October 2021

Policy brief

Financing the just transition beyond coal

Headline issues

- Financial institutions can support workers and communities in the phase-out of coal and expansion of clean energy by integrating the just transition into their climate strategies.
- Finance sector leaders are starting to take action, e.g. through incorporating the just transition into investment appraisal, shareholder engagement and capital allocation.
- High-level commitments must now be translated into tangible social outcomes and focus on local realities, particularly in emerging markets and developing countries.

Summary

Coal phase-out is essential to decarbonisation but brings transitional problems unless managed well. To manage risks and deliver positive social impact, climate action in the coal sector will need to be inclusive and consider place-based realities. This is recognised increasingly by governments as well as financial institutions and companies, with the momentum around the just transition growing rapidly.

The financial sector is taking first steps to deliver a just transition away from coal. First company assessment initiatives are being developed, which will help financial institutions integrate the just transition into due diligence processes. To date, engagement with portfolio companies and clients has led to the most tangible results in corporate action. Incorporating the just transition into capital allocation is also gaining traction.

Action now needs to be scaled up to achieve meaningful, far-reaching impacts. It will be essential that financial institutions make the just transition a key part of their net-zero plans, adopt a place-based angle, and focus particularly on emerging and developing economies. Initiatives like the Powering Past Coal Alliance are helping to advance this action.

This policy brief has been written by **Sabrina Muller** and **Nick Robins**.

Policy briefs provide analysis on topical issues, presenting specific recommendations to inform ongoing policy debates. Drawing on the Grantham Research Institute's expertise, they either summarise our research findings or the state of knowledge about a particular issue.


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Box 1: Policy support for net-zero

The social imperative of net-zero has been underpinned by the Just Transition Guidelines created by the International Labour Organization (ILO), which set out policy recommendations to ensure that a just transition contributes to the strategic goals of "decent work for all, social inclusion and the eradication of poverty" (ILO, 2015). The Solidarity and Just Transition Silesia Declaration that emerged from the COP24 UN conference in Katowice, Poland, in 2018 emphasised the just transition as a political priority (Polish Government, 2018). The Just Transition Declaration, to be launched at COP26 by international governments, marks another milestone in the broad recognition of the just transition as a key issue.

The growing importance of a just transition beyond coal

The transition to a global net-zero economy will bring profound changes in the energy sector, not least in the emissions-intensive coal industry. The International Energy Agency's Net Zero Roadmap envisages "no new coal mines or mine extensions" and "no new unabated coal plants approved for development" from 2021 (IEA, 2021). Research suggests that coal plants globally could be replaced with clean energy, including battery storage, accruing net annual savings from 2022 (Bodnar et al., 2020). Adding to these monetary savings are the additional benefits for climate, the environment and human health.

The just transition, embedded in the Paris Agreement, is recognised worldwide as a critical enabling factor for the shift to net-zero, and will be required for coal workers and their communities. To manage risks and deliver positive social impact, those affected by decarbonisation measures must be involved in decision-making and have the required resources to succeed in a post-coal world. Priorities across socioeconomic groups, and the specific requirements of different places, must be addressed. Governments hold the primary responsibility for delivering a just transition, with finance, business, trade unions and civil society playing a role too.

As the net-zero transition accelerates, the location of job losses and employment gains, and the need to make sure that new green jobs are also quality jobs, are issues receiving increasing attention. So too are the impacts beyond employment, especially for communities whose economy relies heavily on unsustainable activities. Asset closures can have significant effects on communities' income, affecting the ability to invest in future-proofing the local economy.

Energy sector actions towards a just transition

As the strategic case for the just transition has deepened in terms of mitigating risks and realising opportunities, companies in the energy system have begun to formalise their responses as part of wider climate change strategies.

The Polish company ZE PAK is one example, initiating a pilot programme in 2020 targeted at reskilling its lignite workers to enable their transition into the local solar energy industry. In Indonesia, Indika Energy has formed a joint venture, Empat Mitra Indika Tenaga Surya (EMITS), with India's leading solar energy solutions firm, Fourth Partner Energy, backed by the Rise Fund by global asset manager TPG. This joint venture is creating green jobs and upskilling workers to transition from fossil fuel-based jobs to renewables.

Policy signalling on the importance of ensuring a just transition — timeline

2015 – Paris Agreement (COP21); ILO Just Transition Guidelines

2018 – Solidarity and Just Transition Silesia Declaration (COP24)

2021 – Just Transition Declaration (COP26)

EDF is another example of corporate just transition action, describing its approach to the just transition as anchored in social dialogue with national and local government, workers and their unions, and featuring strong engagement with local economic actors. The company consolidated its just transition focus in its agreement with global trade unions, signed in 2018 (EDF, 2018). Similarly, Danish energy group Ørsted has a joint initiative with North America's Building Trades Unions (NABTU) to transition US union construction workers into the offshore wind industry (Ørsted, 2020).

Such agreements with trade unions can be crucial contributors to driving forward the just transition globally, since they can ensure adherence to human rights, labour and environmental standards across jurisdictions, including economies in which robust standards are usually not upheld.

"Agreements with trade unions can be crucial contributors to driving forward the just transition globally."

How finance is taking practical action

Financial institutions are also recognising their responsibility and role in delivering a just transition. There are clear strategic reasons for financial institutions to integrate the environmental and social dimensions, including respecting social standards, supporting sustainable development and contributing to positive social impact.

Minimising systemic risk is another important reason, especially as an unjust transition would likely lead to a delayed or more costly shift to net-zero, and would exacerbate poverty, posing financial risks.

More innovation is needed in financial mechanisms to deliver the just transition, to fuel increased investments in people and communities, as well as financing a rapid expansion of renewable energy infrastructure (Grbusic et al., 2021). The task that lies ahead is translating the high-level ambition within the finance sector into operational steps to make the just transition a reality, connecting the E and the S of ESG (environmental, social and governance).

The Powering Past Coal Alliance

The Powering Past Coal Alliance (PPCA), a coalition of national and sub-national governments, financial institutions and businesses, has been created to advance the transition from unabated coal power generation[1] to clean energy in a sustainable and economically inclusive way. Its over 130 members have achieved significant progress on coal phase-out and gathered substantial expertise, including in transforming the utility sector and grid systems, incorporating climate considerations in the finance sector, and starting to deliver a just transition for affected workers and communities (e.g. in the case of ZE PAK, EDF and Ørsted).

The Alliance enables members to work together to help each other implement their commitments, as well as share best practice and adopt practical initiatives to support others willing to embark on the transition. Examples of such initiatives include a Finance Taskforce, launched in June 2020, with members of government and the finance sector working together to halt new investments in coal-fired power, phase out existing coal capacity and enhance investments in clean energy. The PPCA's Just Transition Taskforce, meanwhile, aims to ensure that coal exits are completed in ways that are socially equitable.

1. 'Unabated coal' refers to coal-fired generation that is not accompanied by measures to reduce emissions, such as carbon capture and storage (CCS) technology.

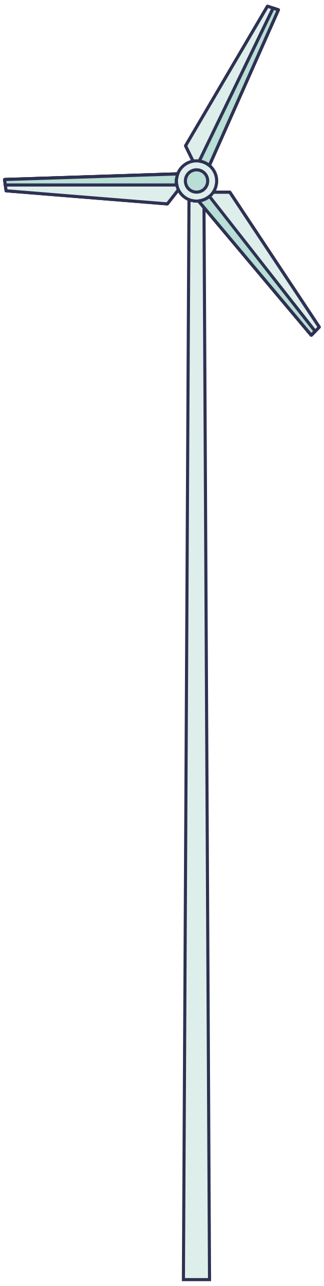
Financial institutions are starting to incorporate the just transition in strategies and policies, with significant involvement from many PPCA finance members. Dutch pension fund ABP, for example, highlights the just transition as a key factor in its Sustainable and Investment Policy. It outlines goals on incorporating the respect for human rights by 2025 in its assessment of businesses, engagement with companies, and investment decisions (ABP, 2020).

Scaling up action

Action by the finance sector on the just transition away from coal now needs to be scaled up across all countries and deepened to produce real-world outcomes.

This includes:

1. Investment appraisal



Financial institutions need to integrate social factors into the assessment of the companies they own and lend to, so that they respect social standards and mitigate social as well as financial risks. Internationally, several initiatives are underway to mainstream the just transition into the assessment and rating of companies by investors, banks and financial institutions. First attempts towards just transition specific benchmarks have been launched to deepen the understanding of large businesses and investors of progress towards the just transition. For example:

- **Climate Action 100+:** The CA100+ coalition brings together over 610 investors with more than US$55 trillion in assets under management to coordinate investor engagement with 167 companies that account for over 80% of corporate industrial greenhouse gas emissions. In October 2021, CA100+ launched the latest iteration of its Net Zero Company Benchmark. This includes a 'beta' indicator for corporate action on the just transition, covering whether the company has acknowledged the just transition, the commitments it has made, the stakeholder engagement it has undertaken, and its concrete actions to support the just transition (CA100+, 2021). Initially, data will be collected for internal use but not publicly released or assessed. This exercise will still provide further operational insights for investors in their shareholder engagement in 2022 and beyond.
- **World Benchmarking Alliance:** The WBA has developed a methodology for assessing companies on the just transition, applying its existing low-carbon and social indicators to be complemented by newly developed just transition indicators (WBA, 2021). The framework covers issues such as human rights, social dialogue, just transition planning, job creation, retaining and retraining, social protection, and policy advocacy. The methodology has been used to assess 180 companies across three sectors (with results due by 2 November 2021).

2. Shareholder engagement

Investors are increasingly including the just transition in their engagement with the companies they own.

For example, in France, 12 leading financial institutions formed the Investors for a Just Transition initiative in June 2021, the first global engagement coalition to promote a just transition to low-carbon

economies. Members commit to engaging with companies, encouraging them to integrate the social aspects of the transition into their strategies and to highlight best practice within key industries. Through this collaborative platform, investors will work with different stakeholders – companies, labour unions, universities and research institutes – to define a common strategy and specific engagement objectives.

The Church Commissioners for England and the Church of England Pensions Board have been engaging with a selection of energy companies in a range of jurisdictions. Each has been actively considering the just transition, although approaches vary greatly depending on factors such as location, developed versus emerging market, relationship with unions, governance, company size, status as a local or international company, and ability to transfer and reskill employees within their own operations. All companies approached report actively considering the issue but none has yet detailed their approach or the actions they have taken. The Church Commissioners for England and the Church of England Pensions Board are working to encourage companies to disclose in this area, to demonstrate both active management of the issue, and best practice.

Royal London Asset Management and the Friends Provident Foundation have also focused on the power sector in their engagement around the just transition. Following discussions with these investors, SSE became the first utility in the UK to publish a Just Transition Plan. The Plan sets out the company's approach across 20 principles, divided into what is needed to 'transition out' of high-carbon and 'transition in' to net-zero. It addresses the needs of four key stakeholder groups: workers, communities, suppliers and consumers.

In Canada, financial services cooperative Desjardins is also applying a climate focus in its engagement practices, setting clear coal exit targets for companies. Desjardins applies a 'think globally, act locally' approach, recognising that the transition away from coal is progressing at different paces throughout the world. Its coal policy allows for local engagement and financing of a just transition as well as clear messaging to stimulate laggards in regions that are being slower to exit coal.

Powering Past Coal Alliance member ZE PAK is reskilling its lignite workers in Poland to enable their transition into the local solar energy industry in a pilot programme.

(Pictured: Solar panels in Southwest Poland)

> “Current initiatives for a just transition away from coal are still new and small-scale and remain incomplete.”

3. Capital allocation

The just transition will need to be incorporated into capital allocation within all asset classes for financial institutions to minimise social risks and realise social opportunities of net-zero.

Amundi’s Just Transition for Climate fund is an example that aims to support a socially acceptable transition to a low-carbon economy. While it is shaped in line with the 2°C goal of the Paris Agreement, rather than the more ambitious 1.5°C target, it provides an innovative example of investor action, which can act as a blueprint for others. The fund aligns the actively managed European fixed income portfolio with a just transition by incorporating a just transition assessment, encompassing aspects of a socially acceptable transition such as employment security and training, engagement in stakeholder dialogue and the promotion of sustainable products. The fund also encourages low-carbon business models through an objective of carbon emissions reduction over time (at least 20% lower than its benchmark index) and the monitoring and reporting of a portfolio temperature score.

4. Policy and stakeholder dialogue

Investors have been including the just transition in their advocacy with policymakers. For example, coordinated by the Investor Agenda (2021), 587 investors representing over US$46 trillion in assets signed a statement urging governments worldwide to develop just transition plans. Some governments, such as Canada, have also launched active engagement initiatives providing financial institutions and other stakeholders with the opportunity to comment on proposed legislation (Natural Resources Canada, 2021).

For financial institutions, dialogue with a range of stakeholders, beyond policymakers, will be central to contributing to a net-zero transition that brings positive social impact. In the UK, the Financing a Just Transition Alliance, coordinated by the Grantham Research Institute, provides a forum for exchange between the finance sector and representatives from trade unions and academia.

Getting granular about just transition expectations

As investor experience with the just transition has grown, some critical elements have emerged. The Grantham Research Institute has developed a consolidated set of seven just transition expectations (Robins et al., 2021). The Framework is set out in Box 2 and combines the governance dimension (strategy, policy dialogue and transparency) and a stakeholder lens (including workers, communities, supply chains and consumers).

Photo: Jason Blackeye, Unsplash

Box 2. A framework of expectations of business on the just transition, for use by investors

1. Strategy

- Establish a company strategy and plan for the just transition in the context of delivering net-zero and resilience goals, to be adopted at the Board level with clear Board oversight.
- Incorporate the just transition in remuneration, planning, risk management, scenario exercises, capital investment and acquisitions and restructuring.
- Ensure social dialogue and representation of workers and trade unions in company-level climate decision-making and implementation.
- This strategy should be based on established international frameworks and standards (including from the United Nations, International Labour Organization and Organisation for Economic Co-operation and Development) and should cover themes 2–7 below.

2. Workers

- Deliver good jobs and decent work and respect worker and human rights.
- Promote and provide reskilling and retraining, redeployment, or retirement support.

3. Supply chain

- Support suppliers (including small and medium-sized enterprises) through access to skills, finance and technology.
- Apply labour, human rights and environmental due diligence and policies along the supply chain, particularly in developing countries.
- Labour, human rights and sustainability standards that businesses commit to for their own operations should extend to the supply chain.

4. Communities

- Engage with communities to address social risks to regional economies and promote wellbeing.
- Share value in net-zero and resilience investments with communities, including engagement with and respect for Indigenous rights.

5. Consumers

- Support consumers, especially vulnerable groups, by ensuring affordable access to key goods and services in the transition and enable consumers to participate actively in the transition.

6. Policy and partnerships

- Advocate for the just transition to net-zero in industry associations and in lobbying of government, and support partnerships at the local, sectoral, national and global levels.

7. Transparency and disclosure

- Report on just transition policies and performance, including through Task Force on Climate-related Financial Disclosures (TCFD) reporting.

Source: Robins et al. (2021)

Mainstreaming finance sector action

Current initiatives for a just transition away from coal are still new and small-scale and remain incomplete, not going deep enough within financial institutions or reaching far enough across sectors or regions. The just transition will need to be incorporated in every country and every asset class. To make this a reality, the following priorities emerge:

1. Make the just transition a key part of net-zero plans: Financial institutions will need common approaches to incorporate the just transition effectively and efficiently into their strategies and decision-making processes. The expectations framework (Box 2) builds on existing commitments and emerging practice. It is designed to help investors avoid having to 'reinvent the wheel', to enable standardisation (thus reducing cost) and ensure that just transition efforts have integrity and scalability. Disclosure will also benefit from common approaches, providing guidance for businesses and comparability of corporate standards and initiatives for investors.

2. Adopt a place-based angle: The social benefits and social risks resulting from the net-zero transition have a profound spatial dimension, both within and between countries. These are not distributed equally, making place-based action a crucial element of a just transition. Social dialogue with coal workers and engagement with coal-dependent communities should be integral to corporate decision-making. Investors can also play a role in engaging with company stakeholders, labour unions and key community leaders, including local government actors.

3. Focus on emerging and developing economies: These will need to be a particular focal point for a just transition, as there can be large dependencies on coal and the greatest amount of investment is needed to achieve the coal phase-out in these markets. At the same time, real constraints exist in the accessibility and cost of capital, and social safeguards can be weak. For investors, tackling this will mean understanding how the just transition can be realised in their portfolios across three dimensions: first, in the subsidiaries of developed world listed firms; second, in emerging market listed assets; and third, in the supply chains connected to the Global South. Socially equitable coal retirement mechanisms will be crucial, supporting workers and communities affected by the transition and creating new, good quality jobs in clean infrastructure. Continued policy dialogue and partnerships with the public sector will also be essential for a just transition beyond coal.

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Authors' declaration
The authors declare no conflict of interest in the writing of this report. The views in this report are those of the authors and are independent of the funding institutions. All errors and omissions remain the authors' own.

Acknowledgements
The authors would like to thank the following for their inputs and inspiration: Fabrice Bouchet, Jim Dippie, Julie Fardoux, Rebecca Grundy, Olga Hancock, Patrick Koimans, Ritu Kumar, Mitchell Lloyd, Christophe Menigault, Annabel Nelson, Chris Radojewski, Clare Richards, Antoniono Travis and John Vercoe. They would also like to thank Anika Heckwolf and Charlotte Hugman for their contributions and comments, and Georgina Kyriacou and Stevie Shephard for editing and producing this brief.

This policy brief is intended to inform decision-makers in the public, private and third sectors. It has been reviewed internally and externally before publication.

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Produced with the ESRC Centre for Climate Change Economics and Policy.

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