some DFIs have implemented due diligence and other tools to assess environmental, social and human rights risks and impacts that may be a useful reference point for commercial banks in appropriate contexts.

Launched in 2003, the Equator Principles are intended to serve as a common baseline for private sector financial institutions to identify, assess and manage environmental and social risks when financing defined projects.[82] The Equator Principles drew on the IFC's Performance Standards on Environmental and Social Sustainability and recently were revised to align more closely with the UNGP with respect to human rights issues. While neither the IFC Performance Standards or the Equator Principles specifically address a just transition, they provide certain tools for addressing social issues at a project level that may inform banks' development of bespoke just transition approaches to finance in relevant contexts.

2. There are Opportunities for Commercial Banks to Access Public Funds and Invest Alongside DFIs

Funding needs will vary significantly depending on the geographic scale, sector, timeline and scope of transition changes needed. More significant programmes and projects are likely to require public sector financing, together with the use of blended finance models. DFI participation is important because:

- **DFIs can draw upon a wide range of financial instruments and tools, many of which commercial banks can benefit from in blended finance models.** These include guarantees, political risk insurance, partial credit guarantees to mitigate investment risks, concessional risk-sharing through extended tenors, grace periods and / or below-market interest rates, necessary credit enhancement or first loss support against a fee, equity investment, policy-based lending and intermediated finance to deliver scaled finance through tailored instruments. The particular purpose and structure of DFIs permits new, higher-risk approaches for just transition-related funding. For example, DFIs can leverage grants to improve the commercial viability of projects that demonstrate potential for positive social impact that would not otherwise be commercially viable.
- **DFIs are developing innovative financing structures.** DFIs are developing new approaches to fund transition-related activities, while taking into account their social impacts. There may be opportunities for commercial banks to participate through commercial and concessional finance. (See Box 13).

Box 13
Example of DFI Innovative Funding Structures

The Asian Development Bank is reported to be joining with a number of financial institutions in a public-private partnership to speed the closure of Asia's coal-fired power plants in order to lower the biggest source of carbon emissions. Thomson Reuters reports that "*the group plans to create public-private partnerships to buy out the plants and wind them down within 15 years, far sooner than their usual life, giving workers time to retire or find new jobs and allowing countries to shift to renewable energy sources.*"[83]

The proposed scheme will comprise a mix of equity, debt and concessional finance, using blended finance for the carbon reduction facility that "*would buy and operate coal-fired power plants, at a lower cost of capital than is available to commercial plants, allowing them to run at a wider margin but for less time in order to generate similar returns. The cash flow would repay debt and investors.*" Another facility would focus on renewables and storage to take over the energy load from the coal plants.

- **DFIs can access other sources of public finance, including dedicated pools of transition funding.** The EU's Just Transition Mechanism was created to provide targeted support from 2021-27 in the EU regions most affected by the transition. The EIB will distribute funds through several different financing vehicles.[84] (See Box 14).

Box 14

EU's Just Transition Mechanism

The EU's Just Transition Mechanism will provide support to EU Member States, focussed on regions that are the most carbon-intensive or with the most people working in fossil fuels. The mechanism is based on three pillars, with some of the funding made available through the EIB.

Pillar 1	Pillar 2	Pillar 3
A new **Just Transition Fund** will support the **economic diversification and conversion of affected regions**.	Within the existing InvestEU programme, a **Just Transition scheme** will provide budgetary guarantees to mobilise EUR 10-15 bn in mostly **private sector** investments.	A new **Public Sector Loan Facility** will combine EUR 1.5 bn in grants financed from the EU budget with EUR 10 bn of loans from the EIB.

Under Pillar 2, budgetary guarantees are implemented by "Implementing Partners" (such as the EIB) which provide direct or intermediated financing to the final beneficiaries. Commercial banks can participate as Financial Intermediaries, who will be selected by Implementing Partners when they need to implement the budget under intermediated financing.

- **DFIs can channel multilateral climate funds.** Some DFIs can access certain climate funds and potentially co-finance with the private sector in making climate investments that are consistent with a just transition. For example, the Climate Investment Funds, which disburse funds through the multilateral development banks (**MDB**"s), have an active just transition programme.[85]

WHAT MEASURES CAN COMMERCIAL BANKS IMPLEMENT TO TAKE ACCOUNT OF A JUST TRANSITION IN THEIR FINANCING?

V. WHAT MEASURES CAN COMMERCIAL BANKS IMPLEMENT TO TAKE ACCOUNT OF A JUST TRANSITION IN THEIR FINANCING?

Just transition has recently emerged on the banking agenda, with COP26 providing important impetus. Setting just transition strategies will require banks to identify what they will finance, what they will not finance, and what conditions they will impose on clients in different sectors who are transitioning out of or transitioning into specific activities. This is where the "*rubber will hit the road*" when it comes to integrating commitments designed to facilitate the transition to sustainable net zero economies, while minimising the potential adverse social and human rights-related impacts of that transition. Banks will need to consider carefully the articulation of their just transition strategies and how they will be operationalised within the bank's policies, governance and business activities. In the context of increased transparency expectations, disclosure requirements and stakeholder pressure, banks will have to be able to articulate the basis for their strategy, their approach to meeting it and to ensure that practice reflects rhetoric.

In this moment of conceptual construction, banks are taking different starting points or lenses to inform the evolution of their just transition approaches. Some lenses that need to converge around just transition include the following:

Climate change – should just transition be added to existing climate finance approaches and how will it fit into broader climate risk management?

Risk management – how should just transition be made an additional dimension to consider within E&S risk management frameworks, which are relatively well embedded in many banks? In a just transition context, they need to be well coordinated with other processes within the diligence of financing proposals.

Human rights – how should human rights policies be adapted or supplemented to account for just transition and how will this be carried through into specific transactional contexts (e.g., where issues such as land-use concerns in renewable energy projects arise)? Given the human rights impacts of climate change, how can institutions balance potentially competing impacts and rights within transition-related financing?

Fairness to customers – does the bank's approach to this require adaptation, particularly with respect to vulnerable customers – an issue of particular importance for cooperative banks and those dealing with retail customers?

To date, there is limited specific guidance for the financial sector on addressing just transition-related issues in their operations. The Grantham Institute's report on "*Financing climate action with positive social impact: How banking can support a just transition in the UK*" highlights a series of recommendations for banks and the UK government on developing a purposeful and systematic approach. These principles should be broadly transferrable beyond the UK context. (See Box 15).

Box 15:

Grantham Research Institute on Climate Change and the Environment Consolidated Recommendations to Banks on Incorporating an Approach to the Just Transition[86]

Leadership: *Board and senior executive leadership commit to ensure that the just transition is incorporated into institutional strategy and culture, identifying roles for the Chair, Non-Executive Directors and the operation of board sub-committees.*

Purpose: *Make the just transition central to the bank's core purpose and culture, embedded in strategic objectives and the business model.*

Strategy: *Outline a clear institutional action plan for how the bank plans to operationalise the just transition. This should cover culture, governance, risk, opportunity, compliance and the treatment of customers. The strategy should identify clear financial targets and be accompanied by training and awareness-raising among staff. Milestones and metrics can then link progress against targets to financially reward and remunerate bank employees, including senior executives.*

Customers: *Serve customers by developing a core portfolio of financial products and services that contribute to achieving net zero in a socially inclusive manner. Banks have the opportunity to serve customers by developing sector-specific and customer-specific expertise. This would enable them to become a trusted partner in the net zero future to retail customers and households, small businesses, corporations and investors as well as the public sector.*

Place: *Work with key stakeholders in different geographical areas to respond to the diverse needs for achieving the just transition. Banks can play the role of anchor financial institutions; for example, by helping to finance place-based climate action in both rural and urban settings.*

Policy: *Engage actively with policymakers to encourage the right enabling environment for the just transition and promote system-wide innovation, including through economy-wide policies, financial regulation and public finance initiatives.*

Partnership: *Engage in dialogue with government, business, trade unions and civil society to listen to emerging needs and develop breakthrough partnerships: for example, to deliver blended finance solutions.*

Accountability: *Report on progress against just transition goals in the Strategic Report in the firm's Annual Report and Accounts and include the social dimension in its climate-related financial disclosures.*

The Climate Safe Lending Network has developed guidance for banks on creating effective climate transition plans – the guidance indicates that taking account of just transition is an integral element of a bank transition plan.[87]

A. Operationalising the Just Transition in Banks' Internal Governance and Systems

Effective action within commercial banking in support of a just transition self-evidently requires leadership from the top, coherent strategies, policies that articulate how the bank will convert strategy into practice, and the right people, systems and tools to deliver implementation into financial transactions. These collectively will support robust practices as well as compliance with emerging regulatory imperatives, including around due diligence and disclosures.

1. The Right People

a. Leadership From the Top

Climate change has numerous implications for board governance, including the need to assign formal board oversight, appoint climate competent directors and ensure that sufficient, qualitative data is available to allow directors to make informed decisions. A focus on the social dimensions of climate change may require some recalibration to ensure appropriate board attention to the full sweep of potential impacts of the climate transition and to craft a coherent strategy towards achieving the bank's just transition-related objectives. It is now vitally important to link up the E, S and G dimensions to anticipate and address the range of future risks and opportunities.

b. Assigning Responsibility at a Senior Level Across Relevant Functions

Implementation of just transition objectives will require clear allocation of responsibilities for identifying, assessing and pursuing opportunities while effectively managing risks. To date, it is not clear that systematically integrated approaches operate within many banks to marry climate change action with, for example, human rights risk mitigation. Just transition ambitions may accelerate the need for new multidisciplinary, cross-functional teams. Connectivity across functions and within decision-making is essential to addressing just transition considerations.

c. Ensuring Employees Have the Necessary Skills

At the operational level, banks will need staff with expertise and new skill sets to pursue just transition objectives. The Green Finance Institute has launched an initiative to address the climate skills needed in finance,[88] and some banks are actively working to build leadership and staff capacity. Just transition of this nature poses particular challenges and dilemmas that personnel will be called upon to navigate. Some banks may find that there is a lack of available technical and financial expertise around understanding the potential risks to, and impacts on, people that might arise from transition-related financing, especially given how specific these considerations can be to industries, activities and regions. Training opportunities will be needed to equip bank staff with skills to support products and services that are inclusive and build resilience, as well as on the green dimensions of the transition. Identifying resource and expertise gaps early and ensuring that these are filled will be important in building competence.

2. The Right Strategies

a. Bank Climate Strategies Can Account for Social Impacts

A 2020 benchmark survey of 20 European banks found that "[*t*]*he idea of ensuring a just transition is generally not yet reflected in banks' climate strategies.*"[89] Encouragingly, the survey found that "*55% of banks state that their climate strategy considers the human and labour rights impacts of climate change, in line with a just transition.*" Additionally, the survey indicates that 20% of banks are planning to integrate just transition considerations into their strategies. A few banks refer to the shift from climate threats to opportunities that bring benefits to people and planet and acknowledge that transition-related measures need to respect the human rights of those directly affected.

Climate change strategies must be specific to be effective – setting, disclosing and implementing precise strategic objectives. To develop those objectives, banks need to consider highly technical climate change scenarios and projections (see also Section V(A)(5) below on tools). In order for just transition strategies to be successful, they should also take account of the long-term socio-economic and social implications of just transitions. Different approaches and imperatives may emerge across a bank's portfolio of clients and products depending on factors such as the nature and location of clients, the mix of investment banking, corporate and retail clients and the regulatory regime to which the institution is subject.

Box 16 sets out some of the strategic choices that banks face in their transition financing decisions and a selection of the social and human rights considerations and related implications that these raise.

Box 16:
Strategic Financing Choices and Just Transition Implications

Strategic Financing Choices	Just Transition Considerations / Implications
Projects / sectors that support the transition into low-carbon and zero-carbon investments: Numerous banks are making specific financial commitments to support the transition with new green products; through financing renewables investments, natural capital projects, green jobs creation, disruptive technological innovation for climate solutions; and addressing economic and social inequalities.	The ILO's Green Jobs Programme highlights the myriad opportunities for developing green and decent jobs as part of transitions, both at a policy level and through detailed country assessments. However, the development of sectors necessary for the transition in may be accompanied by negative environmental and social impacts. Banks should ensure that they are equipped to identify these (e.g., through human rights due diligence) and consider appropriate ways to address the potential harm to people and communities that may be inherent in some transition in sectors.

Box 16:
Strategic Financing Choices and Just Transition Implications

Strategic Financing Choices	Just Transition Considerations / Implications
Transition out – exclusion of projects / sectors from future financing: Many banks have "*exclusion lists*" or policies – identifying sectors and activities they will not finance. These often are driven by a combination of international laws, principles and standards and stakeholder pressure. Commercial bank exclusion lists increasingly cover climate change exclusions, particularly coal; it is expected that these lists may expand as knowledge and awareness of harmful activities and their impacts deepen.	Specific attention should be paid to the impacts of exclusion policies on workers and communities in sectors from which finance will be withdrawn. Some DFIs, like CDC, combine decisions to exclude fossil fuel investments going forward with exceptions for providing support to impacted workers and communities in those sectors. While commercial banks and DFIs have differing roles, responsibilities and leverage, banks will need to consider how their financing policies can match their just transition commitments.
Divestment from projects / sectors: Divestment from emissions heavy industries without related efforts to reduce production can lead to assets simply being moved around, potentially to less transparent parts of the financial sector.	• Responsible exit strategies are needed to avoid unintended environmental and social impacts from climate-related divestments, and to support workers and communities. • A bank financing an exit or closure should seek to identify associated adverse human rights impacts (including, for example, job losses) and consider appropriate steps to address those (including requesting impact mitigation plans from clients).
Projects / Sectors that will be supported subject to specific conditions: Business clients across sectors will need to improve their energy efficiency, shift fuel resources, adopt new technologies, adapt new resilience techniques, etc. with hard-to-abate sectors a priority. Banks are developing specific conditions and criteria for clients to continue to access finance, consistent with climate action strategies. Transition plans – setting out a company's targets and planning for the energy transition – may become a requirement in certain jurisdictions for certain corporates, including banks.[90]	A good transition plan should set out a client's plans both to address operational changes necessary to reduce emissions, but also how it will prepare its workforce and address impacts on local communities. Some DFIs are conditioning financing on just transition criteria (see Section IV(B)) and other initiatives are developing guidance on "*good*" transition plans. For example, in October 2021, the TCFD released a new guidance document on climate-related metrics, targets and transition plans.[91] The guidance discusses the features of an effective transition plan, including that it should be aligned with the organisation's strategy, anchored in quantitative elements, including climate-related targets and metrics, subject to effective governance processes, articulate specific initiatives, credible and reported annually to stakeholders, and anchored in quantifiable and measured data. The guidance also sets out a table with elements appropriate to include in a transition plan. These elements do not cover any social dimensions.
Projects / Sectors requiring clients to build resilience: Depending on the type of bank, clients may need support to build resilience to climate change. For example, agricultural banks, building societies and mortgage lenders will need to work alongside clients to support their emissions mitigation and climate adaptation measures.	For building societies and other mortgage lenders, many of their clients will need energy efficiency retrofits or appropriate flood insurance. These banks will face the challenge of creating new financing products and approaches to ensure that low-income customers are not excluded, since this would be contrary to the goals of a just transition and would also undermine a bank's client base, potentially threatening its own viability.

b. Strategies Should Cover the Full Scope of Products and Activity

Although this paper focuses on debt finance, bank commitments to net zero (which include scope 3 plus *financed emissions*") envisage that bank climate policies encompass the full scope of their strategies and financing activities – e.g., arranging, lending, underwriting and investing – rather than limiting these to certain aspects of their portfolios. Equally, the increased focus on a just transition is likely to create expectations that a portfolio-wide approach will be replicated within strategies and policies to address the social dimensions of climate change as well.

3. The Right Policies

Banks' financing strategies that incorporate just transition considerations need to be embedded into policies that present a roadmap for integrating such considerations into decision-making processes, management systems and actions.

a. Banks Should Consider Adopting Just Transition Policies

Banks' climate change commitments frequently require them to adopt policies concerning the types of clients and projects to which the bank will and will not lend, and the conditions for doing so. Many banks have related policies on the ways in which their financing activities should support the SDGs. Increasingly, banks also accept that their responsibility to respect human rights involves them adopting specific policies in this area.[92] This Paper has highlighted the imperative for coherence between these policies and their potential to coalesce in areas of new policy commitment, such as just transition.

Adopting a commitment to the just transition as part of banks' policy commitments would send a clear signal that the bank recognises and intends to address interlinked climate and human rights impacts in an integrated fashion. The full scope of what a "*good*" policy looks like in this respect is a work in progress. It will also depend upon the nature of the bank's business and customer base: different considerations will apply to investment banks, lending arms of commercial banks, cooperative banks and social purpose banks, for example. However, it is possible to identify several core goals for a meaningful just transition policy commitment (see Box 17 on Just Transition Policies).

Box 17:
What Should a *Good*" Just Transition Policy Do?

01 Recognise that a just transition is an essential element of transitioning to net zero.

02 Be coherent and integrated with the bank's climate change, environmental, human rights, and sustainability-related policies. (See Box 18).

03 Describe the bank's commitment to support a just transition and integrate social considerations into its climate-related financing.

04 Confirm that the bank, when providing transition-related financing, will consider – and expect its clients to consider – the social and human rights impacts of funded activities, thus going beyond the TCFD framework (see Section V(A)(6) below).

05 Identify those within the bank to whom the policies apply and allocate areas of responsibility for implementation across the spectrum of client relationships, products and services covered.

06 Require that clients' transition plans consider impacts on workers, and other relevant groups, such as communities and customers.

07 Identify the bank's approach to assessing and measuring the outcomes of implementation of its policy including identification and action on risks.

08 Be developed with input from relevant stakeholders (experts and potentially impacted groups).

09 Commit to developing new products that specifically support positive social opportunities around the just transition.

b. Just Transition Policies Can be Aligned and Integrated with Other Bank Policies

It is of particular importance that banks: (i) align their climate and human rights policies, and integrate them into, other relevant bank policies (such as those listed in Box 18); (ii) build synergies among policies and the teams that support them; and (iii) run a "*coherence check*" to ensure that other policies do not undermine just transition objectives and commitments.

Box 18:
Integrating Just Transition Considerations into Other Bank Policies

Related Bank Policies	Basis for Integrating Just Transition Considerations
Sustainability Policy	A Sustainability Policy or specific SDG Policy might provide a broad framework for linking the social dimensions of the transition to the environmental aspects.
Sectoral policies	Specific sectoral policies that address, e.g., carbon-intensive industries or the renewable energy sector, provide opportunities to address specific just transition impacts in a sector-specific manner.
E&S Policy	Just transition considerations should be factored into E&S policies and risk management steps the bank will take to identify and address E&S risks. Transactions raising just transition considerations may involve countervailing E&S benefits and impacts.
Human Rights Policy	It is key to integrating just transition concepts into practice that banks have human rights policies that implement the UNGP, reflecting their responsibility to respect human rights including through due diligence that focuses on identifying and addressing (including in transactions) impacts on people.
Labour Rights Policy	Decent work and social protection are core dimensions of a just transition. To the extent not covered by a human rights policy, policies on labour rights will be relevant to consider client plans on retrenchment, retraining, and social protection contributions and providing decent work will be important just transition elements to integrate into labour policies.
Biodiversity Policy	There is growing awareness of the linkages between climate change and biodiversity loss and the need for these issues to be addressed together. Bank policies can integrate biodiversity concerns and risks, including the social impacts of biodiversity loss, and take these into account at the client and transaction levels.

4. The Right Risk Management Systems

Some banks are in the process of integrating climate risks into their enterprise risk management systems.[93] Banks are taking different approaches to this, ranging from the development of specialised systems for assessing climate risks; integrating climate risks into existing risk systems; and developing specialised transition risk frameworks (sometimes with a focus on specific sectors to provide a better understanding of exposure to the highest transition risk sectors). While the focus for many banks in Europe is on the risks that climate change poses to the banks, many banks in Latin America and the Caribbean focus on climate impacts on clients.[94]

It is unclear whether and how banks are integrating the consideration of social risks of specific transition in or transition out related strategies and transactions. For some, it may be that this occurs as part of their due diligence processes and other policies, including those relating to human rights.

a. Integrating Just Transition Considerations Across Risk Categories

Climate change risk manifests across various risk categories – including credit, market, liquidity, compliance, operational, strategic and reputational risk. As banks put in place systems to address climate risks, they can use the opportunity to ensure that just transition considerations are also recognised. Where a bank makes active commitments in respect of a just transition, it should be careful to check that one aspect of its risk management system does not unintentionally undermine another, or the commitments made.

- **E&S risk management systems** may be the most natural "home" for just transition issues within the risk management architecture, provided that they specifically consider the impacts of a client's business on the environment and on people, and not simply the risks the environment and people create for the bank. Where banks have separate policies and teams addressing climate change and human rights risks, it is important that they collaborate to ensure that both the climate change impacts and impacts on people are properly considered.
- **Credit risk systems** look at the creditworthiness of customers and may prompt-challenging trade-offs. Do banks downgrade or exclude entire groups of customers (corporate or retail) who may have a higher risk of exposure to climate change? For example, a narrow focus on assessing and reducing exposure to physical risks could inadvertently make banks "[*a*]*gents of precipitating not only stranded assets... but also stranded workers and communities*", in what the Grantham Institute has referred to as "*greenlining*" (to analogise it with a similar exclusionary and now prohibited bank practice of "*redlining*" whole communities to exclude them from financing). An approach that is inclusive of different socio-economic groups and reflects their needs would require coherence between a bank's commitment to a just transition and a credit risk system that may push in the opposite direction.
- **Reputational risk systems** look at sources of risks to the bank's reputation. Since social inclusion is now squarely on the climate change agenda, banks whose lending activity is viewed as giving rise to stranded workers and stranded communities may be at risk of being targeted by campaigns. Equally, banks that demonstrate that they take social issues into account in climate-related decision-making may be more likely to build trust with customers and local communities. Banks also have to be prepared to justify, on a rational, sustainability-focused basis, their continued provision of finance to hard-to-abate sectors that could otherwise be criticised on pure climate grounds but meet just transition criteria.
- **Legal and compliance risk** includes regulatory and litigation risk. See Section III(B) above.

b. Integrating Just Transition Considerations Across Portfolio Risk Management

At the portfolio level, different approaches are being developed to address climate risks that also have the potential to address the social impacts of the transition. For example:

- **Heat maps** are being used to identify the sectors or regions that are exposed to climate change risks.[95] These can be adapted to look at different dimensions of climate risk, including, for example, transition risk. This could involve highlighting sectors or regions most exposed to potential job losses and livelihood impacts due to the transition, and highlight where financial support may be needed most when exits or repositioning towards greener activities occur.
- **Portfolio screening** aggregates the results of climate risk screening tools for counterparts.[96] Some banks are developing portfolio screening for the SDGs that could potentially be adapted to address some dimensions of the just transition.
- **Stress tests** are being used by regulators to identify parts of bank portfolios that may be particularly exposed to climate risks. Certain banks run their own stress tests to pilot different climate scenarios on customers and their own infrastructure. The EBA expects banks to develop methodologies to test their resilience to ESG risks, potentially laying the groundwork for stress testing that can link up environmental and social impacts.[97] While these tests are in their early days, the assumptions and models could be adapted to run different scenarios reflecting different levels of social impacts (e.g., varying levels of job losses).
- **Customer sustainability classification systems** are being developed to assess customers on their climate impact, but not yet on the related social dimensions.[98]

5. The Right Tools

There has been a significant increase in available tools and approaches that assist financial institutions in dealing with climate change considerations, assess their exposure from lending and other activities and classify client risk: from target setting[99] to scenario analysis,[100] to testing alignment with Paris Agreement goals, such as the Paris Agreement Capital Transition Assessment ("**PACTA**") tool,[101] the Partnership for Carbon Accounting Financials ("**PCAF**") standard[102] and more. Some banks are using Integrated Assessment Models ("**IAMs**"), which are useful tools for financial institutions to identify, assess and manage transition risks; however, these and other dedicated climate-related tools typically do not account for social or other impacts relevant to a just transition.[103]

There are various initiatives underway by regulators, the UN and NGOs to develop guidance for financial institutions on addressing climate-related social issues.[104] (See Box 6 above). Importantly, existing business and human rights good practice, including human rights due diligence, already presents practical tools that can be built on to address social dimensions of the transition. (See Section V(C)(3) below).

There is room for innovative thinking among banks and their advisers about how to integrate potential social impacts of the transition, whether by adapting existing climate tools or developing new bespoke tools that are better suited to drawing out relevant social implications.[105] Measuring what companies are – or are not – doing is one extremely pertinent focus.

Box 19

World Benchmarking Alliance Just Transition Assessment

The World Benchmarking Alliance has developed a set of indicators for assessing and benchmarking companies on their just transition actions. These cover:

- social dialogue and stakeholder engagement;
- just transition planning;
- creating and providing or supporting access to green and decent jobs;
- retaining and reskilling workers;
- social protection and social impact management; and
- advocacy for relevant policies and regulation.

6. The Right Disclosure

It is through disclosure that banks' stakeholders understand qualitatively and quantitatively where they stand on addressing climate change and the transition.

Many banks use the TCFD Framework for disclosure.[106] While the Framework has brought important rigour and standardisation to climate disclosure, banks and their stakeholders should be aware of the purpose and limitation of these and other reporting requirements that focus only on financially material impacts of climate change on the business.

New EU reporting requirements (SFDR[107] and the forthcoming CSRD[108]) that take a double materiality approach may be a significant impetus for a shift in focus.[109] Banks can report under the TCFD Framework about how they are managing social issues, but the Framework currently does not require them to do so.[110] There are also other reporting frameworks specifically designed to address outward impacts on environment and on society, such as the Global Reporting Initiative (**GRI**")'s revised Universal Standards (going into effect on 1 January, 2023) that are aligned with the UNGPs and the OECD Guidelines.[111]

B. Operationalising the Just Transition Through Financial Products and Services

As noted in Section III(C) above, there is an opportunity for banks to adapt existing products and develop new products and services for clients to support them in transitioning to net zero in ways that are aligned with their responsibilities under applicable human rights and labour standards (see Annex B). Two areas of bank financing are emerging as particularly relevant to a just transition.

1. Transition Finance

There is no agreed definition of what constitutes "transition finance".[112] However, it is generally accepted that the objective of transition finance is to provide financing for companies in high-emitting, hard-to-abate sectors — e.g., aviation, shipping, cement and steel — to support their transition to net zero. Transition financing can provide a bridge as they transform and take steps to become low-carbon emitters. Some banks have set up specific transitional finance lines of business, seeing new business opportunities and recognising that the markets and sectors that require the most financing to transition to low-carbon business models cannot access green finance.[113]

It has been suggested that most of the finance for the transition will be channelled through general purpose lending.[114] Banks may wish to consider whether their general purpose lending policies, client and mandate due diligence and transaction conditionality provide sufficient assurances to count these existing products and arrangements as a component of their just transition strategy.

Banks are increasingly requiring borrowers – especially in high-emitting sectors – to develop credible transition plans, backed by strategies including key performance indicators ("**KPIs**") and modalities to achieve targets as a condition of accessing finance.[115] The COP26 Private Finance Initiative notes that there is further scope for improving banks' engagement on companies' transition plans.[116]

Just transition is not yet an integral element of transition finance[117]; however, certain finance initiatives are starting to incorporate relevant considerations[118] and policy initiatives at the intergovernmental level may facilitate an environment in which private sector actors are incentivised to develop their transition finance products to include just transition elements.[119] For example, the G20 Sustainable Finance Roadmap urges financial regulators to "*account … for the effects of the transition on local communities and SMEs and to address potential adverse effects such as unemployment*", indicating that this may become an important dimension of sustainable finance.[120] These influences and considerations are important steps towards developing best practice and standards on the just transition, as indicated in recent guidance on "*good*" transition plans.[121]

2. Green, Social, Sustainability, Sustainability-linked Bonds and Equivalent Loan Products

The rise of green, social, sustainability and sustainability-linked bonds has been remarkable. The market in these products is predicted to exceed US$1 trillion by the end of 2021.[122] Blue bonds are also expected to grow in number. These bonds can take the form of public sector bonds (issued, for example, by countries, states, municipalities, development banks) or private sector bonds (issued by banks or corporates). Sustainable lending has also seen tremendous growth, through the issuance of green, social and sustainability-linked loans having similar objectives and features to the parallel bond products. A summary table of some salient features of relevant products is at Annex C.

Evidence suggests that these products play an important signalling role, even if they are not the leading tool to shift capital to a sustainable economy.[123] Green and sustainability bonds and loans are used predominantly to support transition in purposes, but also transition out projects. Social bonds and loans support projects with a social purpose, such as construction of schools or social housing or funding of healthcare infrastructure, and support SDG objectives. Importantly, some of these products have the potential to be used or adapted to finance investments, projects and other activities with just transition dimensions. Many of these products incorporate disclosure and reporting expectations that support stakeholder scrutiny of their sustainability credentials.

a. Bond Principles, Guidelines and Standards

The standards according to which bonds are classified as "*green*", "*social*" or "*sustainability*", etc., are largely self-regulated, with market participants adhering to voluntary standards and principles. The ICMA Green Bond Principles, Social Bond Principles, Sustainability Bond Guidelines and Sustainability-Linked Bond Principles are the most adopted sustainability finance principles. The Climate Bond Initiative's Climate Bond Standard and Certification Scheme is a labelling scheme for bonds that has converted the ICMA principles into a set of requirements and actions which can be assessed, assured and certified.[124] ICMA hosts a Sustainable Bonds Database,[125] tracking green, social, sustainability and sustainability-linked bonds; other organisations maintain similar tracking systems.[126] ICMA has also issued the Climate Transition Finance Handbook providing additional guidance for issuers seeking to issue green bonds, sustainability bonds or sustainability-linked bonds towards the achievement of their climate transition strategy,[127] as well as the Handbook – Harmonised Framework for Impact Reporting, which outlines general core principles and recommendations for reporting to guide issuers develop their own reporting.[128]

In the cases of green, social and sustainability bonds, proceeds of the bond issuance must be used for an eligible green, social or sustainability purpose, with sustainability bonds being used for a hybrid of green and social purposes. Sustainability-linked bonds, in contrast, do not include a "use of proceeds" element but instead focus on the issuer meeting ESG-relevant targets or KPIs.

Recognising the need for massive private finance to contribute to the climate finance needs of the climate change crisis, governments, stock exchanges and regional organisations are considering the role of bonds in the transition and whether new rules and standards might be required for these.[129] For example, in July 2021, the EU issued a proposed regulation to establish a European green bond standard,[130] responding to the concern that definitions of what constitutes a "*green*" project or activity are insufficiently standardised, rigorous or comprehensive. It sets out a common framework for high-quality green bonds by specifically anchoring the EU Green Bond Standard to the EU Taxonomy.[131]

b. Loan Principles and Guidance

A grouping of industry loan associations – the Loan Syndications and Trading Association ("**LSTA**"), together with the Loan Markets Association ("**LMA**") and the Asia Pacific Loan Markets Association ("**APLMA**") – has published voluntary recommended principles for green loans, social loans and sustainability-linked loans to promote consistency across financial markets.[132] The Green Loan Principles and Social Loan Principles apply to loan instruments where the proceeds are used towards eligible green and social projects.

The Sustainability Linked Loan Principles[133] can be used where loans are available for general corporate purposes or for any other purposes because, importantly, there is no use of proceeds requirement. The interest provisions in such loans include a discount or a premium, depending on whether the borrower meets certain pre-agreed sustainability performance targets as measured by pre-defined KPIs. Such indicators often include environmental targets but also social and governance targets.

c. Implications for a Just Transition Approach

First, although none of these standards specifically addresses a just transition, they go some way towards factoring in relevant considerations and principles and could be adapted to meet just transition expectations. For example:

- The ICMA Climate Transition Finance Handbook provides guidance for issuers seeking to use the Green Bond, Social Bond and Sustainability-Linked Bond Principles and the Sustainability Bond Guidelines.[134] The Handbook recommends that the social impacts of any use of proceeds be identified, addressed and evaluated, thus reinforcing the idea that green and social impacts should be considered together.[135] Similarly, the Green Loan Principles require borrowers to identify any exclusion criteria or any other process applied to identify and manage potentially material social risks associated with the proposed green projects. Notably, the 2021 edition of accompanying Guidance on Green Loan Principles provides guidance on identifying mitigants to known material risks of negative social impacts of a proposed green project.[136]

- The Sustainability Bond Guidelines address issuances of bonds that finance a hybrid of the green and social projects contemplated by the Green Bond Principles and the Social Bond Principles, and the Sustainability-Linked Bond Principles envisage a contribution to sustainability (from an environmental and / or social and / or governance perspective) by way of achieving related KPIs. The Sustainability Linked Loan Principles also allow for a mix of environmental, social and governance objectives, enabling relevant financial instruments to be employed to support just transition objectives.
- ICMA Social Bond Principles and ASEAN Social Bond Standards,[137] respectively, envisage that bonds can be used to fund activities of types that would be relevant to a just transition, such as education and vocational training, affordable housing, employment generation and socio-economic advancement.[138] This is similarly the case under the Social Loan Principles.

Second, there are no existing principles for just transition bonds or loans or taxonomies relating to just transition issues, leaving market players to develop new products consistent with just transition strategies. Useful principles may be gleaned from the Grantham Institute's proposal for sovereign-backed just transition bonds to support the social dimension of transitions, including workplace and community initiatives in areas that have already seen or will experience a decline in high-carbon sectors.[139]

The Impact Investing Institute, Green Finance Institute and Grantham Research Institute jointly published a proposal for a "*Green+ Gilt*", which describes its novel feature as being that *financed projects would consciously deliver social co-benefits in addition to environmental outcomes, thereby contributing to a 'just transition*'"[140]. The United Kingdom has issued two Green Gilts under the UK Government Green Financing Framework published in June 2021, which expressly recognises that "*the UK is committed to honouring its commitments within the Paris Agreement to recognise the imperatives of a just transition of the workforce and the creation of decent work and quality jobs in accordance with nationally defined development priorities*." HM Treasury intends to report on the social co-benefits of the eligible green expenditures described in the framework, in addition to their environmental impacts.

Third, while the draft EU green bond standard does not address just transition considerations explicitly, it does draw attention to the EU

Taxonomy's requirement that projects classified as "*green*" under the Taxonomy must meet social minimum safeguards.[141] The European Commission has announced that it will now turn to working on transition and sustainability-linked bond standards[142] and, as noted in Section III(B)(1)(b), intends to develop a social taxonomy that will likely inform the bond standards, as with the EU Taxonomy. Mobilising finance through the specialty bond markets in accordance with agreed just transition principles or a taxonomy could support new investment and finance specifically focused on just transition objectives.

Fourth, the 2020 Sustainability-Linked Bond Principles and 2021 Sustainability Linked Loan Principles require KPIs that are material to the issuer's or borrower's core sustainability and business strategy, presenting opportunities to take just transition considerations into account as part of setting those KPIs.

C. Operationalising at the Transactional Level – Engaging with Clients on the Just Transition

The discussion below addresses how banks can engage with clients on just transition issues at the relationship and transactional level.

1. Preparatory Activities

a. Understanding the Context

Country-specific government plans, just transition roadmaps and diagnostics by DFIs and others can support commercial banks in analysing risks and, importantly, opportunities that banks can use to build their own just transition strategies in relevant markets. These plans can provide information about transitional economy contexts and financing requirements, and may be beyond the capacity of individual banks to develop themselves. The plans can also highlight a wider range of issues drawing on cross-disciplinary input that banks may find it difficult to marshal without investing heavily in relevant in-house expertise or external consultancies.

b. Identifying Additional Funding Sources

As discussed at Section IV(C)(2) above, funding needs for just transition-related activities will vary significantly depending on the geographic scale, sector, timeline and scope of changes to be financed. Successful transitions will require significant investment by both the public and private sectors in just transition initiatives. Commercial banks will have commercial imperatives that differ from their public sector counterparts and will have to justify strategies to stakeholders. Commercial banks can support their clients to access appropriate sources of funding by:

- developing expertise in identifying and accessing public and other funds to support just transition initiatives;

- assisting with structuring of innovative blended finance approaches; and
- building collaborative connections with relevant actors, including those with expertise on social impacts, who can advise on approaches effective at achieving a just transition.

c. Preparing Clients to Address Just Transition Considerations

Banks often provide advisory services to clients to assist with a wide range of issues. These could be expanded to cover just transition considerations, including:

- developing financing scenarios for operational reductions, decommissioning and divestment activities;
- advising clients on opportunities to collaborate with local, regional and national government authorities on mitigating transition impacts on local communities, for example through entrepreneur incubator hubs, training centres, regional sustainable infrastructure, SME support, micro enterprise support, etc;
- providing advice and support on funding mechanisms including public sector funds, blended finance structures and dedicated climate and / or just transition finance funds; and
- ensuring that advice on structuring green, blue, social, sustainable and sustainability-linked bonds and loans consider any potentially negative social impacts of "transition in" projects.

2. Client and Transaction Screening

Banks will have differing opportunities to address just transition issues with clients, depending on whether the source of finance sought is a general purpose or specific purpose financing, project or asset-based finance. Syndicated lending and underwriting arrangements raise questions of the role of the various banks involved. The context of the bank's role will determine the timing of and its ability to conduct due diligence or influence use of proceeds and other terms.

Loan origination and bond underwriting linked due diligence are crucial phases for collecting information about different elements of a transaction and the relevant product objectives, as well as for communicating the bank's expectations.[143] Banks that currently focus their client and transaction screening around ESG considerations, without a dedicated just transition-related dimension, could consider whether and how their screening already incorporates aspects of just transition issues and what gaps may exist.

In certain jurisdictions, transition plans are already, or are likely to become, a minimum requirement for certain businesses – including in high-emitting sectors – to access finance. See Section V(B)(1) above. Companies that do not disclose their climate profiles or transition plans may find themselves with limited access to finance.[144] As practice matures, banks may find opportunities to develop more specific criteria on the just transition dimensions of transition plans and guidance on such plans is starting to appear.[145]

3. Just Transition Due Diligence

As noted in Section IV(C)(1) above, DFIs and an increasing number of commercial banks have E&S Policies and E&S Risk Management Systems that guide their due diligence of the E&S impacts of client operations. This is the most obvious "home" for examining a client's approach to issues around the just transition. Whatever approach is adopted, frameworks familiar to the banks such as the UNGPs or the OECD Guidelines – fleshed out by more detailed frameworks such as the OECD Due Diligence for Responsible Corporate Lending and Securities Underwriting: Key considerations for banks implementing the OECD Guidelines for Multinational Enterprises – provide for human rights due diligence that will be a core foundation of a just transition approach. Banks will increasingly be required to have integrated policies and processes and to conduct these forms of due diligence routinely as mandatory human rights and environmental due diligence requirements come into effect (see Section III(B) above on regulatory requirements).

Box 20

Two Case Studies – Transition Out & Transition In – Issues to Consider in Just Transition-related Due Diligence

Two case studies are presented in Annex A to stimulate thinking about the kinds of issues that should be considered within a just transition approach to financing. While both focus on large-scale mining, they give an idea of the complex set of social issues and human rights that could and should be considered at a transactional level.

A **"transition out" project – closing a coal mine (Case Study 1)**. There is a concerted global push to end all coal mining (and its financing) and to wind up coal production. While a commercial bank would not be expected to fund the full sweep of activities covered in the transition out case study, commercial banks might engage in funding some closure activities that include social impact mitigation features, and to assist clients with negotiating any additional funding needed from public sources.

A **"transition in" project – financing a new copper mine (Case Study 2)**. There is a growing demand for copper as a transition mineral for renewable energy and other green technologies. The rising demand for copper presents issues relevant to local communities and the environment that need to be considered as part of due diligence when financing the development of copper mining and the exploitation of other transition minerals. Similar issues apply across the *transition-in*" landscape.

a. What Does Just Transition Due Diligence Look Like Through a Human Rights Lens?

As noted in Section III(A)(1)(c) above, the UNGPs and OECD Guidelines set out the steps that businesses are expected to take to implement the corporate responsibility to respect human rights, including through human rights due diligence. These frameworks can be adapted to include transition-related issues, recognising that there are synergies, but also limitations, in doing so.[146] It is also possible to start with environmental frameworks and build human rights considerations into environmental approaches.

Some advantages to a UNGPs / OECD Guidelines approach to assessing and addressing climate-related and transition impacts on workers, communities and consumers are:

- They start from the appropriate perspective of addressing impacts on people, rather than starting from considering climate risks to the business or the bank (and thus fulfil the second dimension of the double-materiality approach) (see Box 8 above).
- They are based on the appropriate normative framework for addressing impacts on people – one that frames consideration of impacts in terms of their internationally recognised rights (labour rights, rights to life and health, to participation, to social security, etc.).
- They integrate stakeholder engagement, such as social dialogue between workers and employers, and community consultation when appropriate, as an important requirement at each step of the process.
- They provide a known and increasingly accepted framework for businesses, including banks, to address impacts on people. Moreover, these standards inform the content of new due diligence laws and regulations as well as both mandatory and voluntary reporting and disclosure frameworks.

It is important to recall that a key limitation of a UNGP / OECD Guidelines approach is that (i) the UNGPs provide a foundational approach to climate change impacts on human rights and expected action to address them but have limitations in that context;[147] and (ii) these frameworks are not designed to help institutions evaluate the beneficial objectives of sustainable finance activities or to develop mechanisms to incorporate effective assessment and monitoring of these within transactions. The marrying of opportunity with risk management and of supporting positive outcomes with adverse impact mitigation are a key challenges for the development and implementation of just transition strategies.

4. Incorporating Just Transition Issues in Loan Documentation

Due diligence processes typically result in a series of actions that need to be taken to address identified adverse impacts – prevention and mitigation measures that can be captured in an action plan and tracked. Although there are currently no standardised market terms to address social and human rights issues within general lending practice, banks can include provisions such as general covenants in loan agreements regarding compliance with E&S requirements.[148] Additionally, as experience with sustainability issues develops, and where the nature and scale of the transaction warrants it, specific requirements could potentially be addressed in comprehensive environmental and social action plans, which are already used in the DFI and project finance contexts.

Additionally, where banks condition financing on clients providing transition plans, these plans could also be required to include steps for clients to plan for and engage with workers and communities or address other social and human rights impacts identified. Consideration will also need to be given as to how such requirements may be included in deal documentation.

Developing more granular thinking on how to incorporate just transition elements into transactional practice might well be a useful focus of industry associations and sustainable finance initiatives in which banks are involved. In this area, stakeholder engagement is an imperative and specific expertise in climate mitigation, transition impacts, social policy and human rights will be of value.

CONCLUSIONS AND NEXT STEPS

VI. CONCLUSIONS AND NEXT STEPS

Key findings of the research for this White Paper are set out in the Executive Summary. Some conclusions and proposals for next steps are:

- Just transition is an essential part of the transition to a net zero economy. The concept confirms the imperative of matching the growing climate ambitions of transition-related finance with efforts to address the potential social impacts. As a concept and international policy feature, it presents both risks and opportunities for banks and their clients — and it is essential that banks respond to these.
- Market and regulatory practice in the sustainable finance arena demonstrate the clear benefits of coherent and principled approaches to climate-related action. For banks that use ESG framing, just transition offers a prime example of an ESG issue that demands a holistic, rather than siloed, approach to linking the E to the S and the G. As an aspect of reorientation, the new concept of double materiality that already informs some regulatory innovation may provide useful focus for financiers called upon to examine the impacts of the transition and its consequences for people and the environment alongside financial materiality.
- Existing frameworks (policies, principles, standards, ongoing initiatives) to which banks already adhere can provide the foundations for just transition strategies and practice. Yet there are gaps in these when a just transition lens is applied. They do not yet, collectively, provide clear pathways towards effective incorporation of just transition concepts into commercial solutions that meet stakeholder expectations. There is a clear opportunity to refine existing tools and frameworks to take account of climate change, transitional imperatives, social issues and human rights and the distinct, cross-cutting aspects of just transition. Innovative approaches will be the order of the day.
- As a concept that is new to the private sector, including banks, just transition requires clear conceptual as well as practical guidance. Industry level and broader multi-stakeholder collaborations will be important in continuing to contribute towards establishing meaningful and practical frameworks for the banking sector to follow in just transition financing strategies and their implementation in practice within policies, processes and operations.
- Since certain aspects of just transition may feel beyond the comfort zone and resources of some banks, access to key knowledge centres and relevant existing expertise will be key. Knowledge may be drawn from those already engaged on just transition issues, including in the investment and development finance fields.
- The unique cross-cutting characteristics of the just transition concept point towards the need to design a new framework of bespoke principles, practical tools and guidance for the banking sector, albeit rooted in existing established initiatives and approaches. Such principles would contribute to an effective market approach for banks that aim to achieve "*just transactions*" that support climate action and inclusive, equitable social outcomes.

ANNEX A: CASE STUDIES ON JUST TRANSITION CONSIDERATIONS IN TRANSITION OUT AND TRANSITION IN PROJECTS

A. Case Study 1: Transitioning Out of Coal – Impacts on Workers and Local Communities

Coal is the single biggest contributor to anthropogenic climate change and, consequently, exiting coal-related activities and closing coal facilities are key to achieving net zero. Exit and closure will have significant benefits for the global community, but may also have significant adverse economic and social impacts on workers and communities linked to coal production and use. The just transition challenge is how to respond to the global imperative in a way that takes account of and mitigates any local adverse impacts.

This summary of issues is about just transitioning away from coal mining and other fossil fuel industries,[149] and highlights 12 factors relevant to workers and local communities. It is expected that a combination of public and private sector funding will be needed to support the closure of coal mines. Several interesting financing models are developing that bring together public sector and private sector financial institutions, including the Just Energy Transition Partnership to support South Africa's decarbonisation efforts,[150] and the Asian Development Bank's Energy Transition Mechanism.[151] Just transition approaches to financing the transition out of coal would involve a consideration of the social dimensions of such transition, and the appropriate way to address these may include the provision of additional financing dedicated to those aspects.

Workforce and employment transitions

The economic effects of ending industrial scale coal mining are huge. When coal mining dominates a local economy, the loss of the principal economic engine can expose a location's narrow economic base. As mining moves towards closure, expectations around what the workforce and the local economy will transition towards, and how, can be contested by companies, governments and communities – particularly in terms of which of these parties is responsible for what.

At the project level, workforce planning can hold talent in place during closure processes, while letting other staff go. A just transition strategy can go further by identifying retraining opportunities and transferable skills and liaising with other industries to understand redeployment possibilities in other non-coal operations or different industries. It is also important to match retraining to a transition strategy that can be useful for future employment. The approach will depend on whether the mine is a "*fly-in, fly-out*" or a residential operation, and the local economic context.

Services and infrastructure

Services and infrastructure are often a major focus when large-scale coal mines close. It is often at the point of closure that services and infrastructure are disrupted through withdrawal, sale or handover. There is a question of viability in cases where closure leads to significant outward migration, and where demand by other users falls below threshold levels. Determining what services and infrastructure will remain, and under what conditions, can lead to disputes among communities in the region, and with the project owner and state agencies and authorities. Mine closures can mean that communities that were connected by company-supported services and infrastructure once again become isolated.

Town normalisation

Coal towns that are run by the mine operations will need to consider processes of normalisation, where a local government authority takes responsibility for infrastructure, services and other municipal matters. However, the approach will depend on the degree to which a town depends on the mine, and whether it is viable after mine closure. For instance, if a mine runs the water or power infrastructure, a town will have to consider ongoing maintenance, and the extent to which services can run at a profit, or at least on a cost-neutral basis after mine closure.

Another aspect to town normalisation relates to population. If people move out of a coal mining area, this can impact thresholds for state-run services, such as for health and education. For example, if schools drop below certain attendance numbers, they may close or lose teachers. Not all transition processes lead to normalisation, however, and the absence of town transition plans remain commonplace.

Land use

This topic relates to what land is used for once mining ceases. It also relates to zoning, leases and the legal status of the land. In many jurisdictions, it is not easy to transition a mining lease to a pastoral lease, or a lease for another purpose, such as tourism – or to relinquish land to the Indigenous estate. Some jurisdictions have very tight (often outdated) regulations around the transfer of industrial use land to other purposes.

Land agreements

In most mining jurisdictions, land use agreements do not address mine closure, or matters beyond the productive life of the mine. Most local-level land use agreements are focused on managing impacts and securing benefits during production. Many coal mining jurisdictions, such as Australia, have not delicensed a single mine with a Native Title Agreement. The issue of how to maintain land rehabilitation and support traditional owners' land stewardship responsibilities become very real at closure when land use and royalty payments cease. Companies may claim that identity and place connection is not their responsibility, but decisions made by companies can affect these matters in profound ways.

Culture, heritage, and spiritual transitions

There can often be complex considerations related to culture and cultural heritage at mine closure. In certain communities, land is the basis of identity and connection to place. For Indigenous and Tribal Peoples, connection to, and ownership of, land, waters and territories is directly tied to identity, which signals certain rights, entitlements and obligations. When large-scale coal mining disrupts and transforms landscapes, it also alters the way people interact with each other and with the land, which in turn has implications for identity and connection. There is a need to consider how different groups and peoples are able to reconcile landscapes altered by large-scale coal mining. This may entail specific ceremonies and other rituals, as well as understanding how to return (if possible) artefacts and heritage items which were removed to make way for mining.

Coal mining heritage is also important to many people – particularly when mining has taken place for generations. Certain characteristics of a person's identity will be fixed, whereas other dimensions will change as they engage different people, places and social systems. As closure approaches, identities can be disrupted, which can make transitioning a difficult process.

Housing and accommodation
Housing and accommodation are often heavily affected by the closure of coal mines. With population decline, cheap accommodation can bring a different socio-demographic mix, which may require different kinds of services and infrastructure to support the changing population. Understanding and studying future socio-demographic change is an important aspect of closing any mine. While it can be difficult to predict future patterns of social change, carefully commissioned studies can help to pre-empt and plan for change.

Local business and post-mining opportunities
When there is a decrease in population, particularly in a residential town, local businesses can experience a downturn. Sometimes, it is difficult for operators to communicate the closure timeframe in order to assist businesses with planning and preparation ahead of time. While it is important to explore opportunities for economic diversification, it is also important to be realistic about what is feasible for an area, well ahead of mine closure and consequent economic disruption.

Governance
Governance and oversight of mining activities is typically undertaken within the formal constraints of state regulation, and through self-regulation by companies. The most intensive period of engagement occurs at project start-up, where consultation and the identification of major social risks and impacts are presented to the state ahead of the granting of approvals and permits. Holding the various parties to account for meeting these commitments is often challenging given the innate volatility that surrounds mining investments – and increasingly of coal mining. Invoking strict closure conditions in the interests of responsible closure planning may limit the full economic potential of a mining project, but is important to avoid an uncontrolled closure brought about by market conditions.

Impact assessment for closure
Social, environmental and human rights impact assessments for mine closure is an emerging area of research and practice. It is often difficult to determine when these studies are best undertaken, the extent to which other parties such as governments should be involved and what the focus of an impact assessment for closure should be. These studies are difficult to conduct when there is a lack of a comprehensive and reliable social knowledge base to work from. There is also the overlay of human rights due diligence, and the need to ensure that this lens is applied at closure.

Disclosure and transparency
The issue of transparency can be difficult in terms of communicating when a coal mine closure might occur. Some coal mines are closing earlier than planned due to public pressure to reduce reliance on fossil fuel industries to address climate change. However, for most mines the exact mine closure date can be highly uncertain.

While some companies are divesting, others are purchasing coal mines. Some mines may be extended in the short term to maximise the resource even in the face of pressure to transition out of this industry. The practical problem this presents, however, is that without a clear time frame for closure, it can be difficult to engage key actors in a closure planning process.

Consultation and consent processes
Planning for mine closure should involve meaningful engagement with a range of stakeholders using a variety of mechanisms. Processes of consultation and consent are not particular to the closure of coal mines, and there are some common questions, including how to best engage communities when they are not interested in mine closure discussions, knowing the best processes and mechanisms to use, and how to effectively communicate the date when a mine closure might occur. Mine closure can be the last chance to address issues that need to be "*set right*". Due to this, mine closure can become a time of social conflict, which is often not anticipated. The potential for conflict must be an integral part of human rights due diligence – particularly given the level of contestation that is being expressed around the continuation of coal mining. Inclusive and collaborative engagement that aims to identify an agreed closure plan can help to ensure that opportunities for social adaptation, asset regeneration, repurposing and land transfer are not missed.

Post-mining land use
There are increasingly innovative uses of post-mining landscapes – some of which are linked to a low-carbon economy, including pumped hydrogen and solar farms. Other innovations can be driven by location. For example, when a coal mine is closer to an urban centre there is a tendency for conversion to green spaces or a parkland. This is less common in remote locations. There are examples of conversions to forestry or agriculture, and even some conversions to tourism – although these initiatives often require the injection of public funds. In terms of landscape-level planning there is the opportunity to think beyond specific sites, and to consider the cumulative effects of decisions made about land use, including conservation priorities.

Conclusion
Mining developments can bring positive economic growth and change to regional locations. For remote regions, in both developed and less developed countries, this growth often represents a once-in-a-lifetime opportunity to improve living standards. When mining projects close, understanding the transition process requires foresight and planning. Mining companies cannot control many of the underlying conditions that would support a just transition, but there is a range of matters that sit within their control or influence, including those at the community interface. These matters should be carefully considered, and collaborative planning processes pursued to ensure that people who are most affected can participate in the change process.
Financial institutions adopting a just transition lens to the proposed financing of coal mine closure will need to consider and address implications for workers and communities within their financing approaches.

B. Case Study 2: Copper as an Energy Transition Mineral

Copper is essential to the transition to a low carbon future. This highly versatile metal is used in low-carbon energy technology from electric vehicles to wind turbines to solar panels, and across power generation, transmission and storage.

This summary of issues is about the growing demand for copper as an energy transition mineral and factors relevant to local communities and the environment that need to be considered as part of due diligence by financial institutions of, and decisions whether or not to lend to, activities involving new copper exploration or production.[152]

Global demand

Global copper production currently sits at around 20 million tonnes per year. This is expected to reach 60 million tonnes by 2050 – a 300% increase above current levels. Unlike other major metals, such as iron and aluminium, copper is less abundant in the earth's crust. The estimated known quantity of copper reserves and resources is 2.7 billon tonnes. If projections are correct, the cumulative demand for copper in the years from 2020 to 2050 is expected to be an additional 1.2 billion tonnes. Accessing new and undeveloped copper orebodies is critical to meeting projected demand.

Waste and mine footprints

Future copper mines are projected to be lower grade, deeper and more technically complex. The combination of lower grade ores (usually mined at greater depths) means that the world's future supply of copper is projected to move more earth, and generate more waste rock, more tailings and more deleterious elements, such as arsenic. If the projected demand for copper is to be met, between 2020 to 2050 the world will produce about nine times the amount of copper tailings produced in the last century. This will place enormous pressure on local land users, as waste rock dumps and tailings storage facilities comprise the greatest proportion of the mine's footprint, covering between 26% and 81% of a site's area.

Remote locations and ecologically sensitive areas

Many of the most prospective undeveloped copper orebodies are located in remote and difficult locations, such as the high Andes, the Arctic, and the deep sea. For instance, an estimated 8 million tonnes of copper sit in the Clarion-Clipperton deep sea zone. Almost half (47%) of underdeveloped copper ore reserves and resources also exist within, or close to, Indigenous peoples' lands and territories, and 64% within or near proximity to biodiversity conservation areas. The social, environmental and technical challenges of projects in these locations will be greater than in previous mining projects.

Political and social fragility

Almost half of the world's undeveloped copper reserves and resources are located in politically and socially fragile countries, and in jurisdictions characterised by high levels of corruption and low levels of human development, such as the Democratic Republic of Congo ("**DRC**"). Jurisdictions with the greatest complexity for copper include Chile, Peru, the DRC, Zambia, Indonesia and Mongolia. Zambia, for instance, has changed its mining royalty and tax regime ten times in 20 years and has been embroiled in disputes with several major mining corporations. Mongolia and Indonesia are advancing their efforts to nationalise their natural resource endowments, whereas the DRC continues to grapple with corruption as it pushes forward a local beneficiation strategy. Mining projects that are developed in locations with pre-existing political and social vulnerabilities can exacerbate existing issues and raise human rights risks.

Land use and resource competition

Land use competition is not a new problem in mining, but it is set to be a more widespread challenge as energy transition ramps up. New projects, especially those that are brought on-line rapidly, will generate or exacerbate pressure on land and trigger increased competition, especially in rural and remote communities, and on the lands of Indigenous and First Nations Peoples. It is also likely that there will be competition for other resources, such as water. Many of the copper orebodies that have yet to be mined are located in places with high water risk. Too little water means miners will compete among other local water users and intensify water accessibility for local communities.

Public opposition

Many proposed copper projects already face stiff opposition. This includes major projects such as Resolution Copper and Pebble in the US, Tampakan in the Philippines, and Frieda River in Papua New Guinea. Public opposition towards these and other large-scale copper projects means they could face difficult legal battles before these projects are permitted to proceed. Projects with these kinds of characteristics are likely to stimulate concerns from stakeholder groups, leading to increased scrutiny at the regulatory approvals and project permitting phases of project development.

Copper mining legacies

Copper mines have left significant environmental and social legacies, such as at Bougainville and Ok Tedi in Papua New Guinea, Marcopper in the Philippines, and Grasberg in Indonesia. If large numbers of these undeveloped copper orebodies are rapidly brought into production, local impacts may intensify across multiple sites. Complex sets of impacts will be "baked in" to mining's future legacy – often without clarity about who takes responsibility for them over the long term. With the pace and scale of production that is expected with copper, mining would have to be done differently to give local people the confidence that social and environmental risks will be diligently assessed so that adverse impacts can be avoided or mitigated and managed.

Governance challenges

Mining activities alter the host environment and tend to exacerbate pre-existing vulnerabilities, especially in jurisdictions where governments are unable, or unwilling, to safeguard against severe social and environmental externalities. In resource endowed countries, state systems of law and regulation tend to lag. Regulating for cumulative impacts is already a challenge, and it is set to be an even bigger one in a copper "boom". Most states assess project merit purely on a project-by-project basis and approvals bodies rarely assess merit beyond the specific project presented. Most laws restrict the parameters of approvals processes in this way, and approvals bodies do not consider other projects coming on-line or going off-line, or what occurred before or afterwards. There is also an over-reliance on voluntary schemes to test the extent to which companies manage their impacts on land, lives and livelihoods.

Conclusion

The increasing demand for copper as an energy transition mineral poses serious challenges to environmental and social sustainability. Mining companies, governments and others, including financial institutions, will need to identify and address the social implications of copper extraction in particular contexts. The scaling up of copper demand and production highlights the challenges of achieving inclusive balancing of climate, environmental and social considerations. These will arise at global, national and local levels and, for banks adopting a just transition approach to financing copper-related activities, will require consideration at a transactional level also.

ANNEX B: EXAMPLES OF FINANCIAL PRODUCTS THAT CAN SUPPORT A JUST TRANSITION*

*Certain of these financial products are emerging and not yet mainstream.

Product	Key Purposes	Key Features	Requirements for Just Transition Alignment
Technical and Advisory Services	• To assist clients with establishing net zero transition plans that address the social impacts of their activities. Representatives of the UK government and the ECB have indicated that net zero transition plans may become mandatory for big firms and financial institutions. • To advise clients on governance, designing business strategies that align with a just transition, including understanding and budgeting for social impact.	• Banks are starting to offer technical advice and advisory services in the transition financing sector to clients as a standalone or combination product. Others have broader ESG advisory services. • Allows banks to offer advice on a relationship basis to improve client access to finance (including access to public funding opportunities). • Allows banks to become informed about just transition challenges and opportunities.	• Banks need to develop their own requirements on a just transition to guide clients on aligning with these to access finance.
Blended Public and Private Financing Structures	• To bridge the public sector funding gap in a way that is aligned with a just transition including a social impact element. • State or MDB / DFI guarantees or credit enhancement, or other contributions or risk mitigants, reduce the credit risk of a financing for banks.	• Public and Private Partnership ("**PPP**") structures are an established funding structure. • Increases access to finance by state, banks and / or borrowers through public funds and guarantees. • A state can agree to guarantee any portion of the debt that is linked to the social and / or just transition dimension of the project. • Partial credit guarantees / political risk insurance and other risk mitigants from MDBs / DFIs can crowd in private finance.	• Banks can utilise public funds to fund just transition-aligned needs for their clients and / or rely on the state to guarantee the repayment of the debt through public funds. • Banks need to be able to understand the repayment limitations from social impact investment and budget this into the wider project financing (e.g., costs associated with reskilling of workers).

Product	Key Purposes	Key Features	Requirements for Just Transition Alignment
Climate and Transition Consumer Loans	• To incentivise customers to support the transition by increasing access to affordable debt in retrofitting and "greening" their properties. • To create greater access to finance for vulnerable parts of society. • To make green technology and its benefits more accessible and affordable to consumers.	• Customers can access sustainability-related products. For example, by granting a discount on mortgage loans if energy conservation measures are taken. • KPIs can be introduced into the debt pricing to incentivise sustainability-related measures. • Can be linked or paired with access to public subsidies and incentives to bring the price of the debt and the credit risk down.	• Create approved supplier lists to ensure that any developments are without social harm through the supply chain. • Provide technical guidance on the advantages of investment. • Provide access to finance to climate-vulnerable areas as well as other areas to increase energy efficiency of the buildings, e.g., through better insulation.
Just Transition linked Corporate Loans	• To provide general corporate finance to apply towards alignment of the client's business or portfolio with just transition considerations. • Creates access to finance for the client for defined social or just transition purpose investment.	• Loans specifically for alignment with a just transition, with repayment through the general income of the client. • Linked to the credit health of the borrower rather than to a specific project. • Where security is required, can be secured against the assets of the client.	• Identify key KPIs that would trigger pricing incentives in the debt pricing. This could include longer repayment terms where just transition considerations have been fully considered and financed. • Any parameters defined must be reasonably agreed to be the responsibility of the private sector; this would ensure clear delineation of responsibility between the public sector and private sector social responsibilities. • Need to ensure that just transition-related obligations within the documents are fully enforceable, with clear processes for monitoring and reporting on compliance introduced; this includes for misapplication of funds, failure to meet KPIs and misrepresentations.

Product	Key Purposes	Key Features	Requirements for Just Transition Alignment
Transition-targeted Funding	• To create greater access to finance to fund the transition of the client. • To incentivise more aggressive investment into achieving transition road maps.	• Linked to the agreed Transition Plans and / or projects of the client. • Can limit the application of funds (unlike general corporate lending). • Similar to Sustainability Linked Loans.	• To introduce just transition-aligned targets in the Transition Plans which are measurable against agreed KPIs.
Transition linked Credit Lines	• To create access to finance for SMEs for larger capital expenditure to achieve their transition goals.	• Issued through local and regional banks to SMEs • Accompanied by advisory service (on a paid or non-paid basis) for small businesses in regions needing economic diversification.	• Would need to consider flexibility on the credit risk and portfolio risk of the lender or issuer to extend debt to such entities. • Leverage lending relationship to set KPIs with the client and offer additional technical and / or advisory services to the client to bridge any gaps in their capabilities.
Ownership and value transfer schemes	• To support vulnerable employees who might be impacted by the transition strategy.	• Provides for ownership transfers to employees or local communities when divesting or restructuring assets to ensure they capture some of any remaining value of divested or newly invested assets.	

* Certain of these financial products are emerging and not yet mainstream.

ANNEX C: GREEN, SOCIAL, SUSTAINABILITY AND SUSTAINABILITY-LINKED BOND & LOAN MARKET GUIDANCE AND OTHER OPPORTUNITIES FOR ALIGNMENT WITH JUST TRANSITION

Type of Bond	Key Features	Bond Purpose	Opportunities for Just Transition Alignment
Green Bonds	• Issuers show alignment with ICMA Green Bond Principles and similar standards. • Use of proceeds are earmarked for green projects. • Funds exclusively applied to finance or re-finance eligible projects contributing to environmental objectives. • Reporting requirement to inform bondholders of allocation of funds to eligible projects and their expected impact.	• Funds can be used for investment supporting, e.g., climate change mitigation or adaptation, natural resource conservation, biodiversity conservation, resilience to rising sea-levels and pollution prevention and control.	• No dedicated link to just transition. However, ICMA 2021 Green Bond Principles update requires identification of steps to mitigate material risks of negative and / or environmental impacts. There is a corresponding benefit to communities vulnerable to climate impacts.
Social Bonds	• Use of proceeds is limited to finance eligible *Social Projects*", as defined in ICMA Social Bonds Principles, or projects eligible under the ASEAN Social Bonds Principles. • Use of proceeds are earmarked for social projects. • Unlike Development and Social Impact Bonds (below), these bonds are not outcomes-focused and the success of the project does not impact on the repayment of the debt. • Reporting requirement to inform bondholders of allocation of funds to eligible projects and their expected impact.	• Proceeds used to finance projects and activities with socio-economic benefits. • Examples of use of funds include affordable basic infrastructure access to essential services, affordable housing, employment generation, food security and sustainable food systems.	• Social bonds could be used to cover just transition activities such as education, vocational training, affordable housing, employment generation. • Provide financing for social impact projects where neither private sector companies nor the existing local or regional budget could fund all just transition activities.

Type of Bond	Key Features	Bond Purpose	Opportunities for Just Transition Alignment
Sustainability Bonds	• Use of proceeds is limited to financing or re-financing a combination of green and social projects that are aligned with four core components of ICMA's Green Bond Principles **and** Social Bond Principles. • Reporting requirement to inform bondholders of allocation of funds to eligible projects and their expected impact.	• Proceeds used to finance projects and activities that bring environmental and socio-economic benefits. • Any project compatible with Green and Social Bond Principles would be covered by these bonds.	• No specific just transition lens is applied to these bonds. • These bonds "join the dots" between green and social bonds and are well-suited to meeting just transition financing demands.
Sustainability-Linked Bonds	• Alignment with the ICMA Sustainability-Linked Bond Principles is recommended. • Use of proceeds is primarily for general purposes of an issuer in pursuit of identified sustainability / ESG objectives that are: (i) measured through predefined KPIs; and (ii) assessed against Sustainability Performance Targets. • KPIs should be material to an issuer's business, measurable and externally verifiable and targets should be ambitious. • Satisfaction or not of targets gives rise to a change in the bond characteristics; most commonly this will be a step up in the coupon. Alternative structures are emerging, e.g., coupon step downs or the issuer's application of the coupon step up amount to purchase of carbon credits. • Require external verification and reporting to inform bondholders of progress towards meeting targets.	• Use of proceeds is not restricted to particular activities and can be used at the issuer's discretion to fund any part of its business. Funds may – but are not required to – be used to finance activities that are material to the issuer's sustainability strategy in furtherance of achieving the targets.	• This general purpose financing could be used for just transition activities that can be measured through dedicated KPIs – e.g., percentage of retrained workers who found new employment.

Type of Bond	Key Features	Bond Purpose	Opportunities for Just Transition Alignment
Blue Bonds	• 2021 UN Global Compact guide on blue bonds recommends aligning with ICMA Green Bond Principles and developing a blue framework to shape the ocean component. • Funds exclusively applied to finance or re-finance projects linked to marine conservation and assets related to oceans, lakes and rivers. • Reporting requirement to inform bondholders of allocation of funds to eligible projects and their expected impact.	• Funds can be used for investment supporting, e.g., climate change mitigation or adaptation, natural resource conservation, biodiversity conservation, resilience to rising sea-levels and pollution prevention and control.	• No dedicated link to just transition. However, ICMA 2021 Green Bond Principles update requires identification of steps to mitigate material risks of negative and / or environmental impacts. There is a corresponding benefit to communities vulnerable to climate impacts.
Transition Bonds	• Issuers pledge to use proceeds towards making the business more responsible and / or reducing its carbon output, accompanied by a plan to manage the transition to a low-carbon economy. • No specific, general set of principles in the market for "*transition bonds*", although ICMA's Climate Transition Finance Handbook supports transition bond issuance. The Handbook guidance can be used to support bonds issued in accordance with the other ICMA Principles. • Climate Bonds Initiative developed a framework and "*transition principles*" for identifying credible, Paris-aligned transitions to support rapid growth of transition bond market. • Sustainability-Linked Bonds rather than use of proceeds bonds are often considered a more appropriate structure for issuing Transition Bonds.	• Creates opportunities to direct funding towards transition investments.	• Opportunity to address social dimensions of transition by incorporating just transition considerations.
JT Bonds *(do not exist yet)*	• The Grantham Institute has set out a proposal for sovereign-backed just transition bonds to support the human dimension of transitions, including workplace and community initiatives in areas that have already seen or will experience a decline in high-carbon sectors.	• Provides financing to sovereign issuers to finance social and JT projects and activities.	• Best suited for sovereign debt requirements to fund just transition activities and can be supported by banks.

Type of Bond	Key Features	Bond Purpose	Opportunities for Just Transition Alignment
Development and Social Impact Bonds *(or Pay for Success)*	• These are more akin to equity investment as the repayment of the finance is attached to the success of social impact. If the social outcome is achieved (against pre-agreed KPIs) then donors and the government will repay the debt and the interest. However, if the objective is not achieved, all or part of the debt may not be repayable. • The proceeds are earmarked to be used exclusively for achieving the social objective of the bond. • The use of proceeds and impact are independently monitored and verified. • Investors get a financial and a social return on their investment.	• To mobilise finance for a defined social or environmental purpose. • To allow greater risk-sharing where the levels of financial risk may otherwise be too high. • To create opportunities to scale the investment and sustain the finance in the long run and with more focus.	• Where lending is approved for a transition project, a supporting Development Impact Bond and / or a Social Impact Bond may also be issued simultaneously to address social concerns presented by the project. • Where existing Development Impact Bonds and / or Social Impact Bonds exist, efforts to include those affected by the transition may be taken. • Data accumulated through these bonds can be used to inform decisions on just transition.
Green Loans	• Loan terms are often aligned with market guidance such as, in particular, the LMA / APLMA / LSTA Green Loan Principles. • Use of proceeds must be used to finance or refinance eligible "*Green Projects*". • Green Projects should provide clear environmental benefits. • Reporting requirement to inform lenders of allocation of funds to eligible projects and their expected impact.	• Funds can be used for investment supporting, e.g., climate change mitigation or adaptation, natural resource conservation, biodiversity conservation, resilience to rising sea-levels and pollution prevention and control.	• The LMA / APLMA / LSTA Green Loan Principles envisage that a borrower, as part of its process for project evaluation and selection, should communicate to its lenders any process applied to identify and manage any potentially material social risks.

Type of Bond	Key Features	Bond Purpose	Opportunities for Just Transition Alignment
Social Loans	• Loan terms are often aligned with market guidance such as, in particular, the LMA / APLMA / LSTA Social Loan Principles. • Use of proceeds must be used to finance or refinance eligible "*Social Projects*". • Social Projects should provide clear benefits of a social nature and directly aim to address or mitigate a specific social issue and / or seek to achieve positive social outcomes especially but not exclusively for a target population(s). • Reporting required to inform lenders of allocation of funds to eligible projects and their expected impact.	• Proceeds used to finance projects and activities with socio-economic benefits, without a requirement of environmental benefit. • Examples of use of funds include affordable basic infrastructure, access to essential services, affordable housing, employment generation, food security and sustainable food systems.	• Directed at achieving broad social outcomes but could be used to cover many areas of just transition such as education, vocational training, affordable housing and employment generation. • Provide financing for social impact projects where neither private sector companies nor the existing local or regional budget could fund all just transition activities.
Sustainability Linked Loans	• Loan terms are often aligned with market guidance such as, in particular, the LMA / APLMA / LSTA Sustainability Linked Loan Principles. • Use of proceeds is not restricted and may be for general corporate purposes of a borrower. • An economic outcome is linked to whether Sustainability Performance Targets which are measured against predefined KPIs are met (such as a reduction in the margin where the borrower meets its targets or vice versa). • KPIs should be material to a borrower's business, measurable and externally verifiable and targets should be ambitious. • Borrowers are required to report to lenders on their performance against the targets. In 2021 the Principles were amended to require external verification.	• Use of proceeds is not restricted to specific green or social projects and, if for general corporate purposes, could be used at the borrower's discretion to fund any part of its business. • To incentivise borrowers to improve their sustainability profile by meeting certain sustainability objectives.	• This general purpose financing could be used for just transition activities that can be measured through dedicated KPIs – e.g., percentage of retrained workers who found new employment.

Endnotes

1 The Glasgow Climate Pact was agreed by consensus between the Parties to the 26th Conference of the Parties to the 1992 United Nations Framework Convention on Climate Change, on the basis of Draft decision - / CMA.3 (**UNFCCC**"), available at https://unfccc.int/sites/default/files/resource/cma2021_L16_adv.pdf (the **Glasgow Climate Pact**")

2 International Monetary Fund, *Investment Funds: Fostering the Transition to a Green Economy* (2021), chapter 3, available at: https://www.imf.org/-/media/Files/Publications/GFSR/2021/October/English/ch3.ashxl

3 The Paris Agreement was adopted by 196 Parties at COP 21 in Paris on 12 December 2015 and entered into force on 4 November 2016: United Nations Framework Convention on Climate Change, Paris Agreement, 2015, available at: https://unfccc.int/sites/default/files/english_paris_agreement.pdf (the **Paris Agreement.**")

4 GFANZ, About us" (as on 29 November 2021), available at https://www.gfanzero.com/about /

5 International Monetary Fund, *Investment Funds: Fostering the Transition to a Green Economy* (2021), p.60, available at: https://www.imf.org/-/media/Files/Publications/GFSR/2021/October/English/ch3.ashx

6 G20, *G20 Sustainable Finance Roadmap* (2021), p.3, available at https://g20sfwg.org/wp-content/uploads/2021/11/RoadMap12_11.pdf

7 The United Nations Sustainable Development Goals (**SDGs**") adopted on 25 September 2015 by the United Nations General Assembly with the object, inter alia, to ensure access to affordable, reliable, sustainable and modern energy for all: Resolution 70 / 1, available at: https://www.un.org/en/development/desa/population/migration/generalassembly/docs/globalcompact/A_RES_70_1_E.pdf

8 Robins, How a just transition can speed up the race to net -zero", Grantham Research Institute on Climate Change and the Environment Commentary (2020), available at https://www.lse.ac.uk/granthaminstitute/news/how-a-just-transition-can-speed-up-the-race-to-net-zero/.

9 See *supra* fn. 1 (Paris Agreement), fn. 3 (Glasgow Climate Pact).

10 International Labour Organization, *Guidelines for a just transition towards environmentally sustainable economies and societies for all* (2015), available at https://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_ent/documents/publication/wcms_432859.pdf

11 Declaration on Supporting the Conditions for a Just Transition Internationally at UN Climate Change Conference, Glasgow (4 November 2021), available at available at: https://ukcop26.org/supporting-the-conditions-for-a-just-transition-internationally/.

12 Declaration on Supporting a Just Transition.

13 Declaration on Supporting a Just Transition.

14 Declaration on Supporting a Just Transition: *recognising that the development of effective, nationally coherent, locally driven and delivered just transition plans within countries are dependent on effective and inclusive social dialogue"*; see also Committee on Climate Change, *Net Zero – The UK's contribution to stopping global warming* (2019), p.255: [A]*nd if those most affected are not engaged in the debate, there is a significant risk that there will be resistance to change, which could lead the transition to stall"*, available at https://www.theccc.org.uk/publication/net-zero-the-uks-contribution-to-stopping-global-warming/

15 *See, for example,* Wilson and Hoolohan, "Can an urgent transition be a just transition?", Tyndall Centre for Climate Change Research (2020), available at https://tyndall.ac.uk/news/2020s-are-climate-change-decade-can-urgent-transition-be-just-transition

16 Robins, Tickell, Irwin and Sudmant, *Financing climate action with positive social impact: How banking can support a just transition in the UK*, Grantham Research Institute on Climate Change and the Environment (2020), p 22, available at https://www.lse.ac.uk/granthaminstitute/publication/financing-climate-action-with-positive-social-impact-how-banking-can-support-a-just-transition-in-the-uk/ (**Financing climate action with positive social impact**")

17 *See, for example*, Maestre-Andres, Drews and van den Bergh, "Perceived fairness increases public support for policies. Perceived unfairness fuels resistance", *Climate Policy*, Vol. 19, no. 9 (2021), available at https://www.tandfonline.com/doi/full/10.1080/14693062.2019.1639490;see also Financing climate action with positive social impact

18 Financing climate action with positive social impact, p.38

19 ILO, *Greening with Jobs* (2018), p.37, available at: available at: https://ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms_628654.pdf: Overall, the ILO estimates that the net effect on job numbers of climate action will be positive – 18 million jobs gained, 6 million lost; see also UNFCCC, *Just Transition of the Workforce, and the Creation of Decent Work and Quality Jobs*, available at https://unfccc.int/sites/default/files/resource/Just%20transition.pdf

20 See, *for example*, Climate Investment Funds, *Supporting the Just Transition to a Low Carbon and Climate Resilient Future* (2021), p.13, available at https://www.climateinvestmentfunds.org/sites/cif_enc/files/meeting-documents/just_transitions_june_2021_tfc_140621.pdf.

21 Robins, Banking the just transition in the UK, Grantham Research Institute on Climate Change and the Environment (2019), available at https://www.lse.ac.uk/granthaminstitute/wp-content/uploads/2019/10/Banking-the-just-transition-in-the-UK-2.pdf (**Banking the just transition in the UK**")

22 UNFCCC Race to Zero, Key Messages", Net Zero Financing Roadmaps (2021), p.2, available at https://www.gfanzero.com/netzerofinancing

23 IPCC, *Summary for Policymakers of IPCC Special Report on Global Warming of 1.5°C approved by governments* (2018), p.14, available at https://www.ipcc.ch/sr15site/assets/uploads/2018/10/SR15_SPM_version_stand_alone_LR.pdf

24 UNEP, Net Zero Banking Alliance: The Commitment" (as on 29 November 2021), available at https://www.unepfi.org/net-zero-banking/commitment/

25 Markkanen and Anger-Kraavi, Social impacts of climate change mitigation policies and their implications for inequality" in *Climate Policy*, vol.19 no.7 (2019), pp.827-844, available at https://www.tandfonline.com/doi/full/10.1080/14693062.2019.1596873

26 OHCHR, Frequently Asked Questions on Human Rights and Climate Change: Fact Sheet 38", OHCHR Fact Sheets (2021), available at https://www.ohchr.org/Documents/Publications/FSheet38_FAQ_HR_CC_EN.pdf; see also John H Knox, *Framework Principles on Human Rights and the Environment*, UNHRC Special Rapporteur Report (2018), available at http://srenvironment.org/2018/01/24/framework-principles-on-human-rights-and-the-environment/; *see also* United Nations, Report of the United Nations Conference on Environment and Development (Rio Declaration), United Nations General Assembly (12 August 1992), available at: https://www.un.org/en/development/desa/population/migration/generalassembly/docs/globalcompact/A_CONF.151_26_Vol.I_Declaration.pdf (the **Rio Declaration**").

27 OHCHR, Guiding Principles on Business and Human Rights (2011), p. 16, available at https://www.banktrack.org/download/trust_us_were_equator_banks_part_ii/211124__part_ii_trust_us_were_equator_banks_1.pdf

28 Robins, Muller, Tickell and Szarc, *2021 Report of the UK Financing a Just Transition Alliance*, Grantham Research Institute on Climate Change and the Environment (2021), available at https://www.lse.ac.uk/granthaminstitute/publication/just-zero-2021-report-of-the-uk-financing-a-just-transition-alliance/

29 Business for Inclusive Growth, "The Pledge" (as on 29 November 2021), available at https://www.b4ig.org/b4ig-financing-forum/

30 UN Global Compact, Just Transition", Think Lab (as on 29 November 2021), available at https://unglobalcompact.org/take-action/think-labs/just-transition

31 UNEP, Net-Zero Banking Alliance", UNEP Finance Initiative (2021), p.2, available at https://www.unepfi.org/wordpress/wp-content/uploads/2021/04/UNEP-FI-NZBA-Commitment-Statement.pdf.

32 UNEP, Principles for Positive Impact Finance", UNEP Finance Initiative (2017), available at https://www.unepfi.org/positive-impact/principles-for-positive-impact-finance/

33 The former Bank of England Governor has called for more direct regulation of business, noting that the market will not solve the issue; Regulate business to tackle climate crisis, urges Mark Carney", *The Guardian* (17 July 2021), available at https://www.theguardian.com/environment/2021/jul/17/regulate-business-to-tackle-climate-crisis-urges-mark-carney.

34 EBRD, Readiness of the Financial Sector for the Impacts of Climate Change (2021), available at https://www.ebrd.com/news/2021/support-is-key-to-helping-ebrd-partner-financial-institutions-deal-with-climate-risk-survey-shows-.html

35 See GFANZ, *Act Now: Financial leaders urge more climate action from the G20* (2021), p.7, available at https://assets.bbhub.io/company/sites/63/2021/10/GFANZ-call-to-action.pdf

36 ibid

37 Institute of International Finance, *IIF Board of Directors: 2021 Statement on Climate Finance* (2021), p.1, available at https://www.iif.com/Publications/ID/4281/IIF-Board-of-Directors-2021-Statement-On-Climate-Finance

38 International Sustainability Standards Board, About" (as on 29 November 2021), available at https://www.ifrs.org/groups/international-sustainability-standards-board/

39 Network for Greening Financial Services, NGFS guides central banks and supervisors towards better management of climate-related and environmental risks", Press Release (27 May 2020), available at https://www.ngfs.net/en/communique-de-presse/ngfs-guides-central-banks-and-supervisors-towards-better-management-climate-related-and

40 *See* Network for Greening the Financial System, *Scenarios in Action: A progress report on global supervisory and central bank climate scenario exercises*(2021), pp. 6-7, available at: https://www.ngfs.net/sites/default/files/medias/documents/scenarios-in-action-a-progress-report-on-global-supervisory-and-central-bank-climate-scenario-exercises.pdf.

41 European Banking Authority, *Report on Management and Supervision of ESG Risks for Credit Institutions and Investment Firms* (2021), p. 81, available at https://www.eba.europa.eu/sites/default/documents/files/document_library/Publications/Reports/2021/1015656/EBA%20Report%20on%20ESG%20risks%20management%20and%20supervision.pdf.

42 For an *overview see ICMA, Overview and Recommendations for Sustainable Finance Taxonomies* (2021), p.6, available at https://www.icmagroup.org/assets/documents/Sustainable-finance/ICMA-Overview-and-Recommendations-for-Sustainable-Finance-Taxonomies-May-2021-180521.pdf.

43 Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 (Text with EEA relevance), available at https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32020R0852&from=EN

44 IHRB, *Connecting the Just Transitions and Business and Human Rights Agendas* (2020), p.4, available at https://www.ihrb.org/uploads/briefings/IHRB%2C_Connecting_the_Just_Transitions_and_BHR_Agendas%2C_Dec2020.pdf.

45 European Commission, *Draft Report by Subgroup 4: Social Taxonomy*, EU Platform on Sustainable Finance (2021), available at https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/documents/sf-draft-report-social-taxonomy-july2021_en.pdf (**Draft Social Taxonomy Report**")

46 Draft Social Taxonomy Report.

47 ICMA, *Overview and Recommendations for Sustainable Finance Taxonomies* (2021), p.31: Noting that "*[f]inally, it should be understood that identifying what is green and sustainable today is arguably less important than shedding light on pathways and trajectories to sustainability. The real challenge is enabling the market to finance the transition rather than unintentionally restricting it to what is already considered exemplary.*", available at https://www.icmagroup.org/assets/documents/Sustainable-finance/ICMA-Overview-and-Recommendations-for-Sustainable-Finance-Taxonomies-May-2021-180521.pdf

48 Draft Social Taxonomy Report, p.7, available at https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/documents/sf-draft-report-social-taxonomy-july2021_en.pdf

49 European Banking Authority, Report on Management and Supervision of ESG Risks for Credit Institutions and Investment Firms (2021), p.10, available at https://www.eba.europa.eu/sites/default/documents/files/document_library/Publications/Reports/2021/1015656/EBA%20Report%20on%20ESG%20risks%20management%20and%20supervision.pdf

50 European Banking Authority, *Report on Management and Supervision of ESG Risks for Credit Institutions and Investment Firms* (2021), p.32, available at https://www.eba.europa.eu/sites/default/documents/files/document_library/Publications/Reports/2021/1015656/EBA%20Report%20on%20ESG%20risks%20management%20and%20supervision.pdf

51 European Commission, Guidelines on reporting climate-related information", Banking and Finance Guidelines (2019), available at https://ec.europa.eu/info/files/190618-climate-related-information-reporting-guidelines_en

52 Mesonnier and Nguyen, *Showing off cleaner hands: mandatory climate-related disclosure by financial institutions and the financing of fossil energy*, Banque De France Working Paper (2021), p.1, available at https://publications.banque-france.fr/sites/default/files/medias/documents/wp800.pdf

53 Swiss Federal Council, Federal Council sets parameters for binding climate reporting for large Swiss companies", press release (18 August 2021), available at https://www.admin.ch/gov/en/start/documentation/media-releases.msg-id-84741.html

54 European Commission, Corporate Sustainability Reporting", Business, Economy, Euro (2021), available at https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/corporate-sustainability-reporting_en

55 Directive of the European Parliament and of the Council amending Directive 2013/34/EU, Directive 2004/109/EC, Directive 2006/43/EC and Regulation (EU) No 537/2014, as regards corporate sustainability reporting (Text with EEA relevance), available at https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52021PC0189: Neither the SFDR nor the CSRD specifically requires disclosure on JT, although the CSRD is framed as a contribution to ensuring that *all EU regions and citizens participate in a socially just transition to a sustainable economic system*." CSRD, Recital (1).

56 European Commission, Guidelines on reporting climate-related information", Banking and Finance Guidelines (2019), available at https://ec.europa.eu/finance/docs/policy/190618-climate-related-information-reporting-guidelines_en.pdf

57 See Alliance for Corporate Transparency, The Future of Corporate Sustainability Reporting" (as on 29 November 2021), available at: https://www.allianceforcorporatetransparency.org/

58 LOI n° 2017-399 du 27 mars 2017 relative au devoir de vigilance des sociétés mères et des entreprises donneuses d'ordre", Journal officiel de la republique francaise (2017), available at https://www.legifrance.gouv.fr/jorf/id/JORFTEXT000034290626/

59 European Parliament, European Parliament resolution of 10 March 2021 with recommendation to the Commission on corporate due diligence and corporate accountability (2020/2019 INL), available at https://www.europarl.europa.eu/doceo/document/TA-9-2021-0073_EN

60 European Parliament, "MEPs: Companies must no longer cause harm to people and planet with impunity", Press Release (4 March 2021), available at https://www.europarl.europa.eu/news/en/press-room/20210304IPR99216/meps-companies-must-no-longer-cause-harm-to-people-and-planet-with-impunity

61 Globally, the cumulative number of climate change-related cases has more than doubled since 2015. Just over 800 cases were filed between 1986 and 2014, while over 1,000 cases have been brought in the last six years.

62 Sabin Center, Climate Change Litigation Databases (as on 29 November 2021) available at http://climatecasechart.com/climate-change-litigation/

63 See, for example, *Jesner v Arab Bank* PLC No. 16-499, 584 US (2018), available at https://www.supremecourt.gov/opinions/17pdf/16-499_1a7d.pdf.

64 Mandatory due diligence laws on human rights and the environment are in effect or being finalized in several jurisdictions, including in France and Germany and at the EU level; see, for example, LOI n° 2017-399 du 27 mars 2017 relative au devoir de vigilance des sociétés mères et des entreprises donneuses d'ordre", Journal officiel de la republique francaise (2017), available at https://www.legifrance.gouv.fr/jorf/id/JORFTEXT000034290626/; see also, German Supply Chain Law (*Lieferkettensorgfaltspflichtengeset*"), available at https://www.bgbl.de/xaver/bgbl/start.xav?startbk=Bundesanzeiger_BGBl&jumpTo=bgbl121s2959.pdf

65 Hague District Court, *Vereniging Milieudfensie and ors v Royal Dutch Shell Plc* (26 May 2021), section 4.4.11-21, available at https://uitspraken.rechtspraak.nl/inziendocument?id=ECLI:NL:RBDHA:2021:5339; *see also* Business & Human Rights Resource Centre, The Shell climate verdict: a major win for mandatory due diligence and corporate accountability", Opinion (2021), available at https://www.business-humanrights.org/en/blog/the-shell-climate-verdict-a-major-win-for-mandatory-due-diligence-and-corporate-accountability/

66 See, for example, Setzer and Higham, *Global Trends in Climate Change Litigation: 2021 Snapshot*, Grantham Research Institute for Climate Change and the Environment (2021), p 15, available at https://www.lse.ac.uk/granthaminstitute/publication/global-trends-in-climate-litigation-2021-snapshot/

67 Business and Human Rights Resource Centre, *Renewable Energy & Human Rights Benchmark* 2021 (2021), available at https://www.business-humanrights.org/en/from-us/briefings/renewable-energy-human-rights-benchmark-2/

68 Carney, Building A Private Finance System For Net Zero Priorities for private finance for COP26, UK Presidency, COP26 (2020), p.8, available at https://ukcop26.org/wp-content/uploads/2020/11/COP26-Private-Finance-Hub-Strategy_Nov-2020v4.1.pdf: *mainstream private finance will help all companies realign their business models for net zero. It will fund the initiatives and innovations of the private sector*

and turn billions committed to climate investment through public channels into trillions of total climate investment"

69 Carney Calls Net-Zero Greenhouse Ambition 'Greatest Commercial Opportunity', *Bloomberg* (9 November 2020), available at https://www.bloomberg.com/news/articles/2020-11-09/carney-calls-net-zero-ambition-greatest-commercial-opportunity

70 Explainer: what is driving an almost 200 per cent growth in sustainability-linked debt financing", *South China Morning Post* (1 August 2021), available at https://www.scmp.com/business/banking-finance/article/3143202/what-driving-almost-200-cent-growth-sustainability-linked

71 OECD, *Transition finance: Investigating the state of play: a stocktake of emerging approaches and financial instruments*, OECD Environment Working Papers (2021), pp. 13, 30, available at https://www.oecd-ilibrary.org/docserver/68becf35-en.pdf?expires=1637694821&id=id&accname=guest&checksum=1E87010CD99653768BD4621F7219EA9E.

72 European Commission, *Transition Finance Report*, Platform on Sustainable Finance (2021), p.18, available at https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/documents/210319-eu-platform-transition-finance-report_en.pdf; see also, European Banking Authority, EBA advises the Commission on KPIs for transparency on institutions' environmentally sustainable activities, including a green asset ratio", Press Release (1 March 2021), available at https://www.eba.europa.eu/eba-advises-commission-kpis-transparency-institutions%E2%80%99-environmentally-sustainable-activities

73 Amundi Responsible Investing – Just Transition for Climate", *Financial Times* (as on 29 November 2021), available at https://markets.ft.com/data/funds/tearsheet/summary?s=FR0013295276:CHF

74 Carney, *Building A Private Finance System For Net Zero Priorities for private finance for COP26*, UK Presidency, COP26 (2020), p.27, available at https://ukcop26.org/wp-content/uploads/2020/11/COP26-Private-Finance-Hub-Strategy_Nov-2020v4.1.pdf

75 G20, G20 *Sustainable Finance Roadmap* (2021), p. 12, available at https://g20sfwg.org/wp-content/uploads/2021/11/RoadMap12_11.pdf

76 Finance in Common, *Joint Declaration of All Public Development Banks in the World* (12 November 2020), p.6, available at https://financeincommon.org/sites/default/files/2021-06/FiCs%20%20Joint%20declaration%20of%20Public%20Development%20Banks.pdf

77 European Development Finance Institutions, "European Development Finance Institutions announce joint ambitions for climate action", Press Release (2 November 2020), p. 1, available at https://www.edfi.eu/news/edfi-climate/

78 See European Bank for Reconstruction and Development, *MDB Just Transition High-Level Principles (2021)*, available at https://www.ebrd.com/MDB-just-transition-high-level-principles.pdf

79 European Investment Bank, Climate Bank Roadmap 2021-2025 (2020), p. 59, available at https://www.eib.org/en/publications/the-eib-group-climate-bank-roadmap

80 CDC, 30 per cent of our investments ringfenced for climate finance over next five years", Press Release (23 September 2021), available at https://www.cdcgroup.com/en/news-insight/news/30-per-cent-of-our-investments-ringfenced-for-climate-finance-over-next-five-years/#:~:text=23%20September%202021-,30%20per%20cent%20of%20our%20investments%20ringfenced%20for%20climate%20finance,over%20the%20next%20five%20years.

81 EBRD, *The EBRD just transition initiative* (2020), p.29, available at file: ///C:/Users/620678/Downloads/just-transition-initiative%20(2).pdf

82 Equator Principles, "Home" (as on 29 November 2021), available at https://equator-principles.com/

83 "ADB, Citi, HSBC, Prudential hatch plan for Asian coal-fired closures-sources", Reuters (3 August 2021), available at https://www.reuters.com/world/uk/exclusive-citi-hsbc-prudential-hatch-plan-asian-coal-fired-closures-sources-2021-08-03//////; Asian Development Bank, "What People are Saying About the Energy Transition Mechanism", News Articles (12 November 2021), available at https://www.adb.org/news/features/what-people-are-saying-about-energy-transition-mechanism-etm/////

84 European Investment Bank, *Climate Bank Roadmap 2021-2025* (2020), available at https://www.eib.org/attachments/thematic/eib_group_climate_bank_roadmap_en.pdf

85 Climate Investment Funds, Our Work" (as on 29 November 2021), available at https://www.climateinvestmentfunds.org/topics/just-transition.

86 Financing climate action with positive social impact, pp. 6-7. https://www.lse.ac.uk/granthaminstitute/wp-content/uploads/2020/07/Financing-climate-action-with-positive-social-impact_How-banking-can-support-a-just-transition-in-the-UK-1.pdf

87 Climate Safe Lending Network, *The Good Transition Plan* (2021), available at https://static1.squarespace.com/static/5e0a586857ea746075c561a3/t/619292cf69eeab7324d4b836/1636995797037/The+Good+Transition+Plan+Nov.+2021.pdf

88 See Green Finance Institute, *Green Finance Education Charter* (2021), available at. https://www.greenfinanceinstitute.co.uk/green-finance-education-charter/

89 ShareAction, *Banking on a Low-Carbon Future II* (2020), pp. 12, 42, available at https://shareaction.org/reports/banking-on-a-low-carbon-future-ii

90 UK Government, Fact Sheet: Net Zero-aligned Financial Centre", Guidance (2021), available at https://www.gov.uk/government/publications/fact-sheet-net-zero-aligned-financial-centre/fact-sheet-net-zero-aligned-financial-centre

91 Task Force on Climate-related Financial Disclosures, *Guidance on Metrics, Targets, and Transition Plans* (2021), p. 42, available at https://www.fsb.org/wp-content/uploads/P141021-2.pdf.

92 *See* BankTrack, *The BankTrack Human Rights Benchmark: Third Edition* (2019), available at https://www.banktrack.org/download/the_banktrack_human_rights_benchmark_2019/191125humanrightsbenchmark_1.pdf#:~:text=BankTrack's%20Human%20Rights%20Benchmark%20evaluates,'the%20Guiding%20Principles: An August 2021 review by the European Central Bank of European banks under its supervision found that *very few banks have incorporated sound climate and environmental (C&E) risk management processes or clearly integrated C&E risks into their strategies or risk mitigation processes."*; see also European Central Bank, The clock is ticking for banks to manage climate and environmental risks", Supervisory Newsletter (2021), available at https://www.bankingsupervision.europa.eu/press/publications/newsletter/2021/html/ssm.nl210818_5.en.html; see also European Central Bank, *ECB economy-wide climate stress test* (2021), available at https://www.ecb.europa.eu/pub/pdf/scpops/ecb.op281~05a7735b1c.en.pdf

93 See UNEP/CAF, *How the Banks of Latin America and the Caribbean incorporate climate change in their risk management*, UNEP Finance Initiative (2020), available at https://www.unepfi.org/news/industries/banking/how-are-latin-america-caribbean-banks-incorporating-climate-change-in-their-risk-management/

94 ibid

95 European Central Bank, The clock is ticking for banks to manage climate and environmental risks", Supervision Newsletter (18 August 2021), available at https://www.bankingsupervision.europa.eu/press/publications/newsletter/2021/html/ssm.nl210818_5.en.html

96 European Investment Bank, Climate Bank Roadmap 2021-2025, p.53, available at https://www.eba.europa.eu/eba-publishes-its-report-management-and-supervision-esg-risks-credit-institutions-and-investment

97 European Banking Authority, *EBA Report on Management and Supervision of ESG Risks for Credit Institutions and Investment Firms* (2021), p.16, available at https://www.eba.europa.eu/eba-publishes-its-report-management-and-supervision-esg-risks-credit-institutions-and-investment

98 European Commission, *Draft Report by Subgroup 4: Social Taxonomy* (2021), pp. 10-13, available at https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/documents/sf-draft-report-social-taxonomy-july2021_en.pdf

99 UNEP, Guide on Target Setting for Banks", UNEP Finance Initiative (2021), p. 7, available at https://www.unepfi.org/wordpress/wp-content/uploads/2021/04/UNEP-FI-Guidelines-for-Climate-Change-Target-Setting.pdf

100 The NGFS developed climate scenario guidance for regulators as well as a standard set of "reference" scenarios that will be applied by financial institutions conducting climate scenario analysis and by regulators designing climate stress tests. The wide application of these reference scenarios reflects the growing importance of climate scenario analysis for evaluating climate risks in the financial sector. UNEP FI Decarbonisation and Disruption, see UNEP, Decarbonisation and Disruption: Understanding the financial risks of a disorderly transition using climate scenarios", UNEP Finance Initiative (2021), pp. 7-8, available at https://www.unepfi.org/publications/banking-publications/decarbonisation-and-disruption/.

101 *See* PACTA, *Climate Action Guide* (2020), available at https://www.transitionmonitor.com/climate-action-guide/.

102 PCAF, About" (as on 29 November 2021), available at http://carbonaccountingfinancials.com/about

103 UNEP, *Pathways to Paris: A practical guide to climate transition scenarios for financial professionals*, UNEP Finance Initiative (2021), available at https://www.unepfi.org/publications/banking-publications/pathways-to-paris/; see also UNEP, *The Climate Risk Landscape: a Comprehensive Overview of Climate Risk Assessment Methodologies*, UNEP Finance Initiative (2021), p. 22, available at https://www.unepfi.org/publications/banking-publications/the-climate-risk-landscape/

104 European Banking Authority, *EBA Report on Management and Supervision of ESG Risks for Credit Institutions and Investment Firms* (2021), available at https://www.eba.europa.eu/sites/default/documents/files/document_library/Publications/Reports/2021/1015656/EBA%20Report%20on%20ESG%20risks%20management%20and%20supervision.pdf; UNEP, *Guide on Target Setting for Banks*, UNEP Finance Initiative (2021), section 3.2, available at https://www.unepfi.org/wordpress/wp-content/uploads/2021/04/UNEP-FI-Guidelines-for-Climate-Change-Target-Setting.pdf; WWF France and 1Planet Advisory, *Net Zero: An Introductory Guide for Financial Institutions* (2021), available at https://dc924ccf-1f96-42f7-8d14-ba31962f69bb.filesusr.com/ugd/40511b_4ec89655d87b4d839039755dce3c25a4.pdf

105 The Climate Investment Funds (CIF) launched a new workstream on "Social and Economic Development Impacts of Climate Finance" in 2019, aimed at better understanding and reporting on social and economic development impacts linked to CIF climate programs, see Climate Investment Fund, *Social and Economic Development Impacts of Climate Finance: What We've Learned So Far* (2021), available at https://www.climateinvestmentfunds.org/news/social-and-economic-development-impacts-climate-finance-what-we%E2%80%99ve-learned-so-far. These assessments are at a high level, rather than being project-based, but could provide inspiration or ideas for, for example, project-level assessments that private sector banks could adopt them.

106 Task Force on Climate Related Financial Disclosures, About"(as of 29 November 2021), available at https://www.fsb-tcfd.org/about/

107 European Union, Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability related disclosures in the financial services sector.

108 European Union, Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups.

109 *See, for example*, European Commission, Questions and Answers: Corporate Sustainability Reporting Directive", Press Release (21 April 2021), available at https://ec.europa.eu/commission/presscorner/detail/en/QANDA_21_1806 Financing climate action with positive social impact, p. 25

110 Financing climate action with positive social impact, p. 25

111 Global Reporting Initiative, Universal Standards" (as on 29 November 2021), available at https://www.globalreporting.org/standards/standards-development/universal-standards/

112 An August 2021 OECD review of the state of play in transition finance also did provide a definition but identified "three core eligibility criteria to borrow transition finance can be distilled from existing approaches: (i) substitutability (absence of a zero or near zero alternative); (ii) a commitment by the borrower/issuer to a low-emissions transition trajectory; and (iii) avoiding lock-in, i.e. investments that prevent the implementation of green alternatives available in the future, see ; see Tandon, "Transition finance: Investigating the state of play: A stocktake of emerging approaches and financial instruments", OECD Environment Working Papers No. 179 (2021), p. 10, available at https://www.oecd-ilibrary.org/environment/transition-finance-investigating-the-state-of-play_68becf35-en

113 See, for example, Standard Chartered, Standard Chartered announces interim targets and methodology for pathway to net zero by 2050", Press Release (28 October 2021), available at: sc.com/en/media/press-release/standard-chartered-announces-interim-targets-and-methodology-for-pathway-to-net-zero-by-2050/; Citi, *E*nvironmental and Social Policy Framework (2021), p.15, available at https://www.citigroup.com/citi/sustainability/data/Environmental-and-Social-Policy-Framework.pdf?ieNocache=865

114 European Commission, *Transition Finance Report*, Platform Sustainable Finance (2021), p.18, available at https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/documents/210319-eu-platform-transition-finance-report_en.pdf;

115 Citi, *Environmental and Social Policy Framework* (2021), pp.15, 19, 22

116 Carney, *Building A Private Finance System For Net Zero Priorities for private finance for COP26* (2020), p.23, available at (here)

117 See United Nations Principles for Responsible Investment, Statement of Investor Commitment to Support a Just Transition on Climate Change" (2020), available at https://www.unpri.org/download?ac=10382

118 The OECD review of the state of play on transition finance notes that some approaches stipulate social safeguards, explicitly requiring the financed project/activity to prevent any negative social consequences", see Tandon, Transition finance: Investigating the state of play, a stocktake of emerging approaches and financial instruments, OECD Environment Working Papers No. 179 (2021), p. 10, available at https://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=ENV/WKP(2021)11&docLanguage=En; see also Initiative for Responsible Investment, Investor Expectations on the Just Transition: Publicly Traded Energy (2020), p.2, available at https://iri.hks.harvard.edu/files/iri/files/iri_utilities_investor_expectations_final.pdf?m=1603132197; see also Robins, Brunsting and Wood, Climate Change and Just Transition: a guide for investor action (2018), pp.19-27, available at https://www.unpri.org/download?ac=9452

119 Tandon, Transition finance:Investigating the state of play: A stocktake of emerging approaches and financial instruments, OECD Environment Working Papers No. 179 (2021), p.11, available at https://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=ENV/WKP(2021)11&docLanguage=En

120 G20, *G20 Sustainable Finance Roadmap* (2021), p.13, available at https://g20.org/wp-content/uploads/2021/10/G20-Sustainable-Finance-Roadmap.pdf/: The Roadmap highlighted several areas transition finance could support: early retirement of high-emitting fossil fuel facilities, implementation of credible transition targets and pathways, circular economy strategies, and mid-term technologies that reduce emissions but will need to be upgraded or replaced in the long-term.

121 Climate Safe Lending Network, Guidance on Good Transition Plans (2021), p.16 , available at https://static1.squarespace.com/tatic/5e0a586857ea746075c561a3/t/619292cf69eeab7324d4b836/1636995797037/The+Good+Transition+Plan+Nov.+2021.pdf

122 Environmental Finance, "Sustainable bond issuance could exceed $1trn in 2021, says S&P", News (2020), available at https://www.environmental-finance.com/content/news/sustainable-bond-issuance-could-exceed-$1trn-in-2021-says-s-and-p.html

123 Maltais and Nykvist, Understanding the role of green bonds in advancing sustainability" in *Journal of Sustainable Finance & Investment* (2020), available at https://www.tandfonline.com/doi/full/10.1080/20430795.2020.1724864 Climate Bonds Initiative, *Introduction to the Climate Bonds Standards & Certification Scheme* (2015), available at https://unfccc.int/files/adaptation/groups_committees/loss_and_damage_executive_committee/application/pdf/03-10-intro_to_climate_bonds_standard_v2_-_dec2015.pdf

124 Climate Bonds Initiative, *Introduction to the Climate Bonds Standards & Certification Scheme* (2015), available at https://unfccc.int/files/adaptation/groups_committees/loss_and_damage_executive_committee/application/pdf/03-10-intro_to_climate_bonds_standard_v2_-_dec2015.pdf

125 ICMA, Sustainable bonds database" (as on 29 November 2021), available at https://www.icmagroup.org/sustainable-finance/green-social-and-sustainability-bonds-database/#HomeContent; Climate Bonds Initiative, About us" (as on 29 November 2021), available at https://www.climatebonds.net/about; Environmental Finance Bond Database (as on 29 November 2021), available at https://www.bonddata.org/

126 Environmental Finance Bond Database, Home" (as on 29 November 2021), available at https://www.bonddata.org/; Climate Bonds Initiative, Labelled Green Bonds Data: Latest 3 Months" (as on 29 November 2021), available at https://www.climatebonds.net/cbi/pub/data/bonds

127 ICMA, *Climate Transition Finance Handbook: Guidance for Issuers* (2020), available at https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/Climate-Transition-Finance-Handbook-December-2020-091220.pdf

128 ICMA, Handbook – *Harmonised Framework for Impact Reporting* (2021), available at: https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Handbook-Harmonised-Framework-for-Impact-Reporting-June-2021-100621.pdf.

129 *See, for example*, FCA, *Enhancing climate-related disclosures by standard listed companies and seeking views on ESG topics in capital markets*, FCA Consultation Paper CP21/18 (2021), available at https://www.fca.org.uk/publication/consultation/cp21-18.pdf; European Central Bank, Opinion of the European Central Bank of 5 November 2021 on a proposal for a regulation on European green bonds (2021), available at https://www.ecb.europa.eu/pub/pdf/other/en_con_2021_30_f_sign~17d7dd770b..pdf; European Bank for Reconciliation and Development, *the EBRD just transition initiative* (2020), available at https://www.ebrd.com/what-we-do/just-transition-initiative

130 The European Commission, *Strategy for financing the transition to a sustainable economy* (2021), available at https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52021DC0390

131 The European Commission, Commission puts forward new strategy to make the EU's financial system more sustainable and proposes new European Green Bond Standard", Press release (6 July 2021), pp.1-2, available at https://ec.europa.eu/commission/presscorner/detail/en/ip_21_3405

132 LSTA, APLMA and LMA, *Sustainability Linked Loan Principles: Supporting environmentally and socially sustainable economic activity* (2021), available at https://www.lsta.org/content/sustainability-linked-loan-principles-sllp/

133 ibid

134 ICMA, *Climate Transition Finance Handbook: Guidance for Issuers* (2020), available at https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/Climate-Transition-Finance-Handbook-December-2020-091220.pdf.

135 ICMA, *Social Bond Principles: Voluntary Process Guidelines for Issuing Social Bonds* (2021), available at https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Social-Bond-Principles-June-2021-140621.pdf

136 LSTA,*Green Loan Principles: Supporting environmentally and socially sustainable economic activity* (2021), p.2, available at https://www.lsta.org/content/green-loan-principles//

137 ACMF, *ASEAN Social Bonds Standards* (2018), available at https://www.theacmf.org/images/downloads/pdf/ASBS2018.pdf

138 Robins, Why governments need to issue just transition sovereign bonds and how they could do it", Grantham Research Institute on Climate Change and the Environment Commentary (2020), available at https://www.lse.ac.uk/granthaminstitute/news/why-governments-need-to-issue-just-transition-sovereign-bonds-and-how-they-could-do-it/

139 "*The substantial public spending [that] is often needed to fund retraining, enhanced social welfare, early retirement and environmental remediation … requires investment levels often beyond the capacity of affected regions, making flows of capital from the national government via sovereign bonds highly relevant*"; see Robins, Why governments need to issue just transition sovereign bonds and how they could do it", Grantham Research Institute on Climate Change and the Environment Commentary (2020), available at https://www.lse.ac.uk/granthaminstitute/news/why-governments-need-to-issue-just-transition-sovereign-bonds-and-how-they-could-do-it/; Gordon, Why a just transition must underpin a green recovery", News, Impact Investing Institute (2020), available at https://www.impactinvest.org.uk/why-a-just-transition-must-underpin-a-green-recovery/; UK Government, *Green Financing Framework* (2021), p.11, available at https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1002578/20210630_UK_Government_Green_Financing_Framework.pdf./

140 The Green+ Gilt: How the UK could issue sovereign bonds that deliver climate action and social renewal, p.5, available at https://www.impactinvest.org.uk/wp-content/uploads/2020/11/Green-Plus-Gilt-Proposal-October-2020.pdf]

141 European Commission, Questions and Answer: European Green Bonds Regulation", press release (6 July 2021), p.3, available at https://ec.europa.eu/commission/presscorner/detail/en/QANDA_21_3406

142 European Commission, Strategy for Financing the Transition to a Sustainable Economy", press release (6 July 2021), available at: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52021DC0390

143 European Banking Authority, *Report on Management and Supervision of ESG Risks for Credit Institutions and Investment Firms* (2021), p. 113, available at https://www.eba.europa.eu/sites/default/documents/files/document_library/Publications/

144 Felnsborg, Beyer, "Transparency and Purpose are key, when financial markets move towards Transition financing" Environmental Finance, Green Bonds, available at https://www.environmental-finance.com/content/the-green-bond-hub/transparency-and-purpose-are-key-when-financial-markets-move-towards-transition-financing.html

145 Climate Safe Lending Network, The Good Transition Plan (2021) , available at https://www.climatesafelending.org/the-good-transition-plan; Task Force on Climate-related Financial Disclosures, *Guidance on Metrics, Targets, and Transition Plans* (2021) available at: https://www.fsb.org/wp-content/uploads/P141021-2.pdf.

146 IHRB, Connecting the Climate Change and BHR Agendas, pp. 4-5, available at https://www.ihrb.org/uploads/briefings/IHRB%2C_Connecting_the_Climate_Change_and_BHR_Agendas%2C_Dec2020.pdf

147 ibid

148 See for example Rabobank, *Sustainability Policy Framework* (2020), p. 11, available at: https://www.rabobank.com/en/images/sustainability-policy-framework.pdf.

149 The summary of issues draws on research conducted by the University of Queensland's Sustainable Minerals Institute's Social Aspects of Mine Closure Research Consortium, see Social Aspects of Mine Closure, Projects" (as on 29 November 2021), available at https://www.mineclosure.net/projects.

150 *See* UK Presidency, Political Declaration on the Just Energy Transition in South Africa", COP26 Climate Change Conference (2 November2021), available at: https://ukcop26.org/political-declaration-on-the-just-energy-transition-in-south-africa/.

151 See Asian Development Bank, *Energy Transition Mechanism Explainer: How ETM Will Support Climate Action in Southeast Asia*, ADB Articles (2021), available at https://www.adb.org/news/features/energy-transition-mechanism-explainer-support-climate-action-southeast-asia.

152 The summary of issues draws on research conducted by the University of Queensland's Sustainable Minerals Institute's work on complex ore bodies, *see* Sustainable Minerals Institute, Understanding of social complexity relating to the social impacts of mining" (as on 29 November 2021), available at https://smi.uq.edu.au/project/understanding-social-complexity-relating-social-impacts-mining; see also Valenta, Kemp *et al*, Re-thinking complex orebodies: Consequences for the future world supply of copper" in *Journal of Cleaner Production*, vol. 220 (2019), pp. 816-26, available at https://www.sciencedirect.com/science/article/pii/S0959652619305359.

C L I F F O R D

C H A N C E

2111-003065