

Mobilising global debt markets for a just transition

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Policy insight

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Summary

Why do we need to invest in a just transition?

The societal transformations required to build sustainable and resilient low-carbon economies need to be fair and inclusive. This 'just transition' is defined by the International Labour Organization as "maximising the social and economic opportunities of climate action, while minimising and carefully managing any challenges", including through effective social dialogue and respect for labour and human rights. No one should be left behind.

To deliver a just transition, significant investment needs to be mobilised. Global debt markets could be a vital source of this finance, and in particular green, social, sustainable and sustainability-linked (GSS+) bonds. The GSS+ bond markets have shown rapid growth in recent years, with cumulative issuance reaching US\$4.2 trillion as of June 2023, according to analysis by the Climate Bonds Initiative.

Linking bonds to transition plans for a just transition

Bonds could be a particularly effective financial instrument for the just transition because:

1. They enable a targeted approach through use-of-proceeds issuances.
2. Bond markets are much larger than those for public equity, offering greater potential impact.
3. The range of debt issuers is much more diverse than the range of equity issuers – they include development banks, education and health authorities, housing associations, and more.
4. Labelled debt markets can have an important signalling effect to the broader financial markets.

Transition plans are created by an organisation to set out how they intend to decarbonise in line with national and international climate goals and how their transition fits into wider organisational strategy. Such plans are increasingly being employed by companies and financial institutions, in part in response to regulatory requirements in some jurisdictions, and are used to inform stakeholders. Transition plans can also be used to address the 'just' elements of a transition.

With transition plans in place, there is an opportunity for bond issuers to design bonds linked to the plans, to finance outcomes aligned with a just transition. In this way, transition plans can facilitate the development of credible debt instruments to finance the transition. For example, use-of-proceeds (UoP) bonds could finance expenditure related to ensuring a just transition, as identified in a transition plan. Sustainability-linked bonds could link coupon step-ups or step-downs to the achievement of just transition performance targets.

Using GSS+ bonds where transition plans are not yet developed

A lack of capacity and expertise, along with slow regulatory progress, is currently making the development of transition plans challenging, in both emerging and developed markets. In many cases, it will not be possible to wait for fully developed plans before scaling up the flow of capital to the levels required to finance a just transition. In such instances, while a transition plan remains the best option, GSS+ bonds could also help demonstrate commitment to a just transition, through the information and details provided in bond frameworks and related documentation.

The market for GSS+ bond issuances remains nascent, but there are already examples of issuance that include elements that support just transition outcomes, even without the existence of underlying transition plans. These bonds may also not carry a specific 'just transition' label.

Emerging trends in the GSS+ bonds markets to finance a just transition

An important aspect of the just transition is the just energy transition – one where there is a fair and equitable move away from fossil fuels and towards renewables, putting in place measures to mitigate harm and ensure equal access to opportunities among impacted populations. Our analysis of how the issuance of bonds can support a just energy transition, using a new methodology, reveals the following trends:

- Issuance related to a just energy transition peaked in 2021, reflecting trends in the wider GSS+ market.
- Issuance is dominated by a few development banks.
- Sustainability bonds' use of proceeds frequently includes spending on energy and possible just transition-related activities such as education, but the bonds' own frameworks do not always clarify if and how such expenditure is intended to support a just transition.

This analysis shows that it is possible to use GSS+ bonds to finance the just elements of a transition. However, our initial assessment of existing GSS+ bonds shows a lack of clarity on just transition elements in the bond frameworks, and an absence of tools to assess how those just elements align with broader just transition financing needs.

In a joint project between the Grantham Research Institute and Climate Bonds Initiative, for which this report marks the start, we will focus on furthering understanding of the key barriers to issuance of GSS+ bonds to finance a just transition.

1. Introduction

This report marks the beginning of a two-year joint research project between the Grantham Research Institute on Climate Change and the Environment and the Climate Bonds Initiative to support the mobilisation of the labelled debt market for the just transition. The project's aims include identifying barriers to issuance and advancing knowledge of how to enable transparent and accurate reporting and disclosures around the 'just' elements of the transition by bond issuers.

In this first report, we look at the necessity for the transition to take social justice into account and provide an overview of existing frameworks for organisations' transition plans and for bonds. We also consider whether and how green, social, sustainable and sustainability-linked (GSS+) bonds can be used to finance a just transition, setting out a methodology to identify existing GSS+ bond issuances that carry elements that relate to a just energy transition. These are bonds that finance renewable energy development and at least one of the following: employment, education or efforts to reduce inequality. We apply this methodology to the Climate Bonds Initiative Social and Sustainable Bond Database and using these results we highlight some trends in issuance and select some relevant case studies across different bond issuers.

In this introduction, we first outline the importance of achieving a just transition to net zero emissions globally, and how transition plans and bonds can play a role.

The just transition imperative

In both developed and emerging markets, climate change is exacerbating social inequalities such as economic, racial and gender disparities and will continue to do so if action is not taken. The transition to net zero and a climate-resilient world could add to these inequitable impacts – or it could ameliorate them, if just transition principles are applied. As the International Labour Organization states: "A Just Transition means greening the economy in a way that is as fair and inclusive as possible to everyone concerned, creating decent work opportunities and leaving no one behind" (ILO, 2015).

Net zero policy interventions and investments need to address the distributional consequences of action on climate change and its varying impacts across societal groups and income levels. Otherwise, there is a significant risk that the transition will impose an economic burden on vulnerable and less resilient groups and there will be little social support for action. This in turn generates political hesitancy which holds back the implementation of ambitious climate policies (Ostry, 2023).

A just transition can be achieved by going beyond the principle of 'do no significant harm', to ensure that labour and human rights standards are upheld for workers, communities and consumers, fully addressing social risks. Previous research by the Grantham Research Institute has outlined that financing a just transition should involve anticipating, assessing and addressing the social risks of the transition; identifying and enabling social opportunities; and ensuring meaningful dialogue and participation in transition planning (Curran et al., 2022).

This justice imperative was explicitly acknowledged in the Paris Agreement and is inherent within multiple Sustainable Development Goals (SDGs), such as climate action (SDG 13), reducing inequalities (SDG 10), and decent work and economic growth (SDG 8). Commitments to the just transition are increasingly being made by international organisations, national governments, private businesses, financial institutions, trade unions and civil society organisations. The ILO's Just Transition Guidelines set out a starting point for actors to ensure that core social, labour and human right principles are accounted for as part of climate action (ILO, 2015).

Why just transition is a strategic priority for private companies

The just transition is not solely the remit of sovereign issuers and public banks such as the multilateral development banks: there is also a growing rationale for private enterprise to consider risks to workers and communities from the transition and to invest in appropriate solutions. The strategic rationale for private enterprise to support the just transition is threefold (Robins et al., 2021; 2022):

- **It helps to build a strong and resilient net zero economy by developing essential skills, capabilities and social institutions for an equitable, low-carbon future.** Taking a people-centred approach is a core principle of the just transition. This means ensuring that those affected by change are involved in shaping it. In the business world, the just transition enhances the human capabilities required for net zero by identifying the labour skills that will be required and preparing accordingly. Businesses that act on just transition demonstrate co-benefits, including access to workers, enhanced labour productivity and a reduction in policy, legal and reputational risks (Wei, 2018).
- **It mitigates transition risks.** Without addressing potential social implications such as significant job losses or increased energy costs, political resistance or lack of public support could slow down the transition. These risks increase the likelihood of a disorderly transition, threatening financial stability. The just transition is therefore a way to reduce systemic risks to financial institutions.
- **It applies established social, labour and human rights standards to the transition to a net zero and resilient economy.** In line with social justice considerations, just transition foregrounds the critical importance of fairness in the design and delivery of net zero by governments, business and finance, and seeks to prevent the marginalisation of social factors in climate policy and climate action.

2. The role of transition plans and bonds

Transition plans as the foundation for just transition finance and bonds

Existing efforts to encourage and mandate transition planning for businesses and financial institutions can provide a foundation for financing a just transition. In some jurisdictions, initiatives have moved from being voluntary to regulatory in recent years.

Key examples include:

- The Glasgow Financial Alliance for Net Zero (GFANZ), a voluntary initiative of financial institutions launched at COP26, published guidance in 2022 to support institutions to develop their own net zero transition plans (GFANZ, 2022).
- The Grantham Research Institute has published guidance to financial institutions on how to embed just transition considerations within net zero sector plans (Curran et al., 2022) – see Box 2.1 below.
- The UK Government launched the Transition Plan Taskforce in April 2022 to develop a ‘gold standard’ for private sector climate transition plans. In October 2023, the Taskforce published a sector-neutral Disclosure Framework, which will be followed by several sector-specific guidance documents. There is a specific recommendation for an entity “to take account of the impacts and dependencies of the transition plan on its stakeholders (e.g. its workforce, value chain counterparts, customers), society (e.g. local communities), the economy, and the natural environment, throughout its value chain, that may give rise to sustainability-related risks and opportunities.”

Box 2.1. Making Transition Plans Just

The *Making Transition Plans Just* report provides guidance to financial institutions on how they can incorporate consideration of the social dimensions of climate action – in other words a just transition – within their net zero transition plans.

The report makes recommendations to financial supervisors, banks and investors, designed to align with the emerging GFANZ net zero transition planning framework. The report’s recommendations for financial institutions, mapped to the five GFANZ themes, include:

1. **Foundations:** Commit to embedding just transition factors as part of the overarching goals, ambitions and foundations of net zero transition plans. This means considering the just transition as part of disclosing net zero objectives, targets and timelines.
2. **Implementation strategy:** Assess the social implications of net zero plans and draw up just transition responses tailored to sector and geographical priorities.
3. **Engagement strategy:** Engage with corporate clients and investee companies so that they include just transition factors within their own net zero transition plans and deliver these factors with clear objectives, resourcing and disclosure.
4. **Metrics and targets:** Develop and disclose metrics to measure progress on just transition goals and activities, and produce evidence of the just outcomes of net zero plans.
5. **Governance:** Ensure that the just transition dimension of net zero transition plans is overseen by the board and that decision-making processes are inclusive of staff across the organisation.

Source: *Making Transition Plans Just: How to embed the just transition into financial sector net zero plans* (Curran et al., 2022). These recommendations also draw on the experience of the UK-based [Financing a Just Transition Alliance](#), which is coordinated by the Grantham Research Institute.

- Crucial to the EU's Green Deal has been the formulation of the Sustainable Finance Disclosure Regulation (SFDR) and the Corporate Sustainability Reporting Directive (CSRD). The complementary Corporate Sustainability Due Diligence Directive (CSDDD) defines the content of sustainability reporting, including the requirement for companies to publish climate transition plans. These plans should include consideration of environmental impacts on operations and the entity's own workforce, workers in the value chain, affected communities, consumers and end users, as stipulated in the European Sustainability Reporting Standards (ESRS).
- The International Capital Markets Association (ICMA) published in 2023 a *Climate Transition Finance Handbook* that provides guidance and common expectations on best practice, actions and disclosures for transition finance instruments (ICMA, 2023a). It recommends that the issuer's climate strategy should incorporate impacts for workers, communities and surrounding environments and that evidence of mitigation of social externalities including just transition considerations should be included in the disclosures.
- Climate Bonds Initiative's *Guidance to Assess Transition Plans* provides guidance to organisations on how to develop transition plans with credibility (Climate Bonds Initiative, 2023b). This includes time-bound performance targets, implementation and finance plans, and an emphasis on transparency. Among the performance targets is the stipulation that just transition targets should be considered. It suggests that risk assessments of "social and environmental areas such as biodiversity and just transition" should be one of the hallmarks of a credible plan.
- The Securities and Exchange Board of India recently announced additional requirements for the issuers of transition bonds to facilitate transparency and informed decision-making among investors (SEBI, 2023). The guidelines require transition bonds to be differentiated from other categories with the denotation 'GB-T' [see below for a description of different bonds]. It says that transition plans should contain interim targets, an indicative timeline and an implementation strategy. However, the guidelines do not encompass social considerations of the transition or transition finance.

Using bonds to support the just transition

Bonds are one possible instrument to finance the transition to a green economy, whether the issuer be a private company, financial institution or sovereign entity. The popularity of using bonds in this context is demonstrated in the growth of the GSS+ bond markets in recent years, with cumulative issuance reaching US\$4.2 trillion, around 4% of the global bond market, as of June 2023 (Climate Bonds Initiative, 2023e). The global bond and equity markets are each worth around \$100 trillion. A large advantage of using the bond market for financing a just transition is that compared with those who can issue equity, a much wider range of stakeholders that are important to a just transition can issue bonds. These include local and national governments, development banks, supranational institutions, educational and health authorities, charities and other non-profit organisations including housing associations, and special purpose vehicles for infrastructure development.

Bonds are key to a 'whole economy' transition, as GSS+ labelled bonds can hold credible sustainability characteristics even if the issuing entity is not yet fully aligned with net zero, whereas sustainable equity issuance relies on the existing alignment of the issuing entity. Labelled bond issuance can have a strong signalling effect to the market around what issues are important to a sovereign, business or financial institution – including a just transition.

In emerging economies, where fiscal headroom is even more limited, interest rates are more volatile, and access to capital and project development is more difficult, the use of just transition issuance bonds could support these economies to make progress on decarbonisation and achieving positive social outcomes. Such bonds must therefore ensure affordable access to capital to encourage engagement from both public and private actors.

As the examples above demonstrate, existing guidance on transition plans embeds just transition considerations to ensure that transition plans can support these aims. Where a company or financial institution has published a credible transition plan that incorporates elements to support the just

transition, this can be used as a basis for the issuance of green, social, sustainable and sustainability-linked (GSS+) bonds with just transition elements. These bonds are described in Box 2.2 below.

While a sovereign entity will not fall within the remit of the transition plan guidance examples cited above, issuance could still be linked to national transition or sustainable development plans. For example, European guidance for National Energy and Climate Plans includes just transition measures.

Box 2.2. Different GSS+ bonds and how they can support a just transition

Green bonds

The green label has the broadest acceptance of labelled bonds among investors and the widest recognition among thematic debt labels. This could be leveraged to benefit the just transition. Cumulative green bond volume had reached \$2.7 trillion by the end of June 2023 (Climate Bonds Initiative, 2023d).

In its 2021 Green Financing Framework, the UK Debt Management Office created a green bond incorporating social considerations by adding social co-benefits to its green financing framework via a reporting commitment (HM Treasury, 2021). Other high-profile issuers could replicate this strategy and explicitly label the just transition co-benefits to signal their commitment to a just transition to investors.

Social bonds

ICMA defines social bonds as any type of bond instrument where the proceeds will be exclusively applied to finance or re-finance in part or in full new and/or existing eligible social projects. (ICMA, 2023b). Proceeds from social bonds can be directed to qualifying projects that fund employment and training, education, or place-based community support in line with just transition goals.

Social bond issuance grew substantially following the publication of the ICMA social bond principles in 2007, then saw another surge as a result of the COVID-19 pandemic. Total issuance stood at \$654 billion as of the end of June 2023 (Climate Bonds Initiative, 2023d).

Sustainability bonds

Sustainability bonds provide a suitable vehicle for just transition financing as they allow issuers to combine use of proceeds (UoP) to finance both environmental and social projects in one instrument. Cumulative sustainability bond volume had reached \$740.5 billion by the end of June 2023 (Climate Bonds Initiative, 2023d). Around 75% of this (\$548 billion) was found to have just energy transition characteristics, i.e. the UoP included spending on renewable energy, employment, education and/or equality.

Sustainability-linked bonds (SLB)

The growing SLB market could be deployed to enable the just transition. Their UoP is general-purpose, i.e. not earmarked for any specific social or environmental purpose, but the bond coupon is linked to sustainability performance targets through key performance indicators (KPIs) selected as areas for improvement over the lifetime of the bond. KPIs can be expanded to include support for consumers or retraining the workforce.

To ensure an SLB's credible delivery of ambitious climate action and just transition, KPIs should relate directly to the entity's decarbonisation strategy and their selection should be informed by a robust transition plan that fully integrates just transition risks and opportunities (Climate Bonds Initiative, 2023c). SLBs could be a useful instrument where a credible transition plan is published to link the coupon rate to the performance of an entity against their published transition plan. It is common practice to issue SLBs with multiple KPIs, so the issuer could include climate mitigation and social just transition KPIs within one bond.

Transition bonds

Transition bonds finance activities that support a pathway to net zero or are interim activities that will be phased out by 2050, which often originate from highly polluting sectors (Climate Bonds Initiative, 2020). These bonds represent the smallest share of the GSS+ market at just \$12.5 billion as of the end of 2022, although the number of issuers tripled in 2022 due to strong policy support in China and Japan.

Transition bonds could be a suitable vehicle for just transition financing, given the wide breadth of activities they fund, and their focus on enabling the transition. However, the credibility of many transition bonds has been questioned. For example, some have funded coal-to-fossil gas conversions (Climate Bonds Initiative, 2023c).

A greater role for GSS+ bonds

Although universal disclosure of robust just transition planning would be the ideal starting point for transition finance and, by extension, bond issuance for a just transition, that stage is yet to be reached. Many jurisdictions do not at present require transition plans and a universal standard is not in place – nor is it likely to be in the immediate future.

Where institutions have not yet published transition plans or there is insufficient disclosure related to the just transition elements of their published plan, there is a role for GSS+ bonds to support just transition outcomes. GSS+ debt markets are already contributing to the net zero transition by channelling capital to climate solutions and social justice.

International guidelines for GSS+ bonds provide frameworks for structuring, reporting standards, eligible categories of expenditure for UoP bonds and KPIs for performance-linked instruments such as sustainability-linked bonds. This guidance includes:

- The International Capital Market Association (ICMA) sets principles for issuers and market participants for GSS+ bonds to facilitate bond market transparency. Its Green Bond Principles (ICMA, 2021a), Social Bond Principles (ICMA 2023b), Sustainability-Linked Bond Principles (ICMA, 2023c), and Sustainability Bond Guidelines (ICMA, 2021b) describe how to structure sustainable financing frameworks for the relevant instruments. The guidance provides clear expectations around project selection, governance and reporting on the UoP or KPIs.
- The Climate Bonds Standard and Certification Scheme provides credible and robust labels for debt instruments, entities and assets using science-based eligibility criteria to inform and guide issuers and market participants on alignment with 1.5°C (Climate Bonds Initiative, n.d.).
- The EU Green Bond Standard (EU GBS), adopted by the EU Parliament in October 2023, sets voluntary guidance for issuers of UoP bonds where the proceeds should be allocated to economic activities that are aligned with the EU Taxonomy Regulation (European Commission, 2023). It aims to establish credibility of the issuers' climate commitments and protect investors from the risk of greenwashing. It suggests that, as part of impact reporting, issuers include information on social contributions of the transition, such as provision of new jobs, re-skilling and installing local infrastructure to benefit communities affected by the economic transition to net zero.

3. Analysis of bond market trends for financing a just energy transition

In this section we examine the issuance of bonds to support the just transition in the energy sector – i.e. the ‘just energy transition’. This focus is chosen because a just energy transition is crucial to decarbonise the energy sector to meet the Paris Agreement temperature goals, and research and thinking on this aspect of the just transition is more advanced than for other sectors. For example, there is a growing consensus on what should characterise a just transition in the energy sector, in terms of retraining workers and minimising energy price increases for vulnerable households. We are starting to see examples of just transition in action in the energy sector in emerging markets for instance, with the recently announced Just Energy Transformation Partnerships (JETPs) in South Africa, Indonesia, Senegal and Vietnam (Kramer, 2022). These demonstrate a growing effort from the public and private sectors to finance a just energy transition.

Using the Climate Bonds GSS+ databases (Climate Bonds Initiative, 2023a; 2023c)¹ this analysis focuses on a subset of bonds: sustainability bonds (labelled bonds financing both green and social projects, as defined by Climate Bonds Initiative) with use of proceeds (UoP) earmarked for both energy spending and at least one of the following objectives: employment, education or equality spending. This subset of just energy transition-related sustainability bonds is used in the analysis as a proxy for issuance with potential just energy transition characteristics.

Current state of the market for GSS+ bonds

By the end of June 2023, using Climate Bonds Initiative’s database methodology, cumulative totals of GSS+ bonds represented \$4.2 trillion (Climate Bonds Initiative, 2023e). Market growth has been driven by investor appetite for ESG (environmental, social, governance), policy support in some jurisdictions, and growing awareness of GSS+ bonds’ stronger market performance.

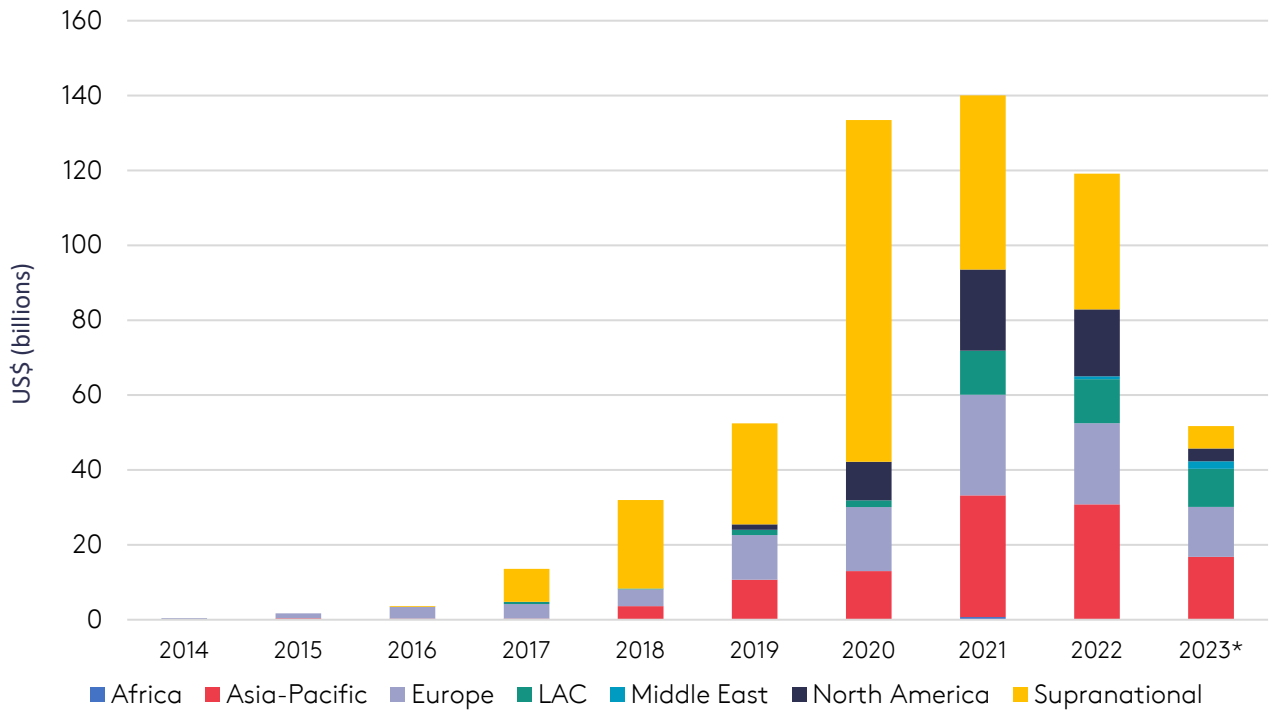
Of that cumulative total, as of July 2023, Climate Bonds had recorded total just energy transition-related volumes of sustainability bonds at \$548 billion, or 13% of the wider GSS+ market (ibid.). By far the largest issuer has been the International Bank for Reconstruction and Development (IBRD), part of the World Bank Group, at \$201.5 billion.

Geographical trends

Excluding issuance from supranational institutions (e.g. the IBRD, European Investment Bank and EU), most of the analysed bonds originated from the Asia-Pacific region (at \$28 billion in 2022), followed by Europe and North America (see Figure 3.1). For corporate and development bank deals, the location of the funded projects may well differ from the country of issue. As supranational institutions (dominated by the IBRD) account for over 40% of total issuances, there is likely significant cross-border flow of just transition-related capital. Issuance has grown rapidly, particularly in 2020, and peaked in 2021.

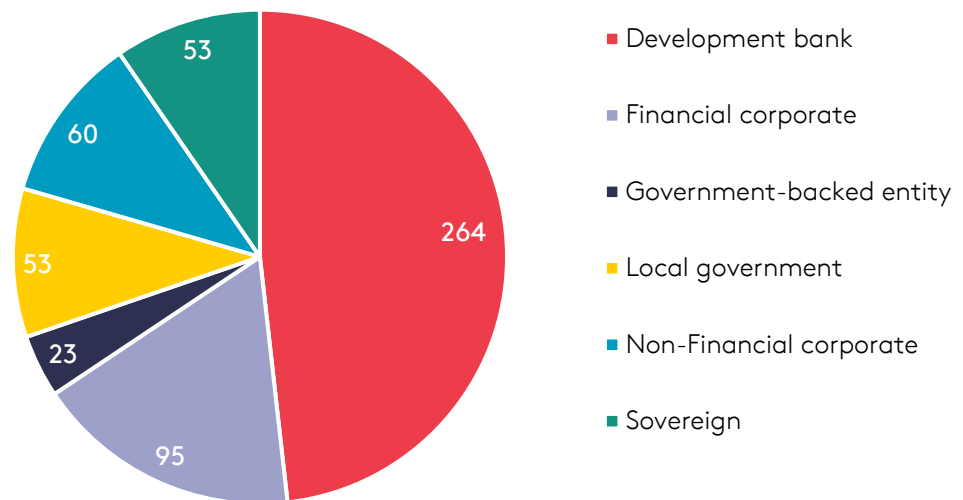
¹ The Climate Bonds green and social and sustainable bond (GSS+) databases include all labelled debt issuances that meet the database screening methodologies. The issuances are screened against the Climate Bonds Taxonomy to ensure sufficient ambition and alignment with the goals of the Paris Agreement. These databases do not currently include sustainability-linked bonds (SLBs).

Figure 3.1. Geographical distribution of bond issuance relevant to the just energy transition, 2014–2023



Source: Climate Bonds Initiative (2023d)
 Notes: *up until July 2023. LAC = Latin America and the Caribbean.

Figure 3.2. Share of bond issuers in the just energy transition dataset by total volume, US\$ (billions)



Source: Climate Bonds Initiative (2023d)

Types of issuers

The full range of issuer types is represented in the dataset. Development banks are responsible for the largest share (48%) of bond issuances in the just energy transition dataset, followed by the private sector, with financial corporate issuers responsible for 17% and non-financial corporates contributing 10% (see Figure 3.2).

4. Embedding the just transition into GSS+ instruments

As demonstrated by the examples in the previous section, it is possible for GSS+ instruments to include in their frameworks elements that address the just aspects of the energy transition. This can be done in the description of eligible expenditures (i.e. possible projects to be financed by the bond) and in post-issuance reporting.

In this section, we set out a first overview of potential barriers to the issuance of just energy transition-related bonds, including the barriers that different types of issuers could face. We also present two case studies, highlighting how a sovereign and an MDB issuer have addressed social justice elements in their issuances, thus showing how some barriers can be overcome.

Labelling and alignment with the Sustainable Development Goals (SDGs)

A first barrier to the issuance of just energy transition-related bonds is the lack of clear label or signal for such bonds, and as a result a lack of clear signalling to markets. Two possible options to address this are: (i) GSS+ issuances could include a label to indicate alignment with the just transition, to provide a signal of commitment to investors looking to finance the just transition; or (ii) bond issuances could be made under existing labels (green, sustainable) to avoid market fragmentation, given different use of labels in different geographies, and ensure that the bond still meets the green and sustainable requirements of investors and indices.

A second barrier is the question of alignment with existing social justice objectives. In the context of the energy transition, projects linked to just transition should address transition impacts on affected stakeholder groups such as workers, suppliers, communities and consumers. Most sustainable financing frameworks already reference the SDGs in their stated UoP categories. This helps investors with their reporting commitments if they have an objective to contribute to the SDGs. As noted in the Introduction, the just transition aligns most strongly with the goals on climate change (SDG 13), reducing inequalities (SDG 10) and decent work and economic growth (SDG 8).

Different concerns and opportunities for different issuers

For sovereign and other public issuers (including municipalities), concerns related to the just transition include resource availability (e.g. land or sea area required for installing renewables, which might encroach on local communities), energy security and cost, employment and access to development opportunities. With the public sector responsible for 30% (\$1.1 trillion) of all GSS+ bond volumes as of 2023 (Climate Bonds Initiative, 2023d), there could be an opportunity for sovereigns to incorporate just transition into their GSS+ bonds to raise financing for broader social benefits from the transition. For example, the UK Green Financing Framework includes measurement of social co-benefits. Chile provides an example of a sovereign SLB that is closely aligned with the just transition – see Case study 1.

The Assessing Sovereign Climate-related Opportunities and Risks (ASCOR) project, led by the Transition Pathway Initiative (TPI) Centre, has developed an investor framework for evaluating the impact of sovereign debt on their climate commitments, which also includes a just transition policy lens (TPI Centre, 2023). The criteria include questions on whether the country has a just transition strategy, whether it has a national Just Transition Commission or equivalent, and whether the country assesses and plans to address the regressive effects of climate policies. These criteria could be the first step towards assessing sovereign bonds from a just transition perspective.

For corporate bond issuers, social justice considerations could include the entity's own workforce and supply chain. However, impacts on the wider community should also be accounted for. Entities should assess and address the social risks of transition across stakeholder groups, ensure equal access to opportunities and enable participation in the transition planning processes (Curran et al., 2022).

Case study 1. Sovereign just transition-relevant bond: Chile

Chile is the only sovereign to have priced bonds bearing all four of the following labels: green, social, sustainability and SLB. By the end of June 2023, Climate Bonds Initiative had recorded total volumes of GSS+ bonds of \$47.7 billion, with outstanding deals representing roughly 37% of Chile's outstanding central government debt, one of the highest shares in the world (Environmental Finance, 2022).

Chile's Sustainable Bond Framework supports the issuance of green, social and sustainability bonds. It does this by complying with the respective ICMA principles, including setting out eligible environmental and social expenditures that support SDGs and align with the just transition (towards which the funds raised could be spent). The Ministry of Finance was found in our analysis to have issued \$8.5 billion in sustainable bonds between 2021 and the end of June 2023, including both environmental and social projects under the eligible expenditures, and thus are likely to qualify as just transition-related bonds. Eligible green project categories, certified by Climate Bonds Initiative, include low-carbon transport, energy and buildings (Ministry of Finance of Chile, 2020). Eligible social project categories, aligned with the ICMA recommendations and linked to multiple SDGs, include healthcare, employment, education, microfinance, food security and equality.

Chile was the first sovereign to issue an SLB in 2022, with a \$2 billion dual tranche deal with a 2042 maturity. The KPIs include a target of 15.4% in annual emissions reduction by 2030 and 60% renewable energy installed capacity by 2032. A social KPI was added in 2023, aiming to achieve at least 40% female representation on the boards of directors of companies reporting to Chile's Financial Market Commission by 2031. These KPIs advance SDG 5 (gender equality), SDG 7 (affordable and clean energy) and SDG 13 (climate action). Failure to meet them in the stated timeframe will result in a coupon step-up of 12.5 basis points for the remainder of the life of the bond. In its Second-Party Opinion, which evaluates the bond framework against the core components of ICMA principles, Sustainalytics explicitly mentioned just transition as an enabler of Chile's implementation of its broader nationally determined contribution (NDC), which facilitates the mitigation of social risks from decarbonisation (Ministry of Finance of Chile, 2020).

For multilateral development bank (MDB) issuers, expenditure to advance social goals will be similar to that made by sovereign and private sector issuers. However, the MDBs are in the unique position of being able to accelerate the just transition due to their ability to invest where commercial capital is limited and to mobilise private capital for the transition across the regions and sectors in which they operate. A set of MDB Just Transition High Level Principles was published by an alliance of the major MDBs in 2021 (ADB, 2021) and there have been several individual initiatives, notably the Asian Development Bank's Just Transition Platform (ADB, 2022a) – see Case study 2.

Post-issuance assessment of just transition elements

Beyond the issuance of bonds to finance the just transition, there are also barriers to assessing the just elements of such bonds post-issuance. To ensure transparency and disclosure of eligible just transition projects, progress on just transition should be tracked with metrics as part of annual impact reporting after the bond is issued. The disclosures can include process targets, where an organisation outlines progress on just transition in their business operations (e.g. staff retraining, workforce gender balance, costs to consumers). They should also report the just transition outcome targets and quantify the impact on affected stakeholder groups, such as the number of green jobs created (Curran et al., 2022). While universal just transition metrics that could be applied to bonds are not yet available, the research project between the Grantham Research Institute and Climate Bonds Initiative will assess and advance current thinking on what these could look like.

Case study 2. MDB technical assistance for just transition-aligned bond: Asian Development Bank (ADB) and Thailand's National Housing Authority

ADB provides capacity-building support to sustainable bond issuers and market intermediaries in its developing country members. Its technical assistance facility, the ASEAN Catalytic Green Finance Facility (ACGF), provides support for project selection and development of a sustainable bond framework based on global and ASEAN standards and best practice. It also helps issuers with external review and certification, setting up monitoring systems for the use of proceeds and preparing post-issuance reports. Moreover, it develops de-risking mechanisms, credit enhancing structures, financing options and blended finance tools based on country-specific requirements (ADB, 2022b).

ADB supported Thailand's National Housing Authority (NHA) to issue the country's first social bond (worth \$195 million) in 2020. This issuance was a social bond but delivered on several just transition outcomes by providing energy-efficient housing to lower income groups and was specifically used to support affordable housing projects. The housing authority used the first sustainability bond by a state-owned enterprise in 2021, worth \$65 million, to integrate energy efficiency components into affordable housing projects. The bond proceeds are being used for the construction of green housing units for low- and middle-income residents through investments in energy-efficient home design, and incentive mechanisms to promote energy efficiency in homes. The NHA aims to secure \$4 billion to finance affordable housing initiatives throughout the country, with a significant portion being designed as energy-efficient housing. ADB provided support to project selection, framework development, external review, certification and annual review through ACGF.

5. Concluding remarks

The importance of just transition is now widely acknowledged, and it is already a stated objective of several large jurisdictions. This means that mobilising finance to fund a just transition is a critical next step to making it happen at pace and scale. The bond market is an important source of capital for investment in the low-carbon transition, and the market has made the first moves to reflect the just transition objective in its guidance and bond issuance.

However, the just transition remains a nascent theme for issuers and investors. There are barriers holding back action, from low awareness of the importance of just transition to a lack of consensus on technical definitions, metrics and credible frameworks for issuance.

In the face of an all-consuming imperative to rapidly transition to a resilient, net zero economy, ensuring a socially just approach is crucial to the efficiency, effectiveness and speed of the necessary transformations. All types of issuers and investors, along with key stakeholders such as trade unions and civil society, can play a role in driving the change.

This report marks the beginning of a two-year joint research project between the Grantham Research Institute on Climate Change and the Environment and the Climate Bonds Initiative to support the mobilisation of the labelled debt market for the just transition. Following the initial findings in this paper, we will turn next to furthering the analysis of the key barriers to issuance of GSS+ bonds to finance a just transition.

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