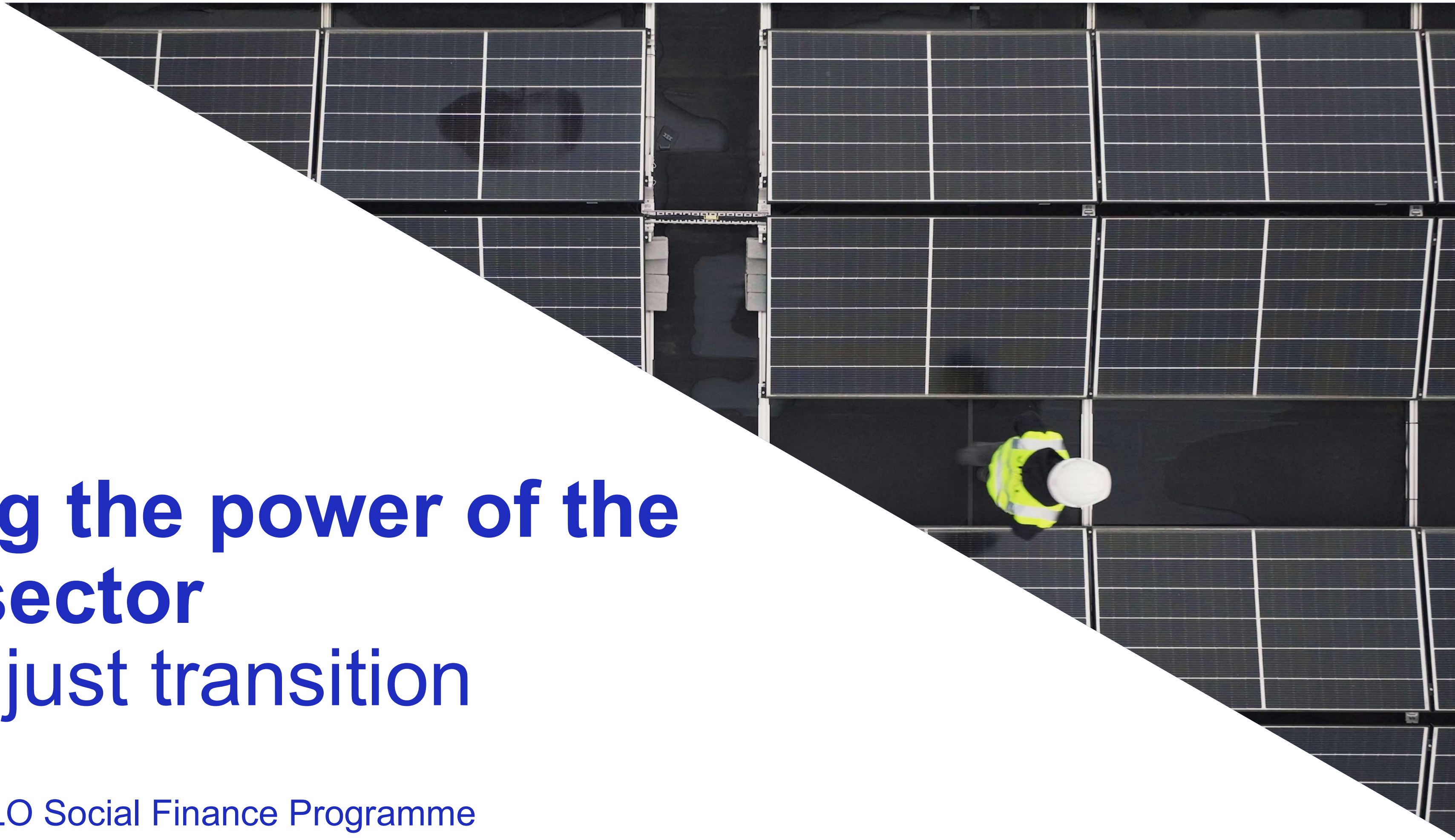


Leveraging the power of the financial sector

Towards a just transition

Ekaterina Chubarova, ILO Social Finance Programme

November 26, 2024 - Manila

International Labour Organization

The International Labour Organization at a glance

United Nations agency for the **world of work**. Organization with a **tripartite structure** bringing together governments, employers and workers from 187 member states.

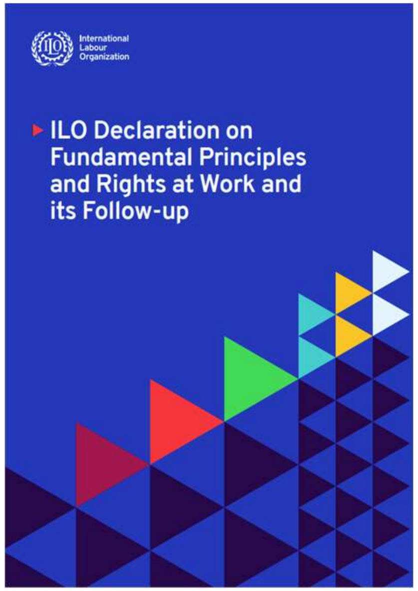
Mission: Promoting decent work & advancing social justice

The ILO Social Finance Programme

Mission: Financial sector engagement for the decent work agenda

Key areas of work:

- Sustainable Investing
- Impact Insurance
- Financial Inclusion



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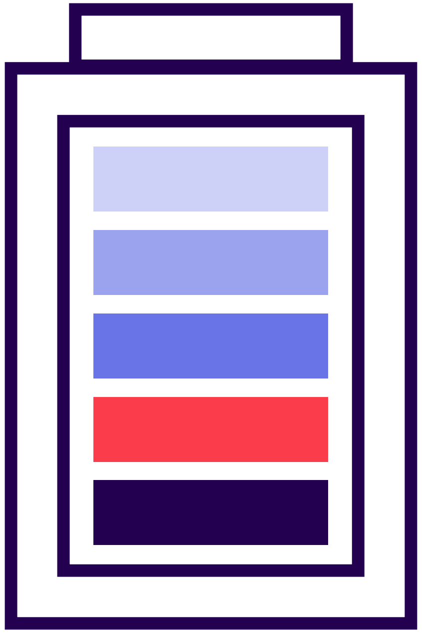
Scaling up financial sector contribution to Decent Work



Policy and regulatory environment

Industry support organizations

Financial services providers

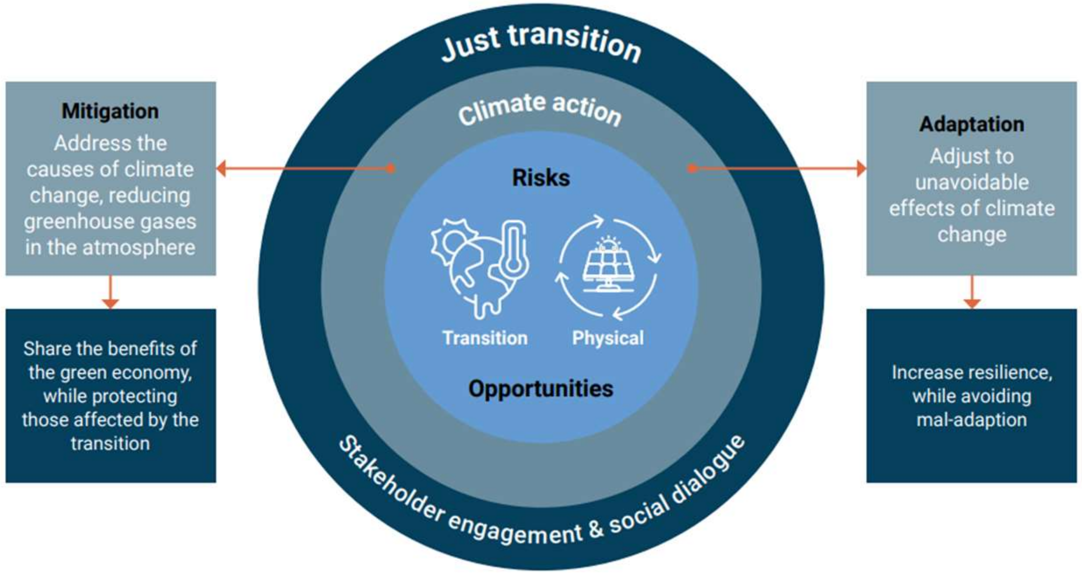
Sustainable Investing	Impact Insurance	Financial Inclusion

Clients

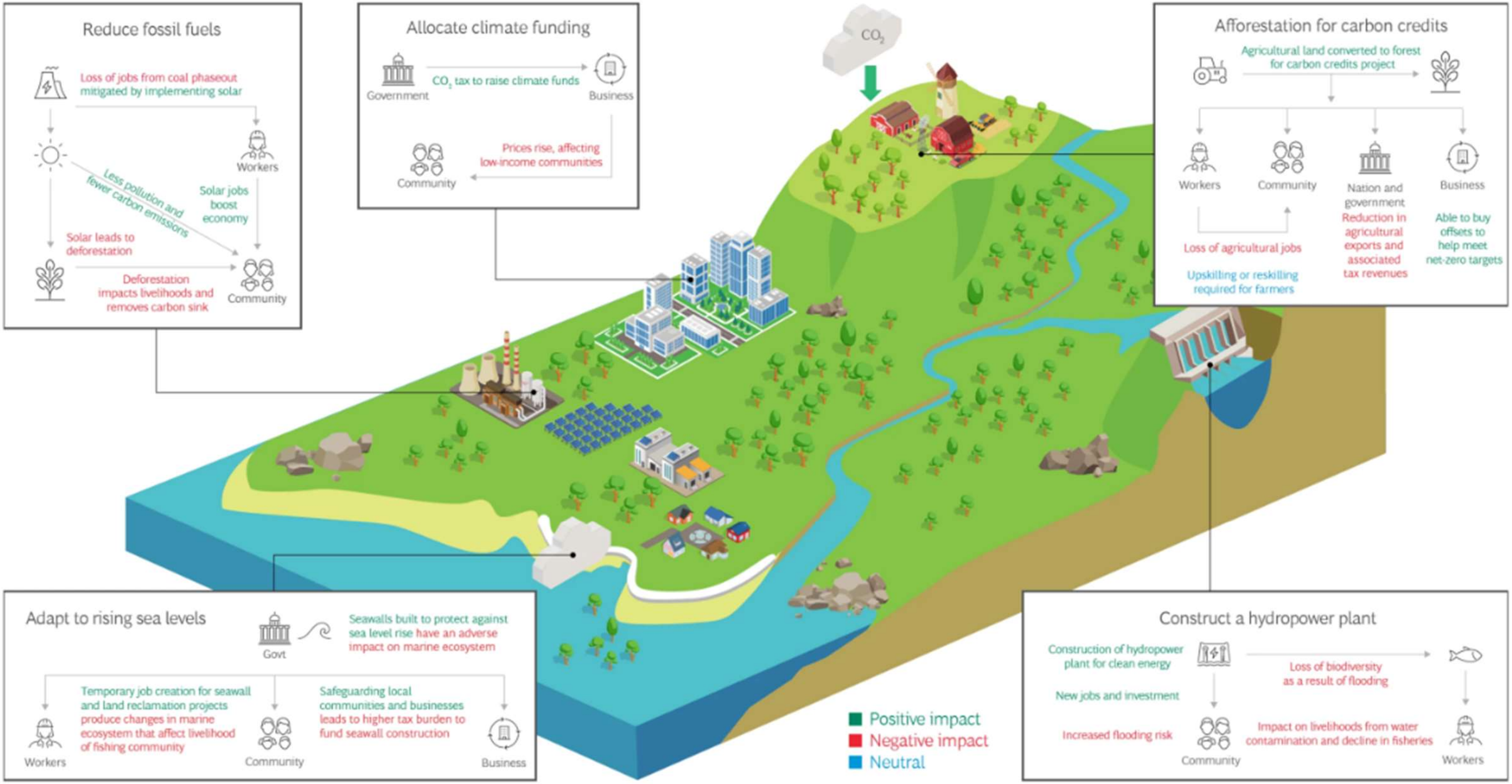
What is a just transition ?

- **Fair and inclusive way** of promoting environmentally sustainable economies

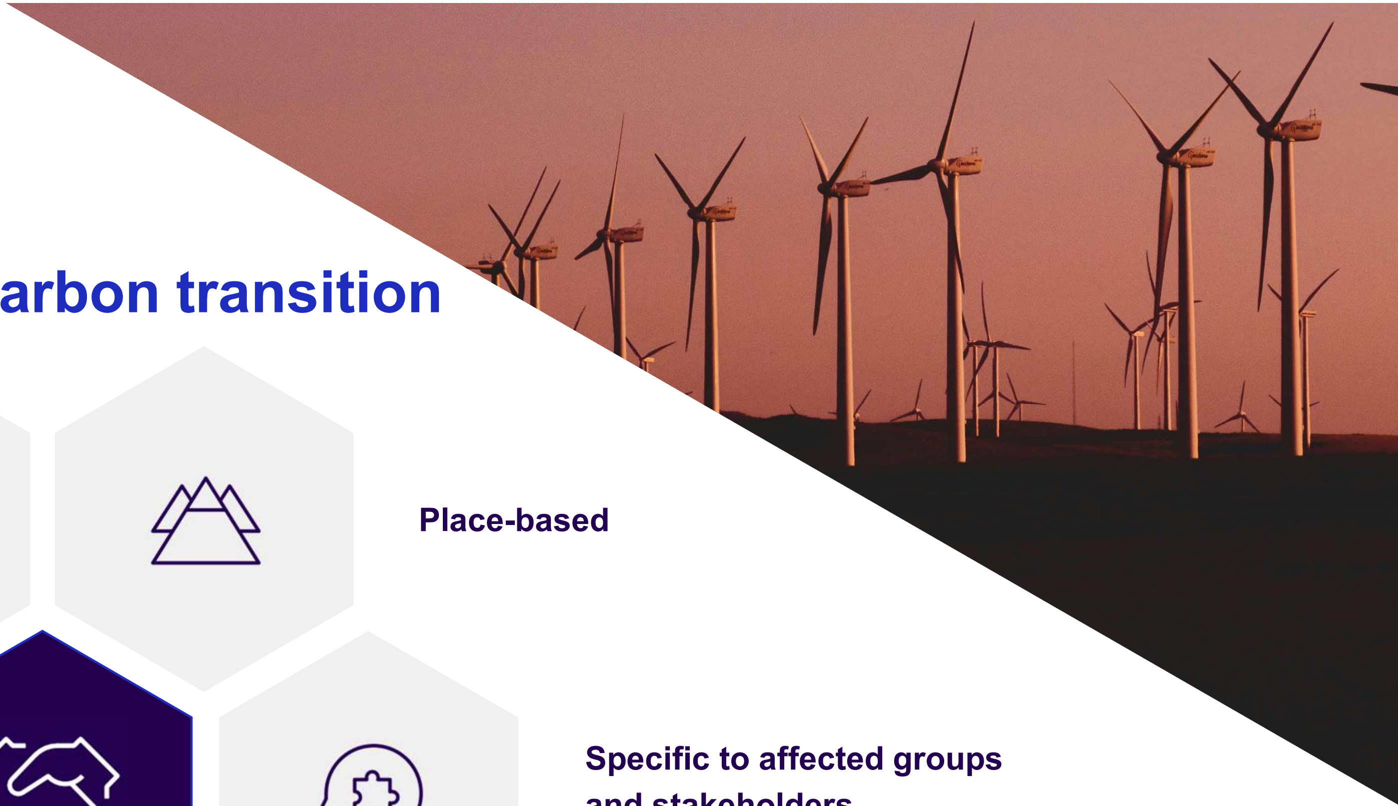
- **Maximizing the social and economic opportunities** of climate and environmental action, while **minimizing and carefully managing any challenges.**



- It matters for **all economic sectors** – not only energy – and for urban and rural areas alike.
- There is **no "one size fits all" approach** to a just transition.



Source: BCG (2022). How to Ensure a Just Transition



Social dimensions of a low-carbon transition

Place-based

Specific to sectors

Specific to affected groups and stakeholders

Specific to vulnerable populations

- Net-positive employment creation
- Job losses in emission-intensive industries: often concentrated in specific areas

Low-carbon transition

A positive narrative on employment growth with challenges to address

	Green and low-carbon activities	High-emitting and hard-to-abate activities	Adaptation and resilience-building activities
Dynamics	"Greening by" (providing decarbonization solutions)	"Greening of" (diversifying activity mix, exiting harmful activities, decarbonizing hard to abate activities)	Building resilience of affected communities

Jobs created

The expansion of a low carbon economy will translate into higher labour demand across such sectors, as energy efficiency, renewable energy, adaptation projects, infrastructure projects.

Jobs redefined

Many workers will have their jobs transformed and redefined as day-to-day workplace practices, skill sets, work methods and job profiles are "greened.".

Jobs eliminated

Certain jobs may be eliminated without direct replacement. This may happen where polluting and energy-and-materials intensive economic activities are phased down.

Jobs substituted

Some jobs will be substituted as a result of shifts in the economy to more efficiency, to lower carbon, and to less polluting technologies, processes and products.

International Labour Organization

Low-carbon transition

Examples of related decent work and social considerations

- **Labour impacts beyond the quantity of jobs**
- **Skill mismatches, spatial and temporal disconnects**
- **Risks of unfair distribution of opportunities and costs**

Wages, working conditions, and labour rights
Workers in clean energy technologies like wind, solar and hydrogen earn on average 15-30% less than in fossil fuel industries. Unless wages are fair and attractive, the transition to clean energies risks being delayed.

Skills availability
The energy sector needs higher skilled workers than most other industries — 36% of energy jobs are within high-skilled compared with 27% in the broader economy.

Affordability of energy and basic goods for low-income households and other vulnerable groups; access to and affordability of clean technologies, green housing and mobility, and resilience measures.

Gender inequality in workforce transition and access to skills development, and non-inclusion of other underrepresented groups.

Stranded communities and economic decline due to negative spillover effects on communities dominated by high-emitting sectors.

Low-carbon transition

Examples of potential negative impacts

Green and low-carbon

Land rights, forced labor in supply chains, growing demand for raw materials such as cobalt and copper with human rights risks and increased pressure on water supplies.

High-emitting

Scaling down emission intensive activities can lead to job losses, lower quality jobs, stranded communities, loss of cultural heritage.

Adaptation

Maladaptation when efforts to increase resilience or an assets or system increases vulnerability of people or communities

Offsets

Nature based offsets such as forest restoration or planting trees could impact rights of indigenous peoples and impact subsistence farming

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Low-carbon transition

Examples of stakeholders, affected and vulnerable groups

- Businesses
- Workers, including supply chains
- Consumers and end users: own and portfolio
- Affected communities

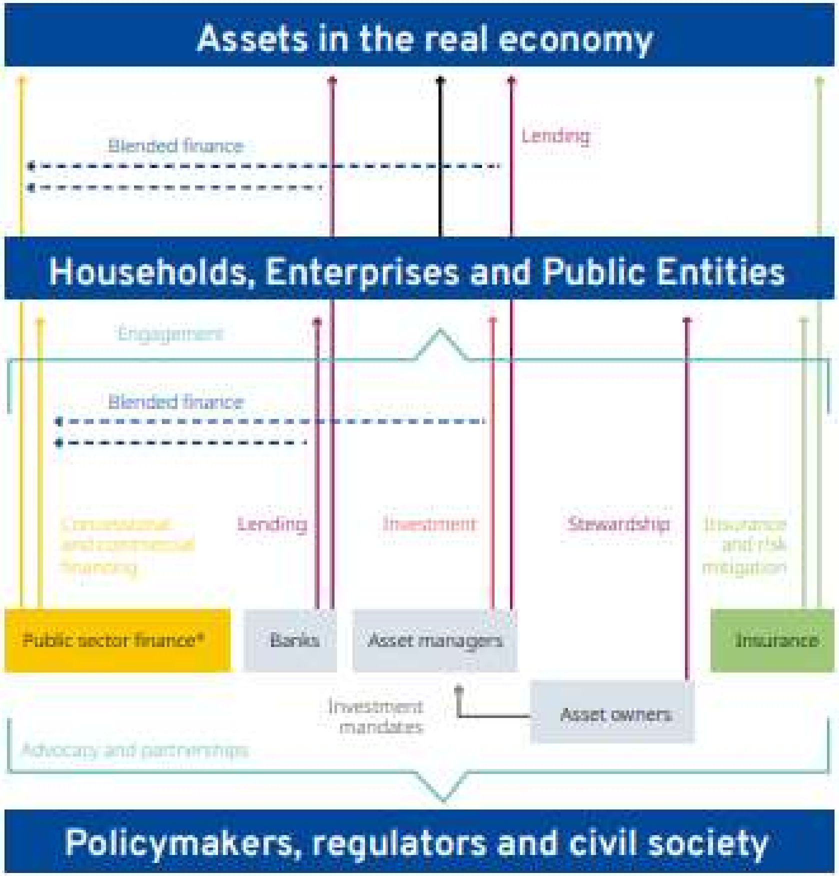
What is the role of financial sector actors and sustainable finance?

- Over **$125 Tr in climate investment** required:

  Private sector expected to deliver up to **70% of total investments** to meet net zero goals.

- Financial sector is a crucial enabler of a just transition

- Financial sector has a major influence over sustainable outcomes by adhering to and promoting a just transition



Sources: UN Climate Change High-Level Champion, GFANZ

Sources: ILO Just Transition Finance Tool

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Financial institutions have business reasons for promoting a just transition

Reducing risks resulting from failed climate action, increased inequality and social risks of transition.

Responding to business and investment opportunities associated with supporting climate transition.

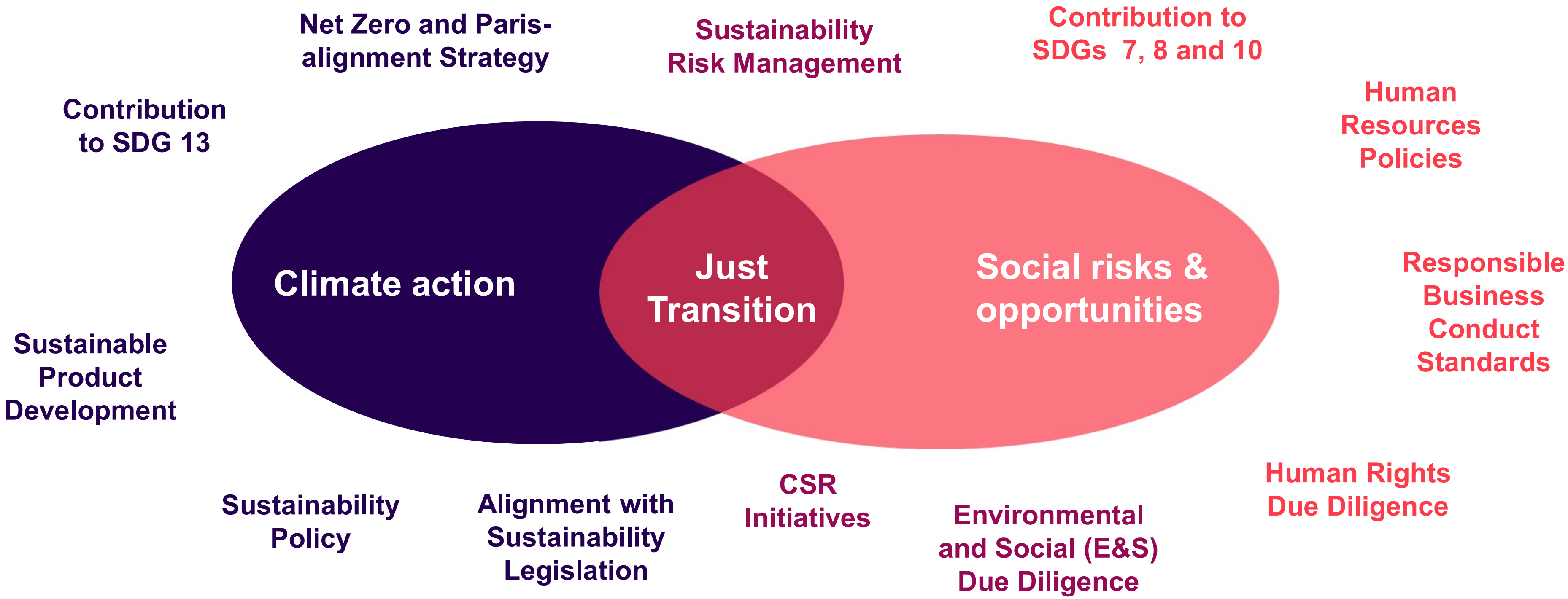
Responding to regulatory pressure, investor and stakeholder expectations, avoiding potential reputational damage.

How can financial institutions promote a just transition?

A two-pillar approach

Sources: ILO Just Transition Finance Pathways for Banking and Insurance

Just transition is connected to existing strategies and policies of financial institutions



Sources: ILO Just Transition Finance Tool

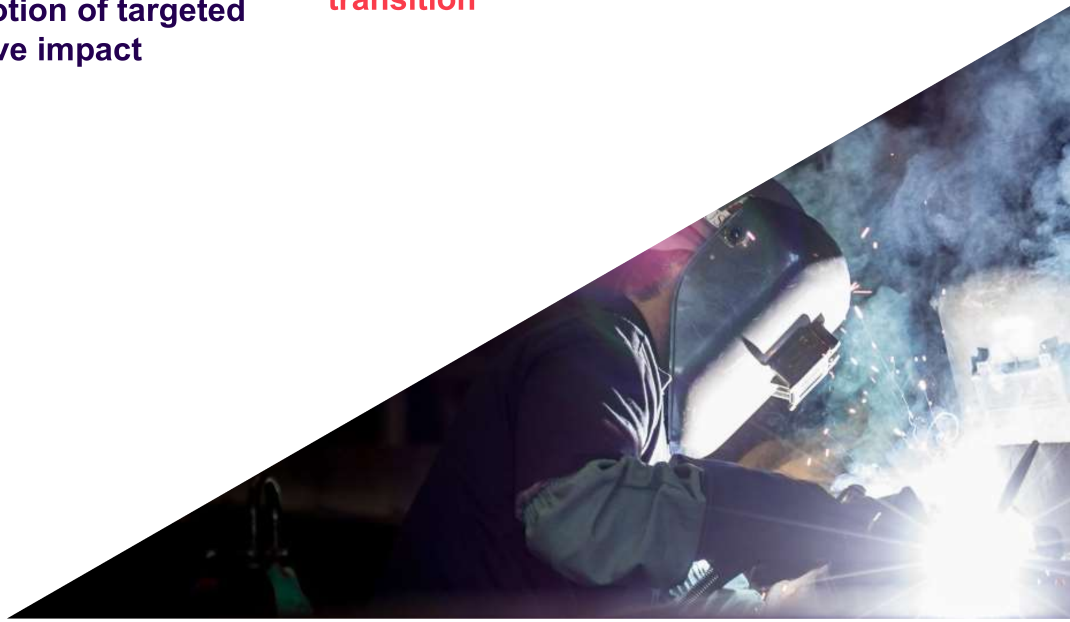
Sustainable finance frameworks and initiatives

Absence of social considerations

Do-no-significant-harm (DNSH)

Promotion of targeted positive impact

Aligned with the concept of just transition



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The levers for promoting a just transition

Enabling just transition aligned or aligning economic activities – by providing capital and insuring just transition aligned-activities

Incentivizing positive change

Closing **financial inclusion and insurance protection gap** for affected and underserved groups

Role of insurers and insurance profucts

SHOCK ABSORBER

Direct impact through products and services, supporting adaptation and mitigation, increasing resilience

ECONOMIC ENABLER

Enabling impact through insured actitivies, facilitiating and incentivizing a just transition to a low-carbon economy

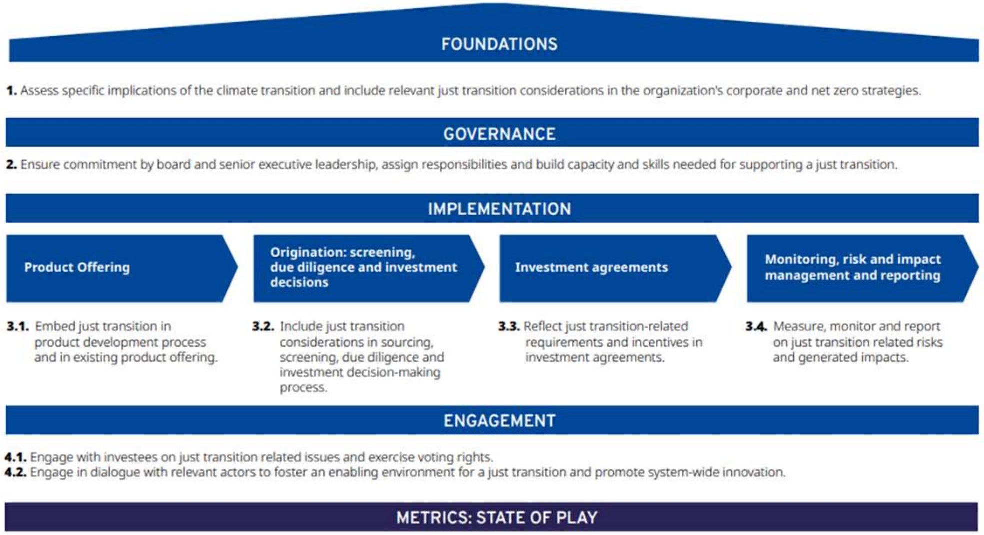
RISK EXPERT

Sharing risk knowledge and pricing expertise to increase risk awareness, risk prevention and risk-based decision making

INVESTOR

Aligning investment portfolio with a carbon neutral economy and the objectives of a just transition

How can financial institutions promote a just transition?



Products, that
- cater to the needs of stakeholders affected by the transition
- stimulate transition to environmentally and socially sustainable practices

Processes, that allow effective identification and management of E&S risks and opportunities and influencing clients/investees

Partnerships
- with local stakeholders
- across the financial sector

Sources: ILO Just Transition Finance Tool

International Labour Organization

Financing a Just Transition

Key recommendations

Click the images to download

1. **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.
2. Develop a **holistic strategy that leverages stakeholders' knowledge** and puts people at its heart.
3. **Tailor the product offering** to address local challenges, priorities and just transition financing needs.
4. **Incorporate relevant social considerations** in decision making and risk management processes.
5. **Leverage stewardship and engagement activities** to encourage 'just' corporate transition strategies, socially and environmentally sustainable practices and meaningful stakeholder consultations
6. **Engage in strategic partnerships with like-minded financial institutions and organizations**, leveraging collective resources, expertise, and comparative advantages

ilo.org

Thank you for your attention

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The ILO & Just Transition Finance

- Thematic page: Climate change and financing a just transition

- Just Transition Finance Tool for banking and investing activities developed in collaboration with LSE Grantham Research Institute
- Just Transition Finance – Pathways for banking and insurance developed in collaboration with UNEP FI

- ILO input papers to the G20 SFWG:
  - Finance for a Just Transition and the Role of Transition Finance
  - Social Impact Investing - Quality Jobs Investment Strategies to achieve a cross-SDG impact
  - Enhancing the Social Dimension of Transition Finance

- Innovative financial instruments incentivising positive social impact (including social impact bonds, guarantees)
- Just transition aligned insurance (agriculture, climate risk insurance, business continuity, livelihood protection, insurance training modules)