

From the Grand to the Granular

Translating just transition ambitions into investor action

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Financing the just transition: the context

- The just transition is about anticipating, analysing and addressing the social risks and opportunities of decarbonisation for workers, suppliers, communities and consumers.
- Governments have the primary responsibility for delivering a just transition, but **financial institutions have an important supporting role to play.**
- There are clear strategic reasons for financial institutions to take action:
 1. It is the **right thing to do** and is fully consistent with longstanding commitments to social and human rights standards and the Sustainable Development Goals.
 2. It is the **necessary thing to do** to ensure long-term public support for rapid and potentially disruptive change.
 3. It is the **smart thing to do** because it will minimise transition risks and strengthen the human and social capital needed for long-term investment. It is a material issue for all financial institutions.
- This is increasingly recognised among financial institutions and the just transition agenda is moving into a new phase, **shifting from statements of high-level commitment to practical delivery.**



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

1. Strategy

- Establish a company strategy and plan for the just transition in the context of delivering net-zero and resilience goals, to be adopted at the Board level with clear Board oversight.
- Incorporate the just transition in remuneration, planning, risk management, scenario exercises, capital investment and acquisitions and restructuring.
- Ensure social dialogue and representation of workers and trade unions in company-level climate decision-making and implementation.

2. Workers

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

3. Supply chain

- Support suppliers (including SMEs) through access to skills, finance and technology.
- Apply both labour and human rights and environmental due diligence and policies along the supply chain, particularly in developing countries.

4. Communities

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

5. Consumers

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

6. Policy and partnerships

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

7. Transparency and disclosure

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

By incorporating these expectations into investment appraisal and due diligence, shareholder engagement and capital allocation decisions for portfolio companies, investors can ensure they minimise systemic risk, support sustainable development and contribute to positive social impact.

Lessons from practice in the European power sector

A first wave of companies is taking action to embed practical delivery of the just transition agenda into their climate plans, prompted by social dialogue with their trade unions, and, increasingly, by shareholder engagement from their investors.

Enel – Management

The first company to take an active approach to the just transition, which has now become part of its wider strategy for the clean energy transformation.

EDF – Management, stakeholders and investors

The just transition emerges from the company's tradition of social dialogue and has prompted the development of innovative local Ecological Transition Contracts. Investor asks led EDF to publish a just transition plan.

SSE – Investors

Investor engagement helped trigger the design of the first just transition strategy covering both 'transitioning out' of high-carbon activities and 'transitioning into' net-zero.

E.ON – Investors

Following a call to action from its investors, E.ON developed a first structured approach to the just transition to build public approval and social acceptance.

ZE PAK – Policy

Based in one of Poland's key coal regions, this company is using the EU's just transition programmes as a catalyst for action to leave no workers behind.

Key gaps and priorities for further action

- Initial champions are emerging, notably in the energy sector, showing how businesses can start to make the just transition an operational reality. But these efforts remain incomplete, both in terms of depth within companies and breadth across sectors and regions.
- Key gaps that should be prioritised in the immediate future include:
 - **Strategic approaches** to the just transition from companies are still the exception rather than the rule and need to be developed more widely.
 - The approach to workers tends to be narrow and needs to extend across **operations worldwide and include supply chains.**
 - There is a need for community engagement to move from traditional corporate social responsibility (CSR) activities to a more **transformational model built on co-creation.**
 - **Just transition reporting** is sparse and lacks comparability. Social factors should form part of routine climate and sustainability disclosure.
- The just transition must become part of every business plan and financing strategy for climate action, moving into the mainstream so that the social impacts of the move to a net-zero economy are routinely included in decision-making. This will require a significant scale-up of effort from all parties, not least by investors.