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Institute for Energy Economics and Financial Analysis

Advancing Credible and Robust Just Transition Plans

Current progress and bottlenecks in just transition planning guidance for financial and nonfinancial companies

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Executive Summary

Transition plans provide a strategic roadmap for an organisation to realign its assets, operations, and business model to meet climate goals. Although not a novel concept, the specificity and urgency of climate transition plans make them crucial for an organisation's future viability.

While there is a shared understanding of the use of transition plans, consensus on the definition of their components, including their aims, audience, scope, content and format, is lacking. As a result, debates on the relevance of transition plans to regulatory objectives are commonplace, which creates confusion. Yet, these plans are essential for several stakeholders, such as companies, financial institutions, governments, investors and regulators, to meet different objectives in net-zero planning.

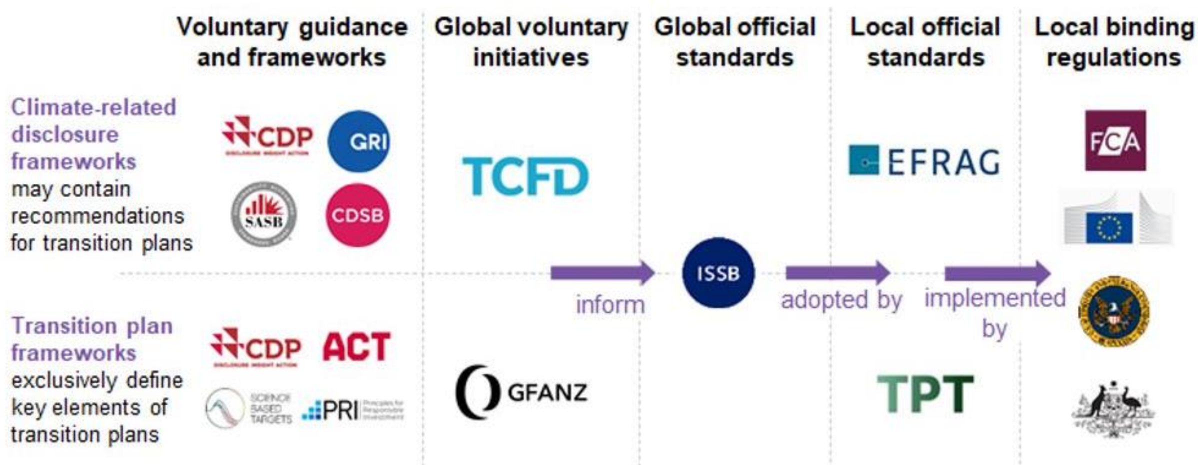
It is also imperative for financial and non-financial firms to include just transition perspectives, such as anticipating, assessing, and addressing social risks and opportunities of the transition, within transition planning. Broadly, a just transition involves greening the economy in a fair and inclusive manner, creating decent work opportunities and leaving no one behind. It maximises social and economic benefits while effectively managing challenges through dialogue and respecting labour rights.

Existing Guidelines and Frameworks for Transition Planning and Incorporating Just Aspects

Transition plans are gaining strong momentum globally, with several jurisdictions mandating or planning to mandate disclosures by corporations and financial institutions. Further, regulators are increasingly asking for credible, tangible, short-term and ambitious transition plans instead of vague long-term climate and environmental claims to ensure that climate and environmental targets are credible. The Corporate Sustainability Due Diligence Directive (CSDDD) in the European Union is the most recent regulation mandating companies subject to it to develop a detailed climate mitigation transition plan.[1] Several voluntary initiatives, such as the International Sustainability Standards Board (ISSB) and Glasgow Finance Alliance for Net Zero (GFANZ), have also provided guidance or expect disclosure of transition plans.

[1] ERM. Corporate Sustainability Due Diligence Directive.

Figure 1: Connection of Major Initiatives Guiding Transition Plans



Source: BNEF

Most regulatory transition planning requirements are just being rolled out or planned for release over the next couple of years. To date, there is a serious gap in the conceptualisation and reporting of ambitious, credible, and feasible corporate climate transition plans.

Voluntary and mandatory transition plan disclosures have predominantly focused on climate considerations. However, there is a growing recognition of the need to incorporate social dimensions into the low-carbon transition. Beyond transition plan frameworks, various tools, methodologies and guidelines assist financial institutions and corporations in integrating just transition principles into their business strategies and transition plans. These resources often reference existing transition plan standards. The most widely cited guidelines come from the International Labour Organization (ILO).

Current Issues in Transition Plan Development and Recommendations

As the just transition landscape is currently evolving, corporations and financial institutions face several bottlenecks while incorporating credible plans. The G20 Sustainable Finance Working Group (SFWG) can help in a few areas of just transition planning.

Table 1: Issues and Recommendations

Issue	Why it is an issue	Recommendation	G20's Role
Standardisation of transition plan requirements along with just transition guidelines	The abundance of just transition planning methodologies and reporting frameworks pose challenges for companies in navigating them, highlighting the need for a unified framework offering guidance on both plan creation and disclosure.	A shared understanding of just transition plan principles and methodologies, akin to the ISSB's standards for sustainability reporting, should be established, leveraging existing resources like the Task Force on Climate-related Financial Disclosures (TCFD) framework and ILO standards to provide a global baseline for jurisdictions to reference while formulating regulatory standards.	The G20 can commission an expert group to create a just transition plan framework and recommend its inclusion in the ISSB S2 climate reporting standards.
Lack of just transition aspects in national net-zero planning agendas	To date, only a few countries have set sectoral emission limits or carbon budgets to meet their net-zero targets. Additionally, these sectors' unique just transition perspectives have not been identified and incorporated.	• Just transition risks and opportunities should be sector-specific and included in national transition targets like nationally determined contributions (NDCs). • Countries need to conduct qualitative and quantitative assessments to estimate the socio-economic impacts of NDC measures. • A national just transition risk register should be developed for use by regulators, financiers, corporations and communities.	• The G20 needs to encourage member countries to conduct qualitative and quantitative assessments. • The G20 can leverage the Work Programme on Just Transition (JTWP) setup during COP27 to enhance cross-border collaboration.
Current just transition planning exercises geared towards developed markets	Transition plans, including methodologies and guiding scenarios, are primarily designed for financial institutions and companies in developed economies. However, applying universal expectations for transition plans could have unintended consequences for companies and labour markets in developing economies.	• There is a need to create developing world-specific transition pathways, considering each country's unique policy, finance, technology, and socio-economic factors. • Global baseline sector-level pathways should be established as a common starting point, allowing member countries to tailor their own specific sectoral pathways. • A common starting point and modelling approach will highlight the necessity for technology and finance transfer from the global north to the south.	• The G20's Global Infrastructure (GI) Hub has developed infrastructure transition pathways. The G20 should build on this work to facilitate the creation of global baseline sectoral pathways. • The G20 SFWG should also provide guidance documents for countries to adopt and work on these base scenarios.
Absence of linkage between sustainable finance and just transition planning	The absence of just transition plan disclosures in sustainability reports, along with debt issuance frameworks not linking debt issuance to broader transition plans, has led to decreased issuance volumes and increased greenwashing concerns.	Linking transition plans with sustainable finance issuance could boost the sustainable bond market by providing a strategic framework to assess issuers' commitments to sustainability and transition. It could also help issuers mitigate risks and controversies related to carbon lock-in and improve target setting and key performance indicators (KPI) selection for sustainability-linked bonds, offering insights into failures and external challenges.	The G20 SFWG should work alongside the International Capital Market Association (ICMA) and ISSB to create sustainable debt issuance frameworks that include explicit requirements for linking the use of any debt issuance proceeds to the organisation's wider transition plan.

Lack of coherence of just transition planning regulations for the financial and real sector	Transition plan disclosures meet various regulatory objectives, including those of micro-prudential authorities, macro-prudential regulators, securities/market conduct regulators and the government. This leads to concerns over regulatory fragmentation.	• Greater coordination across regulatory agencies and standard setters across financial and non-financial sectors, both within jurisdictions and internationally, is needed to leverage respective resources in assessing transition impacts from a transition and physical risk perspective. • Financial sector policymakers could benefit from developing transition plan requirements in the context of real economy transition plans.	The G20 should direct the Financial Stability Board (FSB) to ensure the harmonisation of any transition planning efforts across the financial and real sectors. Further, the FSB, in cooperation with the International Organization of Securities Commissions (IOSCO) and ISSB, should help develop, implement, and promote coherent financial sector transition plan requirements harmonised with real sector regulations, such as those by the ISSB.
Verification of transition planning and disclosure practices is needed	As transition plans are an emerging field, their quality and completeness must be independently assessed. Initial plans may not meet stakeholder expectations, so relevant verification methodologies need to be developed. Additionally, as users of transition plans, financial institutions should not be responsible for assessing the completeness and credibility of client plans.	• Corporates and financial institutions must establish data controls, systems, and management processes to identify shortcomings and prioritise actions that align with their transition plan. • Framework for third-party verification of transition plans should be developed, drawing from existing methodologies like those by Assessing Corporate Transition and Climate Bonds Initiative and standards such as ISO 14064-3, ISAE 3000, and AccountAbility, as well as guidelines from International Financial Corporation (IFC), Global Reporting Initiative (GRI), Sustainability Accounting Standards Board (SASB), and Integrated Reporting.	The G20 can create a task force with representation from all different standard-setting organisations to help create the global baseline standards for transition plan verification.
Requirement of capacity building of national regulators on transition planning	Transition planning and disclosure is an emerging regulatory area. Many regulators still focus on broader environment, social and governance (ESG) disclosures. However, regulatory capacity for appraising and regulating transition plan disclosures will be required with the rapid adoption of net-zero targets.	Regulators must understand the importance of transition plan disclosure regulations for market integrity, just transition and sustainable finance market growth. They also require training on climate science, technological roadmaps, socio-economic impacts, and sector-specific best practices.	G20 Sustainable Finance Technical Assistance Action Plan (TAAP) can be expanded to include the capacity building of national regulators on new regulations in the sustainable finance ecosystem, including transition plans.

Understanding Transition Plans

A transition plan is a strategic roadmap that outlines how an organisation will realign its assets, operations and business model to meet climate goals, such as halving greenhouse gas emissions by 2030 and achieving net-zero emissions by 2050. While strategic planning is not new, the specificity and urgency of climate transition plans make them crucial for an organisation's future viability.

Current Understanding

Despite a shared understanding of the need for transition plans, there is no universally agreed-upon definition of their components, including their aims, audience, scope, content and format. This lack of consensus leads to debates on the relevance of transition plans to regulatory objectives, creating confusion. Existing frameworks and literature on transition plans are primarily market-oriented and applicable across industries, focusing on disclosure to shareholders, investors and external stakeholders. They aim to enhance transparency and provide assurance regarding an organisation's commitment to its transition strategy and net-zero goals. However, the current frameworks lack consensus on components and tend to be agnostic to the markets for whom they are intended. Additionally, many frameworks for transition plans do not provide adequate guidance for corporations and financial institutions.

Need for Transition Plans and Their Use for Different Stakeholders

Transition plans are necessary tools for organisations to demonstrate their commitment to achieving net zero in a phased manner, ensuring the relevance and profitability of their business models. They are relevant for a wide range of stakeholders for various purposes.

Figure 2: Relevance of Transition Plans to Difference Stakeholders

Source: IEEFA Analysis

Key Elements of a Robust Transition Plan

A robust transition plan should have disclosure on some critical parameters, including governance, scenario analysis, financial planning, value chain engagement, policy engagement, risks and opportunities, targets, and emission accounting and verification. Most existing transition planning standards map these parameters across the four pillars of Task Force on Climate-Related Financial Disclosures (TCFD) reporting.[2] These are governance, strategy, risk management, and metrics and targets. Besides the disclosures on the aforementioned parameters, transition plans, in general, need to be created based on certain principles. The plan should have clear roles and responsibilities with effective governance mechanisms that integrate into the overall business strategy and link to the profit and loss statement. It should focus on long-term goals, trending towards 2050 (or other relevant targets), with near-term milestones. The plan must include quantifiable key performance indicators (KPIs) with defined timeframes, be regularly reviewed and updated and incorporate stakeholder feedback. It should cover the entire organisation, ensuring no material exclusions.

Figure 3: Key Principles of Creating a Robust Transition Plan

Source: IEEFA Analysis

Existing Guidelines for Transition Plan Disclosures

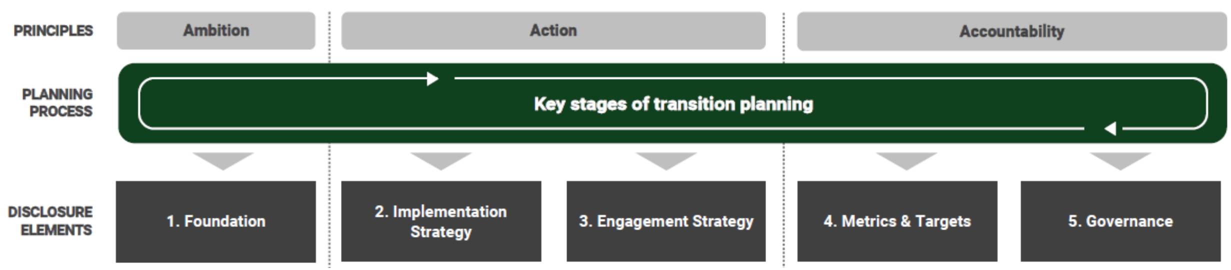
Transition plans are gaining strong momentum globally, with several jurisdictions mandating or planning to mandate disclosures by corporations and financial institutions. Currently, disclosure of transition plans is a requirement as part of wider sustainability disclosures by companies.

Regulators increasingly demand credible, short-term and ambitious transition plans from companies and financial institutions to meet climate and environmental targets. The United Kingdom (UK) led the way by creating a framework for climate transition plans by listed companies and financial institutions in 2023, with companies expected to use the framework to disclose their transition plans for 2025 and onwards.[3] Large companies, asset owners and managers have already needed to make

[2] Task Force on Climate-Related Financial Disclosures (TCFD). About Us.
[3] Reuters. Britain sets out blueprint for company climate 'transition' plans. October 2023.

TCFD-aligned disclosures since April 2022.[4] In 2022, the UK established the Transition Plan Taskforce (TPT) to develop a gold standard for private sector climate transition plans. The European Union (EU) recently adopted the Corporate Sustainability Due Diligence Directive (CSDDD), which mandates climate transition plan disclosures by companies subject to it.[5] It is also implementing the Corporate Sustainability Reporting Directive to mandate transition plans aligning with climate goals. Other jurisdictions, including the Philippines, Singapore, Switzerland, Hong Kong, the US and Australia, are also mandating or planning to mandate transition plans, primarily in developed markets but with growing importance in developing economies.

Figure 4: The TPT Disclosure Framework



Source: Transition Plan Taskforce

Over the past few years, there has also been a rapid proliferation of non-regulatory frameworks, guidance and criteria aiming to set out common approaches for financial institutions and corporations to develop and implement their transition plans. Key examples include TCFD's 2021 guidance on climate metrics[6], Glasgow Finance Alliance for Net Zero's (GFANZ) 2022 Net-Zero Transition Plan[7], International Sustainability Standards Board's (ISSB) 2023 global standards for sustainability (IFRS S1 and S2)[8], and CDP's 2023 guidance on credible climate transition plans.[9]

To date, there is a serious gap in the conceptualisation and reporting of ambitious, credible and feasible corporate climate transition plans. In February 2023, CDP released a report assessing the state of climate-related reporting from more than 18,600 companies. CDP found that only 0.4% of companies have disclosed credible climate transition plans.[10] A similar analysis by the Transition Pathway Initiative Centre (TPI Centre) in November 2023 said that less than 1% of assessed companies have adequate transition plans.[11]

[4] OGL. Mandatory climate-related financial disclosures by publicly quoted companies, large private companies and LLPs.
[5] ERM. Corporate Sustainability Due Diligence Directive.
[6] IFRS. The work of the TCFD has been completed, with the ISSB's Standards marking the 'culmination of the work of the TCFD'.
[7] GFANZ. Financial Institution Net-zero Transition Plans.
[8] EY. ISSB issues IFRS S2 new climate-related disclosure standard. 26 June 2023.
[9] CDP. Climate Transition Plans
[10] ESG Today. Less than 1% of Companies Have Presented Credible Climate Transition Plans: CDP. 8 February 2023.
[11] Edie. Less than 1% of businesses have adequate transition plans in place for long-term climate goals. 7 November 2023.

Just Transition in Transition Plan Requirements

Just transition considers the socio-economic impacts of business transition strategies towards sustainability. Originating in the 1980s with North American labour and environmental groups, it gained prominence with the International Labour Organization's (ILO) 2015 guidelines and the endorsement of the 2015 Paris Agreement. The ILO defines just transition as making the economy greener fairly and inclusively, ensuring decent work opportunities and leaving no one behind.

Just transition planning in the context of corporate transition plans is a company's approach and strategy to transition to a net-zero economy in a just and human-centred manner. A just transition plan specifies a company's priorities and ambition across all aspects of the just transition regarding its activities and business model. The plan also establishes objectives, actions and KPIs for just transition activities and, thereby, how the company aims to contribute to a just transition.

Current Position of Just Transition in Voluntary and Mandatory Frameworks

Climate disclosures have focused mainly on climate considerations, but there's a shift towards including social dimensions of the low-carbon transition. GFANZ highlights just transition, urging engagement with excluded populations and financial institutions' considerations. The EU's European Sustainability Reporting Standards (ESRS) require companies to disclose just transition policies related to their workforce. At the same time, the EU's CSDDD mandates risk-based human rights and environmental due diligence. In the UK, the Transition Plan Taskforce (TPT) will develop guidance on nature, adaptation and just transition. Meanwhile, the ISSB is enhancing S1 and S2 Standards to address climate-adjacent risks and just transition opportunities. Hence, most of these requirements are still under discussion in transition planning.

Existing Guidelines to Incorporate Just Transition in Transition Plan

Beyond transition plans' frameworks, there are several tools, methodologies and guidelines to help financial institutions and corporates incorporate just transition in their business strategy and transition plans. These, at times, also refer to existing transition plan standards. Some of the most prominent guidelines are listed in Table 2. Almost all tools, methodologies, guidance or frameworks refer to the ILO standards on just transition as guiding principles.

Table 2: Existing Just Transition Guidelines for Businesses

Guidelines	Summary
ILO Just Transition Guidelines	Provides high-level policy foundations for translating guidelines into specific business expectations.
OECD Guidelines for Multinational Enterprises (MNEs)	Recommends enterprises assess and address social impacts in environmental management and due diligence.

International Trade Union Confederation (ITUC) and B Team Business Guide for Just Transition	The guide offers operational advice to companies on just transition, focusing on risks and opportunities to provide a clear business case for action.
UNEP-FI Just Transition Finance Pathways	Guides banks and insurers on promoting a just transition to low-carbon, climate-resilient economies.
World Benchmarking Alliance Just Transition Methodology	Assesses companies on just transition using over 80 indicators based on international norms and standards.
Council for Inclusive Capitalism	Provides a framework with core and just transition-specific practices for managing a net-zero transition.
Business for Social Responsibility Just Transition Toolkit	Offers a 5-step process for companies to design and implement a just transition plan at the corporate level.

Source: IEEFA Analysis

Current Issues and Recommendations for Developing Robust Just Transition Plans

As the just transition landscape is evolving, corporations and financial institutions face several bottlenecks today while incorporating credible just transition plans. We detail these challenges in this section.

Standardisation of Transition Plan Requirements along with Just Transition Guidelines

Due to the proliferation of numerous just transition planning methodologies and several mandatory and voluntary reporting frameworks, corporations and financial institutions today face difficulty navigating through them. Most regulatory requirements for transition planning align with the TCFD framework, while almost all methodologies for incorporating socio-economic considerations in business strategy and operations are based on the ILO's labour standards. However, there is a lack of a coherent framework that helps provide entities with the methodology to create just transition plans and guidance on disclosing them.

For instance, examining IFRS S2, ESRS E1, and the UK's TPT, there are differences. The frameworks vary in the specificity, prescriptiveness, detail, and structure of transition plans and related elements. Notably, they agree on the need for strategic and material plans for the future business model supported by effective corporate governance. For instance, the EU's ESRS E1 lists transition plans as the first disclosure under the strategy pillar, offering high-level guidance on expected content, but the structure of transition plans remains unclear. Meanwhile, the ISSB's IFRS S2 only mentions the disclosure of a transition plan, if available, under the strategy pillar of broader climate reporting, lacking specific and direct content guidance.[12] Moreover, as mentioned earlier, just transition

[12] ICMA. Transition Finance in Debt Capital Markets. 2024.

requirements are still primarily under discussion as part of transition planning in all these frameworks and guidelines.

Similarly, as specified in Table 2, various just transition guidelines cater to several stakeholders, including governments, financial institutions and corporations. For instance, the Organisation for Economic Co-operation and Development's (OECD) Guidelines for Multinational Enterprises (MNEs) are addressed specifically to businesses involved in international trade and investment and provide guidance to undertake due diligence on human rights and employee relations. The International Trade Union Confederation (ITUC) Just Transition Guide provides operational advice on implementing a just transition, providing three broad steps of engagement, planning and enacting. The Council for Inclusive Capitalism provides a framework across four pillars that act as a starting point to integrate a just transition. None of the guidelines and frameworks are explicitly aimed at incorporating just transition planning and covering the topic as one of the practices in the realm of environment, social and governance (ESG) strategy.

For financial institutions, the United Nations Environment Programme—Finance Initiative's (UNEP FI) Just Transition Finance Pathways provides practical advice on how to embed just transition considerations throughout banks' and insurance companies' activities and operations. It complements the GFANZ's recommendations for creating transition plans. However, no regulatory guidance is currently available for incorporating just transition in financial sector transition plans. Additionally, these plans invariably depend upon transition plan disclosures from real economy firms (discussed later).

The existence of multiple guidelines and frameworks, each with slightly different expectations or requirements on crucial elements like implementation strategy, metrics, governance, or the use of carbon offsets tailored to particular stakeholder groups, results in a variety of approaches adopted by corporations and financial institutions. This diversity of rules, coupled with varying stakeholder expectations, can cause disagreements about what constitutes a credible transition plan.

Recommendation: Creating a Global Baseline for Just Transition Planning

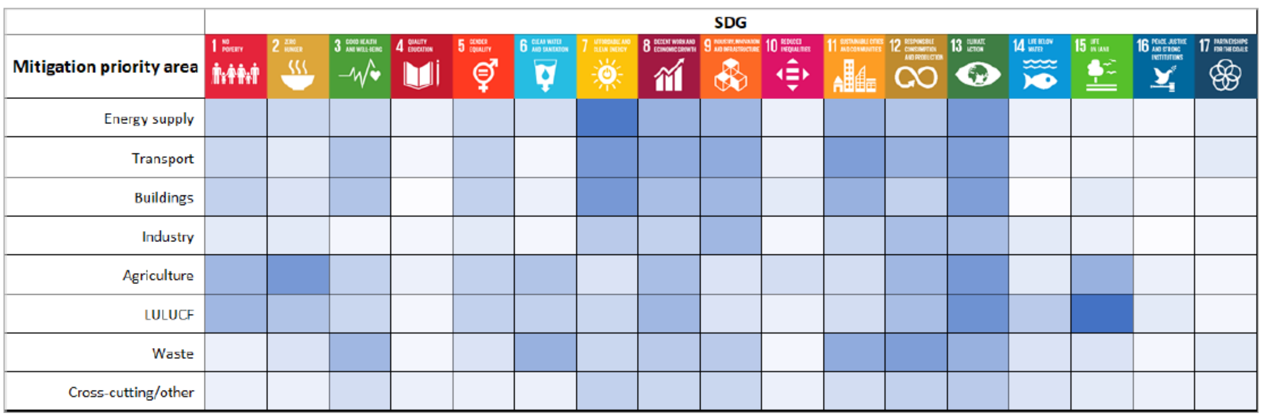
Similar to ISSB standards for sustainability reporting, which subsume the major voluntary standards into one global baseline that different jurisdictions can adopt and refer to while formulating their own regulatory standards, there is a need to have a shared understanding of just transition plan principles and methodologies. These should be based on the currently available tools and methodologies and leverage the TCFD and the ILO standards for planning and incorporating just transition considerations, respectively.

The G20 can commission an expert group to create a just transition plan framework to recommend to the ISSB for inclusion in the ISSB S2 climate reporting standards. This framework should also be harmonised with the GFANZ transition plan standards for the financial sector to ensure coherence in developing a global baseline for both the real and financial sector companies.

Incorporating Just Transition into National Net-Zero Planning Agendas

National governments are vital in enacting just transition-related regulation and supporting a wider enabling environment for corporate just transition action. To date, only a few countries have set sectoral emission limits or carbon budgets to meet their net-zero targets. Additionally, these sectors' unique just transition perspectives have not been identified and incorporated.

Figure 5: Synergies Between Efforts in Mitigation Priority Areas and Efforts Towards the Sustainable Development Goals Identified in NDCs



Source: UNFCCC; The shading reflects how frequently linkages were identified by Parties: the darker the shading, the more frequently linkages were identified.

The number of Nationally Determined Contributions (NDCs) that explicitly mention "just transition" is low but growing. It jumped from 17% (33 NDCs covering 59 countries) in 2022 to 23% (45 NDCs covering 71 countries) in 2023. Further, 56% of Long-term Strategy (LTS) also include references to just transitions. These numbers must increase to ensure progress toward an equitable green transition across all nations and sectors.[13] However, in addition to explicit mentions, it is crucial to conduct both qualitative and quantitative assessments, including economic modelling, to evaluate the socio-economic impacts of the green transition. This will help identify targeted measures to support vulnerable groups, such as women and informal workers. Countries like Serbia, Costa Rica and Zimbabwe are a few examples of using such assessments for a just transition. These assessments are vital to developing robust just transition plans by corporations and financial institutions tailored to their individual contexts.

Recommendation: Make Just Transition Perspectives Central to National Transition Planning Exercises

Just transition risks and opportunities need to be disaggregated by individual sectors and incorporated into national transition targets and roadmaps, such as NDCs. The G20 needs to encourage member countries to conduct qualitative and quantitative assessments (e.g., modelling) to

[13] WRI. 5 Essential Principles of the Just Transition Work Programme for Climate Action. March 2024.

estimate NDC-measures' impacts on key indicators such as gross domestic product (GDP), employment, skills, income distribution and gender equality. This approach helps countries understand the distributional impacts of NDCs and identify targeted measures for vulnerable populations.

During COP27, a decision was made to establish the Work Programme on Just Transition (JTWP).[14] The JTWP aims to holistically assess, design and scale-up pathways to achieve the goals of the Paris Agreement in a just and equitable manner. The JTWP platform can be leveraged to enhance cross-border collaboration to achieve the above-stated goal.

This exercise should be complemented with social dialogues between or among representatives of governments, workers and unions on issues of common interest relating to economic and social policy. In South Africa, for example, the National Economic Development and Labour Council (NEDLAC)[15] has been established with government representatives, workers and employers, organisations and other civil society representatives.

Additionally, a national just transition risk register that can be used by different stakeholders, including regulators, financiers, corporations and communities, needs to be developed. Across each high-impact sector, the risk register should map affected stakeholders, transition impact, likelihood of impact, current control mechanisms and planned actions (through policy and reforms).

Current Just Transition Planning Exercises Geared Towards Developed Markets

Transition plans, including their methodologies and the scenarios that guide company action, are largely geared toward financial institutions and companies in developed economies. However, the global adoption of universal expectations for transition plans has the potential for unintended consequences for companies and labour markets in developing economies.

As discussed in the previous section, within developing nations, current research on transition plans is largely focused on developing and implementing NDCs at the government level rather than any potential action or guidance for companies or financial institutions. The lack of targeted sectoral pathways and guidance on the public level also raises the question of whether most pathways expected to be used in transition plans are designed for companies in developed economies.

Some voluntary organisations have developed guidance to support corporations' and financial institutions' use of sectoral pathways to create their net-zero plans. These include GFANZ, Science Based Targets Initiative (SBTi) and Transition Pathways Initiative (TPI). However, emerging market companies cannot adopt these pathways directly. The pathways also lack transition perspectives. For instance, in the SBTi's Sectoral Decarbonisation Approach (SDA), one of the net-zero target-setting approaches, targets are set by assuming all companies converge to the same intensity level as the sector by the year 2050. For some sectors, such as power generation, the target year is a more

[14] UNFCCC. Work Programme on Just Transition.
[15] IEA. South Africa's just transition social dialogue.

stringent 2040.[16] However, the SBTi also acknowledges that in sectors like steel, breakthrough technologies, such as green hydrogen-based direct or smelting reduction, will be crucial to providing a clear pathway to deep emission reduction. All this needs to happen in a regulatory environment that does not yet support deep decarbonisation in some parts of the world. Additionally, achieving long-term targets under SBTi is based on the assumptions of finance and technology being available in these jurisdictions.

From a just transition perspective, higher informality in labour markets in developing economies increases susceptibility to economic crises and policy changes, impacting vulnerable groups like women, minorities and migrants. Here a single formal job displacement can affect multiple households, rendering just transition scenarios from developed economies inadequate. Additionally, the issue of informal and induced jobs is much larger in several emerging markets, which may not be the case in most developed markets.

Recommendation: Leverage Current Global Transition Pathways as Common Baselines to Create Regional and Country Level Pathways

There is a need to ensure that developing world-specific transition pathways that consider individual policy, finance, technology, and socio-economic factors across countries are developed. The G20's Global Infrastructure (GI) Hub has been working on infrastructure transition pathways since 2022 to examine trends associated with the infrastructure transition to achieve global climate targets and Sustainable Development Goals (SDGs). The GI Hub has identified 15 strategies (transition pathways) that align infrastructure development and delivery with climate goals and SDGs that governments and industry can use to plan infrastructure development and investment to achieve climate targets and the SDGs. Three of these pathways also narrowly align with just transition, including access, affordability and infrastructure standards.[17]

The G20 should build on this work and facilitate or sanction the creation of global baseline sectoral pathways. These pathways should be used as a common starting point for different member countries to then create their own specific sectoral pathways. Several countries are working on developing their individual sectoral decarbonisation roadmaps. A common starting point (or rather ending point aligned to a 1.5 or below 2-degree Celsius trajectory) and modelling approach will help in understanding the differences in the approach followed by each country to achieve cross-sectoral decarbonisation. The G20 should also provide guidance documents for countries to adopt and work on these base scenarios. Such a global benchmark will assist in appreciating the need to transfer technology and finance from the global north to the south to ensure that all country-level pathways eventually converge to the Paris Agreement targets.

Sustainable Finance and Just Transition Planning by Corporates

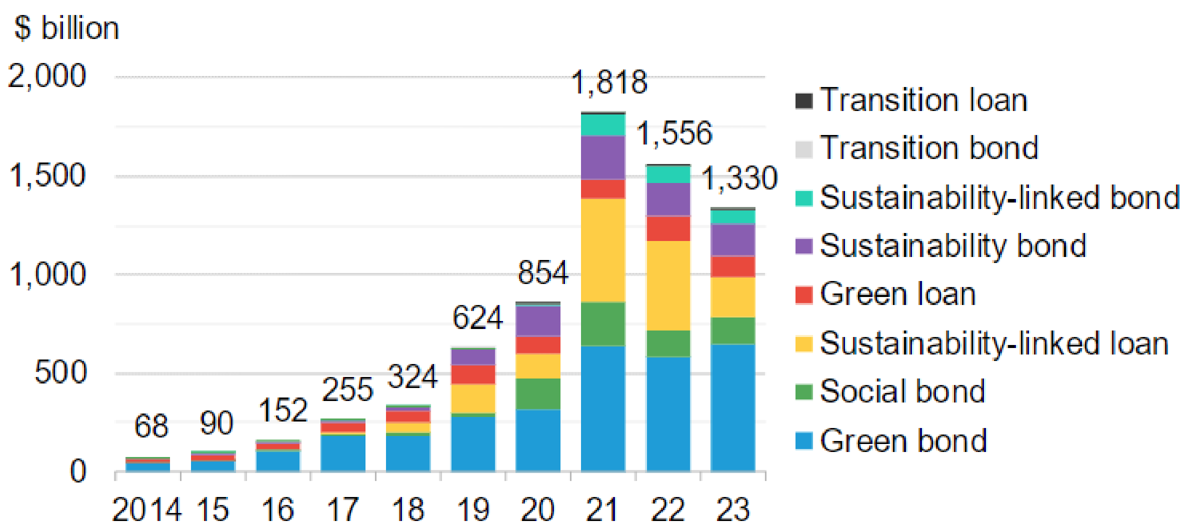
One of the key functions of just transition plans is facilitating access to capital from global and domestic sustainable finance markets. Sustainability disclosures overall serve as one key motivation for corporations and the ability to finance their transition by raising capital aligned to financing a low-

[16] SBTi. Power Sector.
[17] Global Infrastructure Hub. Sustainable infrastructure for the climate transition.

carbon economy. However, the absence of just transition plan disclosures in sustainability reports, whether mandatory or voluntary, has created a market gap. These frameworks do not explicitly require a clear connection between debt issuance, use of proceeds and broader corporate decarbonisation strategies, leading to a decline in issuances. Additionally, disclosures and sustainable debt issuance frameworks lack interlinkages between voluntary and mandatory standards, particularly in developing markets, leading to a lack of transition planning.

The sustainable debt market crossed US$7.2 trillion in total issuance by the end of 2023, with green bonds being the largest debt type, helping entities finance renewable energy forays.[18] However, global issuances declined for the second consecutive year in 2023. To increase issuance volume, it is crucial for companies in the fossil fuel sector and hard-to-abate industries to raise capital not only for mature green technologies like renewable energy but also for emerging low-carbon technologies and transitional assets.

Figure 6: Global Sustainable Debt Issuance



Source: Bloomberg New Energy Finance (BNEF)

Thematic debt instruments, particularly transition- and sustainability-linked, are important to finance such assets. However, their issuances have been plummeting. For instance, during the calendar year 2023, global issuance of sustainability-linked loans and bonds plummeted by 55% and 24%, respectively.[19] These instruments are under heavy scrutiny globally due to structural loopholes, including a lack of transition plans. Current examples of sustainability-linked bonds (SLBs) and transition bonds have raised market concerns regarding transition pathways' relevance, reliability and ambition. The targets set by companies are often hard to compare with those of peers or broader goals like the Paris Agreement targets. There is worry that some issuances are merely 'business-as-usual' under a new label. Despite the market's impressive growth, assessing the impact

[18] BNEF. Sustainable Finance.
[19] BNEF. Sustainable Finance.

and ambition of each bond has been challenging. If these issues are not addressed, the market will not reach its full potential or achieve significant emissions reductions.[20]

Recommendation: Create Interlinkages Between Thematic Debt Issuance Frameworks and Transition Plan Disclosures by Corporates and Financial Institutions

One of the primary use cases for a corporate and financial institution for sustainability disclosures is to raise finance from the sustainable finance markets. Transition plans could boost the sustainable bond market by providing a strategic framework to assess issuers' commitments to sustainability and transition. They help issuers mitigate risks and controversies related to carbon lock-in and improve target setting and KPI selection for SLBs, offering insights into failures and external challenges.[21] The G20 Sustainable Finance Working Group (SFWG) should work alongside organisations like the International Capital Market Association (ICMA) and ISSB to create sustainable debt issuance frameworks that include explicit requirements for linking the use of proceeds of any debt issuance to the wider transition plan of the organisation.

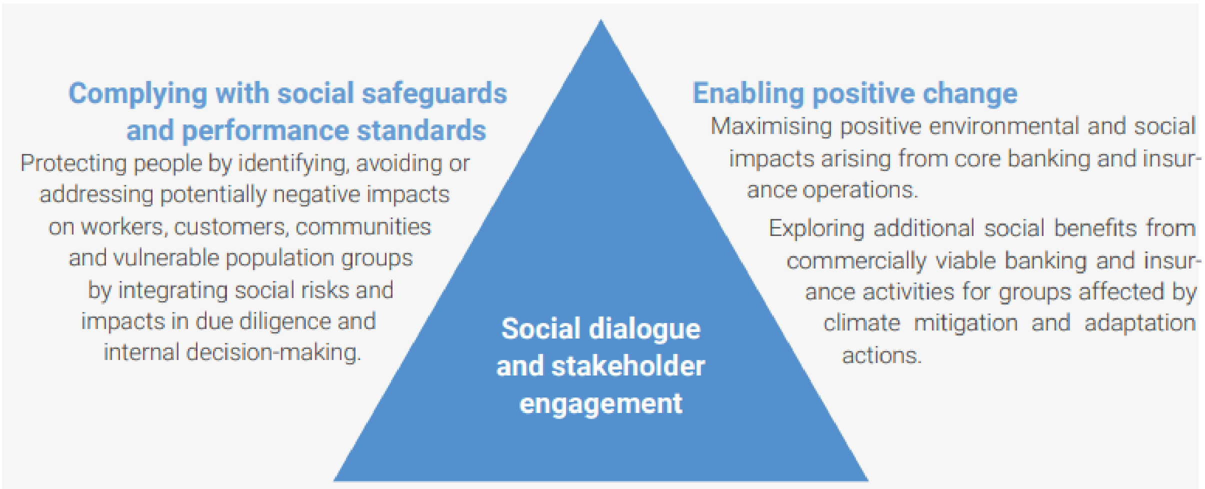
Coherence of Just Transition Planning Regulations for the Financial Sector and Real Sector

Coherence in the efforts of regulators, both capital market and financial sector, when it comes to mandating transition plan regulations is imperative. As alluded to earlier, transition plans are important from the perspective of individual corporations and financial institutions in creating a detailed transition strategy and communicating it to different stakeholders. However, inconsistent transition plans and greenwashing could also have macroeconomic impacts, causing economies to end up on financially riskier and costlier disorderly decarbonisation pathways.

Within the financial sector, regulators, including central banks and supervisors, are increasingly focused on transition planning by financial institutions, covering areas like disclosure, supervision and market conduct. Within the corporate sector, capital market regulators are looking primarily to curb greenwashing risks and, hence, avoid any systemic risks to the market. Mandatory disclosure regimes and recent regulatory efforts on transition plans are also aligned to maintain market integrity.

[20] ICMA. Transition Finance in the Debt Capital Market. February 2024.
[21] ICMA. Transition Finance in the Debt Capital Market. February 2024.

Figure 7: GFANZ's Two Pillar Approach to Promoting a Just Transition for Financial Institutions



Source: UNEPFI

This growing interest prompts questions about the proper applications of transition plan information and concerns over regulatory fragmentation. Additionally, the extensive range of these applications might lead to unrealistic expectations about the outcomes of transition planning for both the real and financial economy players. For instance, banks aim to identify and monitor high-risk areas of their clients by evaluating risk along two axes: clients' sectors and the status of clients' responses to transition risks. For the latter, real sector companies will require transition planning. Additionally, several banks may have an engagement model with their clients to achieve their own transition plans, where existing and new financing may be based on the latter's ability to disclose detailed plans and act based on these plans.

As per the Network for Greening the Financial System (NGFS), financial institutions currently face challenges in obtaining and using information from non-financial firms' transition plans. The extent to which a financial institution can credibly develop and implement its transition strategy is dependent on the extent to which its clients can credibly develop and implement their own strategy.[22] The NGFS states four key issues financial institutions face in utilising non-financial firm transition plans- lack of data, incomplete data, uncertain reliability, and different purposes of available data. Coordinating standards and timelines across the real and financial economy regulators and ensuring the interoperability of standards will be important to ensure that financial institutions are able to create their own transition plans robustly.

Additionally, financial sector regulators are also assessing the importance of transition plans in managing climate risks, both from micro-prudential and macroprudential perspectives. For example, the finalised Capital Requirements Directive (CRD6) in Europe and work by the European Central Bank (ECB) on climate micro-prudential regulation demonstrate that European public authorities anticipate a stronger connection between transition planning and managing climate-related financial

[22] NGFS. Connecting Transition Plans: Financial and non-financial firms. April 2024.

risks.[23] The Financial Stability Board (FSB) is exploring macroprudential applications for financial institutions' transition plans.[24] Any forthcoming regulations targeting specific challenges through financial sector transition plans might lead to regulatory fragmentation, affecting not only the interaction between the financial and real sectors but also within the financial sector itself.

Recommendation: Ensure Coherence of Transition Plan Regulations Through Coordinated Efforts

There is a need to ensure coordination between different stakeholders using transition plan disclosure by companies and financial institutions. There are a number of potential uses for the information within transition plans that could meet different regulatory objectives, including those of the micro-prudential authorities, macro-prudential regulators, securities/market conduct regulators and the government. Consequently, greater coordination across regulatory agencies and standard setters across financial and non-financial sectors, both within jurisdictions and internationally, is needed to leverage respective resources in assessing transition impacts from a transition and physical risk perspective.

Financial sector policymakers could benefit from developing transition plan requirements in the context of real economy transition plans. Such measures would not only assist financial institutions in utilising these plans effectively but also support them as they develop their own transition strategies. Additionally, there should be a degree of consistency in regulatory and supervisory expectations across financial sector regulators on transition plan disclosures in terms of structure, scope and coverage.

The G20 has tasked the FSB to consider ways to enhance supervisory communication and information sharing, including approaches and mechanisms to avoid future fragmentation in financial sector regulation.[25] The FSB should be directed to harmonise any transition planning efforts across the financial and real sectors. Further, the FSB, in cooperation with the International Organization of Securities Commissions (IOSCO) and ISSB, should help develop, implement, and promote coherent financial sector transition plan requirements harmonised with real sector regulations, such as those by the ISSB.

Verification of Transition Plans is Pertinent

With transition plans being an emerging field in a rapidly evolving space, the quality and completeness of transition plans will need to be independently assessed. It is expected that while a valuable first attempt, many of these plans will fall short of stakeholder expectations. Relevant verification methodologies need to be developed where they do not currently exist.

Corporates and financial institutions must establish data controls, systems and management processes to identify shortcomings and prioritise actions that align with their transition plan. Conducting both internal (via internal audits and controls) and external reviews of these processes

[23] IIF. The Role of The Financial Sector in the Net Zero Transition: Assessing Implications for Policy, Supervision and Market Frameworks. October 2023.
[24] Financial Stability Board. FSB Roadmap for Addressing Financial Risks from Climate Change Progress report. July 2023.
[25] G20. G20 Leaders' declaration Building consensus for fair and sustainable development. December 2018.

offers additional assurance to stakeholders. Without these fundamental elements, a climate transition plan may be compromised by inaccuracies.

From a financial sector perspective, while financial institutions may use real economy transition plan information to assess and disclose progress towards their own net-zero targets, it is not appropriate to expect that financial institutions are solely responsible for evaluating the credibility of transition plans disclosed by clients and investees. Assessing a counterparty's plan often requires expert judgment, supported by market and sectoral analysis, to determine the likelihood of a firm meeting its targets.

The G20 SFWG during the Indonesia presidency in 2022 had provided recommendations for private sector financial institutions to use independent third-party verification/assurance (e.g., by auditors, consultancies, NGOs or assurance companies) for their transition plans.[26] The GFANZ, in its supplement note to the transition plan guidance for financial institutions, also recommends that, where available, third-party verification of the targets adds another layer of credibility for real economy entities.[27] While wider sustainability disclosures are subject to assurance, for instance, with ESRS mandating a limited assurance, no verification guidelines or regulations have been notified for transition plans. This is understandable given the nascency of transition plan disclosures.

A few independent organisations, such as Assessing Corporate Transition (ACT) and the Climate Bonds Initiative (CBI), currently provide third-party verification of corporate transition plans. However, there are currently no standardised practices for verification. Several initiatives are putting forward different approaches for evaluating the credibility of transition plans; the lack of a common approach is leading to an array of challenges for transition plan preparers and supervisors and could potentially hamper efforts to evaluate credibility.

Recommendation: Develop Global Baseline Verification Standards and Guidance

Based on current practices and global verification standards for sustainability or ESG, a framework for third-party verification of transition plans needs to be developed. This framework should incorporate methodologies from existing transition plan verification systems like those developed by ACT and CBI. It should also refer to guidelines from organisations such as the International Financial Corporation (IFC), which has an Environmental and Social Management System (ESMS) for due diligence in identifying, assessing, and managing environmental and social risks. Additionally, international sustainability data assurance standards like ISO 14064-3, ISAE 3000 from the International Auditing and Assurance Standards Board, and the AccountAbility assurance standard should be included. Moreover, guidelines from sustainability reporting frameworks and standards, such as the Global Reporting Initiative (GRI), Sustainability Accounting Standards Board (SASB), and Integrated Reporting, should also be considered.

The G20 can create a task force with representation from all these different standard-setting organisations to help create the global baseline standards for transition plan verification.

[26] SFWG. 2022 G20 Sustainable Finance Report. October 2022.
[27] GFANZ. SCALING TRANSITION FINANCE AND REAL-ECONOMY DECARBONIZATION. December 2023.

Capacity Building for National Regulators

Transition planning and disclosure are new regulatory developments globally in the realm of sustainability-related regulations. While there have been some developments with the work of TPT and EFRAG, several regulators globally, both financial and real sector, are still focusing on wider ESG disclosures in their jurisdictions. However, given the fast proliferation of net zero and other decarbonisation targets by entities globally, there is a need to mainstream transition plan regulations too.

As a starting step, regulators need to be sensitised to the importance of transition plan disclosure regulations as a critical component of maintaining market integrity, ensuring a just transition, and growing the sustainable finance market. Additionally, regulators will need capacity development in areas such as climate science, technological roadmaps, socio-economic implications of the transition, and sector-specific emissions, technologies, and best practices.

Recommendation: Develop Global Baseline Verification Standards and Guidance

The G20 Sustainable Finance Working Group (SFWG) proposed the development of a G20 Sustainable Finance Technical Assistance Action Plan (TAAP) under India's presidency in 2023.[28] TAAP is designed for both the public and private sectors, aiming to create an ecosystem of capacity-building initiatives through a series of advisory, operational, and technical programs to support the mobilisation and scaling up of sustainable finance. The plan can be expanded to include the capacity building of national regulators on new regulations in the sustainable finance ecosystem, including transition plans.

[28] G20. G20 Technical Assistance Action Plan (TAAP).

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