International Labour Organization | Social Finance

Social Finance Brief

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March 2025

Navigating a Just Transition: Financial Sector Roadmap

Key points

- The transition to a low-carbon climate-resilient society requires substantial injection of financial investments.
- The public sector cannot do this alone: private investors and financial institutions must play a role in providing the necessary capital to accelerate decarbonization and fulfil national climate commitments while ensuring an inclusive transition that leaves no one behind.
- The challenge lies in seamlessly embedding just transition as a core component of net-zero transition strategies of financial institutions, alongside with climate goals.
- This brief presents a high-level roadmap, reflecting insights from financial sector and development actors, to advance financial sector support for a just transition.

Substantial investments are required to expand green and low-carbon activities, reconsider environmentally and socially unsustainable practices, and build resilience against the physical impacts of climate change. The financial sector is poised to be a critical ally in this effort, by directing capital to both climate-focused but also to just transition-aligned economic activities. Equally important is its role in mitigating potential social risks and adverse effects inherent in low-carbon transition strategies.

While the awareness of just transition is growing within the financial sector, the path forward remains uncertain.

The challenge lies in embedding a just transition as a core component of net-zero transition strategies and the operational frameworks of financial institutions. Success will depend on creating adequate incentives, ensuring that the financial sector possesses the necessary data, knowledge, and capacity to incorporate social dimensions alongside environmental goals and partnerships.

To take stock of the current state and identify the next steps, the International Labour Organization partnered with University of Geneva Center for Business and Human Rights, the Impact Investing Institute, Luxembourg Development Agency as well as Beyond Finance, BlueOrchard, BNP Paribas and ING and held a participatory workshop during the 2024 edition of Building Bridges in Geneva. Thank you, Building Bridges, for hosting!

The Building Bridges event, which convenes key players from the financial sector and the development community, provided an ideal platform for exchanging ideas, gathering insights from an engaged and informed audience and collaboratively shaping a high-level financial sector roadmap for advancing just transition finance.

The workshop brought together financial sector professionals, academics, UN representatives, and NGOs. The discussion centred on the prerequisites for mobilizing

LUXDEV Luxembourg Development Agency | ING | Université de Genève, Geneva School of Economics and Management, Geneva Center for Business & Human Rights | Building Bridges, Geneva • 9-12 December 2024 financial sector support for a just transition and identifying critical next steps in three key areas:

- Products, processes, and strategies that incorporate a just transition approach in investment and banking practices.
- Capacity and knowledge needs for the financial sector to act on just transition.
- The role of public-private partnerships and incentives in financing a just transition.

The session provided valuable input for crafting a high-level roadmap, outlining concrete steps for advancing sector action:

	Key pre-requisites	Next milestones
Commit	Secure awareness and commitment from senior management and embed just transition as a part of the organization's strategic ambitions.	▶ Develop a set of common high-level just transition principles that private sector financial institutions can commit to for catalysed action.
Understand	Understand the local transition dynamics, social impacts, risks, and opportunities affecting sectors, clients, investees, and stakeholders along with the social impacts generated by the organizations' portfolio and its climate transition strategy.	▶ Common language: establishing a shared sector understanding of just transition, including common language, definition, and metrics. ▶ Human, labour rights, employment and other major social implications: understanding how human and labour rights can be impacted during the low-carbon transition, including green, transition and adaptation activities and their supply chains is crucial for incorporating these factors into financial decision-making. ▶ Business case: developing tools that help understand financing and insurance needs and quantify and justify the business case and opportunities for the financial sector action for a just transition is vital to encourage broader uptake.
Strategize	Develop a holistic strategy that leverages stakeholders' knowledge and puts people at its heart.	▶ Incentives for financial sector actors to move forward on a just transition, including via regulatory frameworks that embed social factors, foster alignment of interests by internalizing both avoided costs and negative externalities, and enhance the accountability. ▶ Public-private partnership models to leverage the strength of both public and private sector, benefitting from different mandates, share risks and returns and overcome the financial return constraints faced by commercial financial institutions. ▶ Showcase real-world examples of financial institutions that have successfully tailored just transition strategies, highlighting how they prioritized key objectives and engaged in partnerships, integrated social considerations into their transition plans and climate strategies while maintaining commercially viability.

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Implement	Tailor the product offering to address local challenges, priorities and just transition financing needs. Incorporate relevant social considerations in decision making and risk management processes. Leverage stewardship and engagement activities to encourage 'just' corporate transition strategies, socially and environmentally sustainable practices and meaningful stakeholder consultations.	▶ Align the financial sector with non-financial impacts through key regulations and frameworks like the UNGP, IFC Performance Standards, CSRD and clear guidance on their application to just transition, essential for scaling up efforts and training of professionals. ▶ Invest in the development of internal skills and frameworks, hiring of specialists, and fostering cross-departmental collaboration. Engage with external service providers (such as rating agencies and second party opinion providers) to enable access comprehensive data and information to accurately assess and manage the social impacts. ▶ Full integration of social considerations due diligence and risk assessments in addition to environmental factors, striving to reflect the true costs and benefits of client operations. ▶ Technical assistance and non-financial support built in financing packages can be leveraged as effective tools for promoting a just transition.
Measure	Measure the social dimension of the low carbon transition.	▶ Identify just transition indicators and enhance availability of data on socio-economic implications of the low-carbon transition. ▶ Strengthen the ability to analyse and interpret data related to social impacts, ensuring informed decision-making. ▶ Mechanisms for measuring the impact and outcomes of Public-Private Partnerships (PPPs) to ensure alignment between the goals of public and private partners and clarity in the objectives of the PPP.
Partner	Engage in strategic partnerships with like-minded financial institutions and local partners, leveraging collective resources, expertise, and comparative advantages.	▶ Mutual understanding: clarify the scope of the partnership with prioritized just transition objectives, distinct roles of public and private actors, incentives for private investment, and obligations in terms of outcomes. ▶ Inclusivity and accountability: build inclusive partnerships, with objectives defined based on stakeholder input, and establish accountability mechanisms to measure and align the impact of PPPs with the agreed objectives. ▶ Clear policy guidance on just transition: well-defined expectations are essential for adapting partnership models to the local context and development priorities, while facilitating private sector involvement.

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DOI: https://doi.org/10.54394/WTQY7956