

Key Issues Note for the 2024 G20 Sustainable Finance Working Group (SFWG)

Advancing Robust, Credible and Just Transition Plans

Building on the G20 Transition Finance Framework and other relevant contributions on climate transition plans for corporates and for financial institutions, this note seeks to: 1) provide a (non-comprehensive) state of play and key considerations for financial institutions and corporations to develop transition plans, with a focus on aspects that support a robust, credible and just transition; and 2) outline key elements that could be considered while developing principles on robust, credible and just transition plans for corporate entities and financial service providers by the G20 Sustainable Finance Working Group.

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1 Introduction

Well-designed climate transition plans for corporates and financial institutions are an essential foundation for ensuring transition finance is environmentally credible, and for achieving a just transition towards net zero. In 2023, the G20 Sustainable Finance Working Group (SFWG) produced the G20 Transition Finance Framework. As part of its 22 principles across five pillars, the Framework includes two references to just transition:

- **Principle 6:** Include strategies for an orderly, just and affordable transition, minimizing negative impacts on jobs, communities, and other Sustainable Development Goals (SDGs), while maintaining energy security and price stability.
- **Principle 21:** Create demo cases of just transition. International organizations should collaborate with the private sector to develop transition finance examples that include “just” elements and update the SFWG accordingly.

As noted by G20 SFWG Co-Chairs in January 2024, “the current landscape is marked by a lack of transition plans and a diversity of transition plan approaches that differ in their scope and use-cases, potentially hindering stakeholders' capacity to evaluate transition plans” (G20 SFWG, 2024^[1]). With the goal of facilitating the transition towards low- or net zero GHG and resilient economies that leave no one behind, the SFWG will (i) develop high level principles for transition plans, and (ii) reflect on what defines a ‘just’ transition and provide guidance on how financial institutions and corporations can deepen the ‘just’ component of transition plans. This work will build on the G20 Transition Finance Framework, with an in-depth view of Pillar 5 “Assessing and Mitigating Negative Social and Economic Impact of Transition activities and investments” and in particular Principles 20¹, 21² and 22³.

To contribute to this process and these deliverables, this preliminary Key Issues Note seeks to:

- Provide a (non-comprehensive) **state of play** and **key considerations** for financial institutions and corporations to develop transition plans, with a focus on aspects that support a robust, credible and just transition.
- Outline **key elements** that could be considered while developing principles for robust, credible and just transition plans for corporate entities and financial service providers.

The topic of credible, robust and just transition plans for corporate entities and financial service providers touches on various policy areas, including environment and climate policy, and responsible business conduct. These issues note reflects and incorporates a diverse set of inputs and perspectives from these different policy areas.

¹ Encourage fundraisers to evaluate and mitigate the potential socioeconomic impacts of their transition plans and to disclose mitigation measures or net positive impacts.

² Create demo cases of just transition. International organizations should collaborate with the private sector to develop transition finance examples that include “just” elements and update the SFWG accordingly.

³ Enhance collaboration among government agencies, employers, workers, market regulators, academia, civil society, and the private sector to create a comprehensive strategy for mitigating negative economic and social implications.

2 State of play on frameworks on corporate transition planning

Increasing guidance on transition planning

Within the context of efforts to define and provide guidance on transition finance in recent years, the concept of transition planning has been developed, refined and expanded starting in 2021, with different sets of recommendations helping to shape others. Importantly, there has been convergence on the role of corporate transition plans as a bridge across different transition finance approaches (for example, taxonomies, roadmaps, or guidance). By ensuring that high-level net-zero pledges translate into clear and actionable targets that can be verifiably implemented, and significantly increasing transparency, credible corporate transition plans can reduce or avoid risks related to greenwashing, lock-in and delayed action. Conversely, without credible corporate transition plans, transition finance runs the risk of becoming a way for market actors and governments to justify delayed or insufficient action, while promoting existing investments as advancing the climate transition, even if those potentially have little positive environmental impact or are even damaging in the long run.

The current landscape of recommendations reflects both convergence as well as important, if sometimes subtle, differences across stakeholders and jurisdictions. These differences have implications and potential trade-offs with respect to robustness and credibility. Relevant approaches include the framework developed by the Transition Plan Taskforce (TPT) on corporate transition plan disclosure (TPT, 2023^[2]), the transition plan requirements in the European Sustainability Reporting Standards on Climate Change developed by the European Financial Reporting Advisory Group (EFRAG), as well as those developed by the International Sustainability Standards Board (ISSB) (IFRS, 2023^[3]). Others include GFANZ recommendations for both financial institution and corporate transition plans (GFANZ, 2022^[4]), recommendations on corporate and financial institution transition plans by the International Platform on Sustainable Finance (IPSF) (IPSF, 2022^[5]) and OECD recommendations on corporate transition plans (OECD, 2022^[6]; OECD, 2023^[7]).

Lacking and lagging implementation

Despite a steep increase in the number of climate commitments from non-state actors, there seems to be an implementation gap between corporate-level GHG emission reduction pledges and their implementation and execution, including through development of corporate climate transition plans. With respect to the latter, as of November 2023, 26% of the 23,200+ organizations disclosing through CDP's climate change questionnaire, disclosed that they had already developed a 1.5°C-aligned climate transition plan (CDP, 2024). However, only 2% of companies that report having a transition plan disclosed sufficient detail to all 21 key indicators that align with a credible climate transition plan. Moreover, only 9% of the full sample of disclosing companies reported that their transition plan was publicly available.

While efforts to initiate, develop and share credible corporate transition plans are still ramping up, questions are being raised on whether companies will follow through on existing commitments. The Net Zero Tracker (the most comprehensive and up-to-date database of net zero commitments made by nations, states and regions, cities and major companies) has recently highlighted the stagnating quality of companies' voluntary GHG emission reduction commitments (Net Zero Tracker, forthcoming^[9]). Similar figures are demonstrating limited tangible uptake by business, beyond commitments. Only about 17% of CA100+'s 150 focus companies⁴ set medium-term targets in the

second round of net-zero company benchmark assessments. The majority of CA 100+ focus companies, about 65%, had not established scope 3 targets (CA 100+, 2023^[10]). The resulting information gaps present challenges to investors; asset owners and asset managers in emerging economies cited a lack of information about corporates' emissions or transition plans as a deterrent to transition investments (WEF, 2022^[11]).

More importantly, the quality of climate mitigation actions seems to be stagnating. When it comes to designing and implementing transition plans, recent analysis of the world's largest 2,000 publicly listed companies by revenue carried out by the Net Zero Tracker suggests that less than half have established net zero targets, 2.4 % of companies globally have a detailed transition plan, while 30 % have an incomplete plan and the vast majority have no plan to meet their net zero target (20%) (Net Zero Tracker, 2023^[12]).

⁴ This benchmark covers 150 focus companies in high-emitting sectors.

3

Key considerations for robust and credible transition planning

To help inform the development of high-level principles, the following section sets out 10 key elements of credible corporate climate transition plans. These elements can help anchor transition finance transactions in entity-wide net-zero strategies, help financial institutions identify credible investment opportunities and allow companies to plan their transition and demonstrate the climate integrity and robustness of their net-zero strategies to attract financing. These elements are elaborated in the OECD Guidance on Transition Finance (OECD, 2022^[6]). They were developed based on a literature review of the range of initiatives defining what constitutes a credible corporate transition plan, insights from the dedicated OECD Industry Survey on Transition Finance and additional consultations and interviews with public and private sector experts. These elements are also broadly aligned with findings of the UN High-Level Expert Group on the Net-Zero Emissions Commitments of Non-State Entities and the expectations of the OECD Guidelines for Multinational Enterprises for Responsible Business Conduct (United Nations, 2022^[13]; OECD, 2023^[7])⁵.

Elements of Credible and Robust Transition Plans

The OECD Guidance provides an overview of 10 key elements of a robust, credible transition plan and specific recommendations for each of the ten elements:

- Element 1:⁶ Setting temperature goals, net-zero, and interim targets;
- Element 2: Using sectoral pathways, technology roadmaps, and taxonomies;
- Element 3: Measuring performance and progress through metrics and KPIs;
- Element 4: Providing clarity on use of carbon credits and offsets;
- Element 5: Setting out a strategy, actions, and implementation steps, including on preventing carbon-intensive lock-in;
- Element 6: Addressing adverse impacts through the Do-No-Significant-Harm (DNSH) Principle and RBC due diligence;
- Element 7: Supporting a just transition;
- Element 8: Integration with financial plans and internal coherence;
- Element 9: Ensuring sound governance and accountability;

⁵ The Guidelines, which were first introduced in 1976, were most recently updated in 2023 in response to urgent social, environmental, and technological priorities facing societies and businesses. The Guidelines explicitly call on business corporates and financial institutions to implement transition plans for aligning their conduct emissions and impacts on carbon sinks with global climate goals, taking into account the imperative of a just transition. For more information see (OECD, 2023^[7]).

⁶ Element 1 draws on recent OECD analysis on climate alignment, including (Noels and Jachnik, 2022^[48]) and (Pouille et al., 2023^[49]).

- Element 10: Transparency and verification, labelling and certification.

Each of the 10 elements are important to ensure a transition plan is robust and credible. For purposes of this Key Issues Note, it is particularly important to highlight elements 1-6, which distinguish the Guidance from many other approaches from a climate integrity perspective. Element 7 ('just transition') is further elaborated upon in the following section.

- **Element 1:** A credible plan should be aligned with the temperature goal of the Paris Agreement, meaning it should have a 1.5 degree-aligned overall net-zero target – or a 2 degree-aligned one, if 1.5 is not possible. If 2 degrees is chosen, this should be explained and well-justified. Existing international regulatory frameworks and guidance take varying approaches in this regard, with some not explicitly requiring Paris-aligned net-zero targets as part of transition plans, or not specifying the temperature goal. This variability decreases the comparability of transition plans, increases greenwashing risks, and ultimately prevents financial market participants from engaging in transition finance. According to the 2022 OECD Industry Survey on Transition Finance, the lack of clarity on how to assess credible corporate alignment with a pathway that is in line with the Paris temperature goal is a key obstacle for financial market participants.

Element 2: Recognising the role of transition plans within the broader sustainable and green finance “toolbox”, the use of additional policies like technology roadmaps, taxonomies, or sectoral pathways for future capital expenditure (CapEx), operating expenditure (OpEx) and Research, Development and Innovation is important to ensure credibility. There is today a multitude of jurisdictional approaches and policies to support financing for climate and environmental goals, many of which have complementary uses and benefits. Leveraging them in the development of transition plans can improve their credibility and robustness. This is often not acknowledged in transition plan frameworks and is a missed opportunity.

- **Element 3:** Overall, while voluntary net-zero frameworks provide a valuable resource on the broad information to be disclosed by financial institutions, more could be done to outline a clear set of specific and credible metrics. For example, while five prominent frameworks put forward relevant information points to be disclosed by financial institutions, only around 30% of these overall correspond to a quantifiable metric that could be monitored and compared over time (OECD, 2023^[18]). Indeed, many metrics do not express associated unit values or calculation methods. In addition, while data is becoming more widely available with respect to GHG emission metrics, data availability remains limited and varies widely across individual financial institutions, portfolios and underlying asset classes. Furthermore, most transition plan frameworks today provide guidance on near-, medium-, and long-term targets, as well as related reporting, with varying degrees of stringency when it comes to the reporting of scope 3 emissions. There is a growing consensus among market actors on the necessity of reporting scope 3 emissions, given their significance for the emissions footprint of many companies (on average five times the amount of scope 1 and 2 emissions) (Shrimali, 2021^[14]). However, their measurement is challenging due to various sources of uncertainty, such as on the calculation methodologies used, and the availability of data (and subsequent use of estimates). To increase comparability, targets should cover lifecycle GHG emissions, both in absolute terms and intensity-based, where relevant (IPSF, 2022^[5]). A range of further key challenges relating to metrics are discussed in Box 1.
- **Element 4:** Another area of divergence and variability among transition plan relates to carbon credits and offsets. Considering ongoing debates and differing views on the use of mitigation actions beyond the value chain, it is important for corporates to consider the risk that use of carbon credits and offsets could decrease the credibility of a corporate transition plan. Their use should be limited, notably as a means to address unabated emissions as a last resort, carefully explained, and reported separately from / in a complementary manner to the company's overall GHG inventory / emissions reductions.
- **Element 5:** Transition plans are particularly useful for companies in high-emitting and hard-to-abate sectors. Those companies likely cannot exclusively invest into low-carbon climate solutions and technologies, but might also need to invest in transition technologies and activities, at least over the short- or medium-term. Such solutions carry a high risk of carbon

lock-in. Transition plans can serve as the place where companies clearly identify and report on any assets they are operating, or are planning to operate, that are at risk for carbon lock-in and describe the mechanisms they are putting in place to reduce and mitigate this risk.⁸

- **Element 6:** Considering not only climate mitigation targets, but also other environmental objectives can increase the credibility of a transition plan, as there are clear dependencies between climate change, biodiversity, and pollution. Most transition plan frameworks today at least acknowledge the need to manage unintended nature impacts of mitigation action. “Do-No-Significant-Harm” (DNSH) approaches (or minimum social safeguards when it comes to human rights and social aspects) are increasingly embedded into policies (including taxonomies) to foster more consistent approaches to climate action. DNSH criteria are often operationalised through different risk management frameworks, including risk-based due diligence and other environmental and social impact assessments (ESIAs).

⁸ More details and recommendations on such mechanisms are provided in (OECD, 2023_[33]).

Box 1. Challenges related to net-zero metrics, related implications for credibility of transition plans, and potential solutions

In parallel with efforts to develop frameworks for credible corporate transition plans, stakeholders have been active in developing frameworks on information to be disclosed by financial institutions in relation to GHG emissions, portfolio composition, engagement, as well as strategy and governance. A key element of these frameworks is net-zero metrics to measure financial institutions' progress on net-zero commitments. Information to be reported under these frameworks can in principle be sourced from corporate transition plans, where they have been developed, or from e.g., corporate climate disclosure. In this context, relevant frameworks for include, but are not limited to:

- Institutional Investors Group on Climate Change Net Zero Investment Framework Implementation Guide (IIGCC, 2021^[15])
- Task Force on Climate-related Financial Disclosures report on Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD, 2021^[16])
- UN-convened Net-Zero Asset Owner Alliance Target Setting Protocol (Third Edition) (NZAOA, 2023^[17])
- The Glasgow Financial Alliance for Net Zero Recommendations and Guidance on Financial Institution Net-Zero Transition Plans (GFANZ, 2022^[4])
- International Financial Reporting Standards Foundation's International Sustainability Standards Board Sustainability Disclosure Standards (IFRS, 2023^[3]).

While there are commonalities in the themes covered by such frameworks, there is limited agreement on specific metrics to assess progress by financial institutions on their net-zero targets, and there are a range of challenges facing efforts to establish credibility. Such challenges will be important to take into account when designing high-level principles in order to promote the use of a clear set of comparable, credible and transparent net-zero metrics to assess progress on net-zero commitments by financial institutions.

Based on OECD analysis assessing assessment the five voluntary frameworks cited above, the following challenges were identified (OECD, 2023^[18]):

- On aggregate, the current landscape shows a reliance on qualitative text-based information points rather than quantitative unit-based metrics, leading to significant variations in disclosure and limited comparability across financial institutions.
- When quantitative metrics are proposed, there is a lack of explicit guidance on underlying calculation methodologies, which leaves much room for interpretation, hampers transparency and can lead to unnecessary inconsistencies.
- There is limited consistency in the language used to refer to the same information points and metrics (most notably for categories beyond GHG emissions), therefore leading to incomparable disclosures across financial institutions.
- The set of metrics proposed is not necessarily comprehensive, with limited guidance on forward-looking elements and only broad information proposed, for example on carbon offsets, which results in gaps in evidence needed to assess the credibility and integrity of financial institutions' progress against their net-zero commitments.
- The lack of methodologically mature metrics, and consensus thereon, makes it challenging to prioritise metrics. Further work is needed to develop operational and comparable methodologies and metrics and to provide supporting evidence.
- Overall, there are significant data gaps for proposed metrics, which give rise to the use of varying estimation methodologies by third party data providers, thereby raising concerns in terms of both financial integrity and environmental integrity.

Policymakers, market participants, and third-party data providers may want to consider ways to address these challenges, including by:

- Supporting the identification of pertinent sets of core yet complementary metrics to credibly assess financial institutions' progress against their net-zero commitments;
- Considering ways to address data gaps by encouraging both the further development of quantitative metrics (including forward-looking metrics) and of data disclosures on such metrics;
- Encouraging framework providers to more systematically and transparently define or refer to specific methodologies for such metrics; and
- Enhancing coordination across providers of frameworks, methodologies and data to improve comparability and transparency.

The role of transition plans in enabling industrial decarbonisation

Industrial decarbonisation is a cornerstone to realising net-zero emission targets. Aligning the industry transition with net-zero emission pathways is crucial to achieve the objectives of both the Paris Agreement and the UAE Consensus. This requires action from all relevant stakeholders – governments, industry actors and financial institutions.

Recent OECD analysis points to the massive investment scale-up needed for low-carbon technologies across the industry value chain (Cordonnier and Saygin, 2023^[1]). Global annual average energy-related capital investments in the decarbonisation of the industry sector should double from its 2016-2020 level of USD 158 billion by the end of this decade. In addition, investment in existing and new chemicals, cement and basic metals production assets needs to increase fivefold by 2030. The challenge is not only the scale, but also better targeting of these investments. Production of emission-intensive materials such as steel and cement is increasing in emerging markets and developing economies (EMDEs), as the manufacturing sector is an engine to economic growth.

There are many hurdles to decarbonise the industry sector. One main challenge is the lack of policy support. Despite a growing understanding of the importance to build a net-zero industry, policies still do not sufficiently address this urgent need. For instance, Nationally Determined Contributions mostly overlook this sector. Competitiveness is another issue that blocks businesses from acting since many industrial goods and products are globally traded, and businesses simply cannot survive with slimmer profits. Only half of all low-carbon technologies required for decarbonisation are commercially available today which exacerbates the competitiveness challenge since less commercial technologies have higher execution risk and higher costs. The recently established Climate Club – a high-level political forum fully dedicated to industry decarbonization, whose Secretariat is hosted by the OECD in tandem with the IEA – is finalising a new study which underlines that financial and technical assistance for industry decarbonisation in EMDEs has been largely overlooked so far. The same study suggests that it will be important to tap into a wider range of providers, recipient countries and financing instruments.

Among industrials, steel is a key sector for the decarbonisation of our economies, both as an important input in renewable technologies (such as wind and solar) but also because of the significant decarbonisation opportunities in the steel sector itself: the iron and steel sector ranks as one of the highest emitting industry sectors and accounts for nearly 8% of global emissions from the energy sector (OECD, 2023^[1]). Yet, while the challenge of decarbonisation unites steel producers globally, companies and industry structures differ from country to country (OECD, 2023^[2]).

As decarbonisation options vary and require large investments, companies' capabilities to move towards low-emission steel may differ depending on companies' profitability, access to capital or size. Furthermore, public and development finance outlays will likely be insufficient to ensure the additional levels of investment required by the transition, which are estimated at USD 235–335 billion cumulatively by 2050 (MPP, 2022^[3]). Transition finance is a key lever for companies that may not be able to secure sufficient capital to decarbonise.

Ensuring that transition finance flows to the right projects at a rapid speed and scale is key for the sector to achieve climate neutrality by mid-century, and transition plans are an important enabler. For the financial sector to identify credible investment opportunities, steel companies should be transparent on their decarbonisation efforts and demonstrate the climate integrity and robustness of their net-zero strategies through long-term transition plans. A forthcoming OECD study analyses the net-zero strategies and transition plans of a sample of steelmaking companies and found that while the majority of them have set net-zero targets, they often do not provide details on their decarbonisation investment plans, use of transition technologies, use of offsets, and just transition efforts (see Box 2 below).

Box 2. Credible corporate climate transition planning for the steel sector: An analysis of steel companies net-zero strategies and transition plans

Recent OECD analysis sheds light on the net-zero strategies put forward by 26 steelmaking companies representing 40% of global steelmaking capacity along with policies from 11 jurisdictions (OECD, forthcoming^[4]). These net-zero strategies can be evaluated against some of the key elements of the OECD Guidance on Transition Finance (OECD, 2022^[5]).

- **Element 1: Setting temperature goals, net-zero, and interim targets**
Most steel companies have set a decarbonisation target (88%), with 65% of the companies setting net-zero targets for 2050 or slightly after (i.e. 2060). 23% of companies have set interim targets, i.e. intermediary emission reduction or emission intensity targets that are not necessarily net zero targets, while 12% of companies have no decarbonisation target at all.
- **Element 2: using sectoral pathways, technology roadmaps, and taxonomies**
74% of the sampled companies describe the low-emission technologies they intend to use to achieve their net-zero targets. However, in many cases, details on deployment timelines as well as on CAPEX and OPEX of the investment implied by their net-zero strategies are lacking. On the policy side, 5 out of 11 jurisdictions have established sectoral pathways specifically for their steel industry with technology roadmaps and transition finance plans.
- **Element 3: Measuring performance and progress through metrics and KPIs**
As for climate-related data disclosure, 62% of sampled companies apply metrics on transition plans developed by the Carbon Disclosure Project (CDP), the Taskforce on Climate Related Financial Disclosures (TCFD), Global Reporting Initiative (GRI) or CO2 reporting to the World Steel Association. In terms of emissions scope, most company targets cover scope 1 and 2 emissions, as this is where most of the emissions of the sector come from.
- **Element 4: Providing clarity on use of carbon credits and offsets**
As near-zero-emission steel production technologies will have residual emissions, the use of carbon offsets will be inevitable (MPP, 2022^[6]). So far, 35% of steel companies provide details on carbon offsets in their decarbonisation roadmap.
- **Element 5: Preventing carbon-intensive lock-in**
Investment cycles in the steel industry are relatively long, which means that the risk of locking in carbon is high. To rapidly accelerate decarbonisation, steel companies need to invest in hydrogen ready Direct Reduced Iron assets that can use natural gas as a transition fuel before clean hydrogen becomes widely available. While most companies in the sample are employing a set of decarbonisation options, details on transition technologies are not disclosed in investment plans.
- **Element 7: Supporting a just transition**
Just transition is key in the steel sector, as decarbonisation may come with significant labour market implications and will require new and different skills from the workforce. While some companies recognise the need of developing the workforce for a net-zero future, only 19%

of companies in the sample include just transition aspects in their decarbonisation roadmaps.

Further guidance transition planning can help steel companies enhancing transparency on their net-zero strategies with a view of gaining better access to transition finance instruments. The provision of sufficient financing is key for the sector to accelerate the deployment of low carbon technologies and achieve climate neutrality.

4 State of play on "just" elements in corporate and financial transition plans

“Just Transition” as a key concept in climate discussions

The concept of ‘just transition’ has emerged as a key concept in international climate discussions. While there is no internationally agreed definition of just transition, there is a common understanding that the transition toward greener economic models and away from unsustainable production systems (e.g., high-emitting sectors or activities with significant impacts on carbon sinks) will have socio-economic and human rights implications that need to be addressed.

There is a growing landscape of policy and initiatives on the role of businesses in the just transition. Just transition expectations have been articulated in international instruments. The notion of just transition is reflected in the Paris Agreement’s preamble which recalls that transition should take “account the imperatives of a just transition of the workforce and the creation of decent work and quality jobs in accordance with nationally defined development priorities.” The International Labour Organisation (ILO), has developed Guidelines for a just transition towards environmentally sustainable economies and societies, providing a building block for how governments can integrate just transition considerations in social and labour policies (ILO, 2015^[19]). The framework is addressed to policy makers and is concerned with labour-related issues (e.g., social dialogue and decent work). The OECD Guidelines for Multinational Enterprises on Responsible Business Conduct⁹ recall the notion of just transition in the Paris Agreement’s preamble and recommend that businesses align their GHG emissions with internationally agreed temperature goals, while also taking into consideration other environmental, social and development priorities that could be impacted by such actions.

A growing number of policies, initiatives and expectations related to Just Transition and the private sector businesses have emerged, prescribing measures and expectations on the business contribution to just transition (See Annex Table 2). These differ widely in how they approach the concept, the level of commitment and granularity in their expectations, as well as sectors and supply chains coverage and geographic scope. Furthermore, while guidance on how to manage just transition risks and impacts for workers and communities in business’ own operations are growing specific recommendations to support business in identifying, preventing and mitigating such risks in their supply chains remain limited. This can lead to gaps and possibly confusion for businesses navigating the shift toward a low-carbon transition.

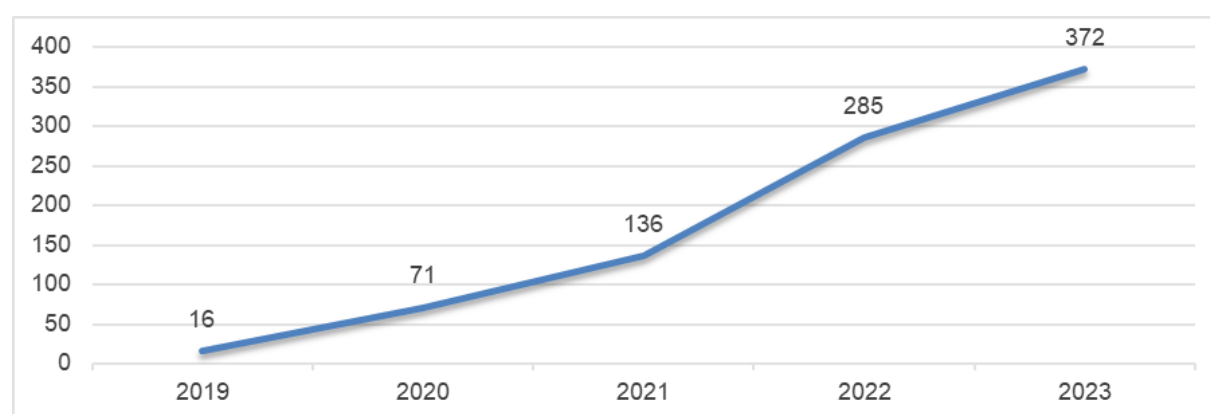
International initiatives and partnerships on just transition are also increasingly expecting businesses, including financiers, to take a proactive role in the climate transition. For instance, Just Energy Transition Partnerships (JETPs) have been announced in South Africa, Indonesia, Viet

⁹ The Guidelines, which were first introduced in 1976, were most recently updated in 2023 in response to urgent social, environmental, and technological priorities facing societies and businesses. For more information see (OECD, 2023^[7]).

Nam and Senegal to support the decarbonisation and fossil-fuel phase-out of their respective economies. These nation-wide decarbonisation initiatives further rely on the private sector for financing and developing renewable energy infrastructure but also for decommissioning coal-based assets (UNDP, 2022^[20]). However, there is still a lack of common understanding on how to operationalise the 'just' element of these partnerships and in turn the resulting expectations on businesses and financial institutions.

Businesses referring to just transition as a framework for climate action is on the rise, but evidence of implementation remains anecdotal. While the concept is increasingly being embedded into business' policies (See Figure 1) is far from being mainstreamed in climate actions and commitments (see Figure 2). For example, recent research shows that only 10% of companies with net zero commitments explicitly took economic development impacts into consideration when setting targets (ECIU and Oxford University, 2021^[21]).

Figure 1. Mentions of just transition considerations in corporate reports (financial and non-financial corporates)



Source: Datamaran Ltd. (based on an assessment of over 2,000 listed companies).

Evidence suggests that integration of just transition considerations in business climate mitigation and adaptation actions remains mostly aspirational, with few companies demonstrating meaningful implementation beyond commitments. For instance, only 3% of the companies in scope of the Climate Action 100+ benchmark have transition plans developed in consultation with key stakeholders and only 6% of the 180 'high-emitting sector' companies in scope of the World Benchmarking Alliance's ranking are able to demonstrate meaningful engagement with workers impacted by the transition, with the lowest performance remaining 'planning for the just transition', with less than 1% of companies able to demonstrate effective planning (CA 100+, 2023^[22]; WBA, 2021^[23]). Similarly, ESG data providers are increasingly assessing business' performance and exposure vis-à-vis just transition risks and impacts, showing weak performance so far (see Figure 2).

Figure 2. Average global scores by sectors across just transition-relevant indicators

	Responsible management of reorganisation	Career management and promotion of employability	Promotion of labour relations	Promotion of social and economic development	Non-discrimination	Respect for human rights standards and prevention of violations	Minimising environmental impact from energy use
Automobiles	17	32	29	29	44	37	39
Building Materials	17	31	27	41	41	40	44
Electric & Gas Utilities	24	37	36	46	50	43	28
Energy	20	31	24	44	45	39	30
Food	14	29	22	35	42	39	38
Forest Products & Paper	27	40	45	47	50	46	49
Heavy Construction	19	31	31	35	42	43	40
Industrial Goods & Services	16	31	25	30	46	41	36
Oil Equipment & Services	15	26	16	39	40	34	28
Transport & Logistics	18	31	29	28	43	39	44
Travel & Tourism	16	31	28	28	46	44	45
Median Indicator Score	17	31	28	35	44	40	39

Note: Based on 1,000 companies in 11 sectors identified as most exposed to the carbon transition across seven 'just transition' indicators.
Source: Moody's ESG solutions (2021), *Rising focus on just transition will raise risks for most exposed companies*.

5 Key considerations for ensuring climate transition plans are just

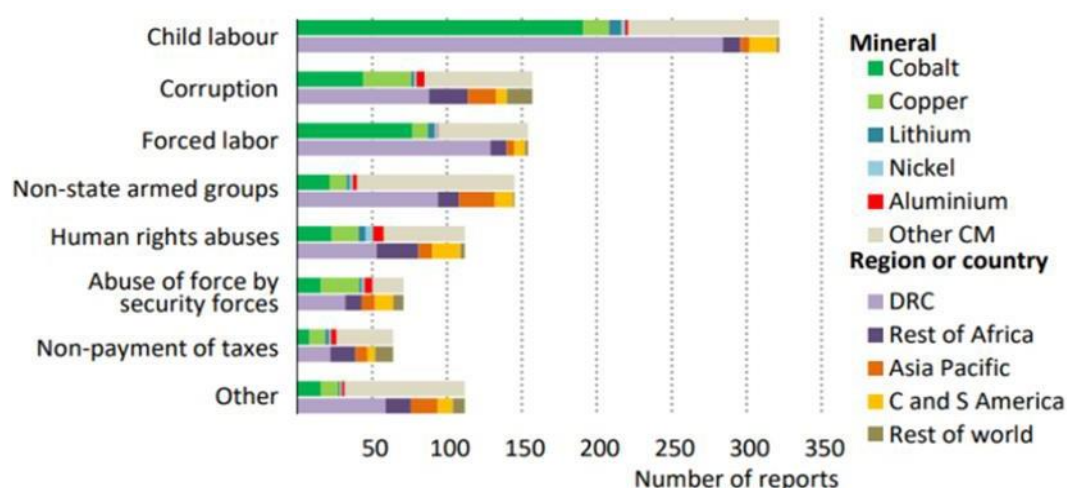
In order to ensure that just transition objectives are met in the context of climate action it is important to embed them into transition plans. This may involve:

Assessing and taking action to address social impacts in the transition away from environmentally harmful practices, as well as towards greener industries or practices.

Transitioning away from a carbon intensive economy and delivering net-zero commitments can generate disruptions through economic restructuring, reallocations of capital and financial flows, workforce displacement, and land-use change affecting communities, thereby affecting the affordability and availability of goods and services. Managed poorly, the transition towards a low-carbon economy could result in new social and human rights risks (or scale-up existing risks) – especially in regions, sectors and supply chains needed to deliver goods and services required for reaching net zero targets. Failure to address these risks can undermine public support for the transition, slow down government authorisation, increase cost-overruns, delay delivery of projects and assets necessary for the transition (OHCHR, 2017^[24]). For example, land grabbing and community conflicts have been identified as key drivers for the failure of Nature based Solution (NbS) projects (Compensate, 2021^[25]). As such taking a holistic approach to climate action and addressing adverse social impacts of the transition can help ensure support for the rapid decarbonisation measures needed.

Committing to respecting internationally recognised human rights and the rights of workers namely the freedom of association and right to collective bargaining, the effective abolition of child labour, the elimination of all forms of forced or compulsory labour, non-discrimination in employment and occupation, and promoting a safe and healthy working environment. Workers or communities whose revenue and livelihoods depend on high-emitting sectors and industries (e.g., oil and gas, coal, aviation, chemicals and cement, etc.) are likely to be among those that will be the most severely affected by the transition to a low-carbon economy. For example, the World Bank estimates that over four million jobs in coal mines have been cut globally due to fossil fuel phase-out (World Bank, 2018^[26]). Phasing out from high-emitting assets can have impacts beyond the workforce and in turn increase the risk of stranded communities (ITUC, 2017^[27]). Achieving the climate mitigation objectives of the Paris Agreement would mean quadrupling minerals supply for clean energy by 2040 (IEA, 2021^[28]). To supply these materials in sufficient volumes, sourcing from conflict-affected or high-risk areas will be unavoidable. They also cannot be discounted amid efforts to diversify mineral sourcing. The production of critical minerals is highly concentrated in a few countries, including areas where human rights and labour risks are prevalent (see Figure 3).

Figure 3. Public reports of selected risks by mineral supply chain and region (2017-2019)



Source: IEA (2022), [Why is ESG so important to critical mineral supplies and what can we do about it](https://www.iea.org/commentaries/why-is-esg-so-important-to-critical-mineral-supplies-and-what-can-we-do-about-it), <https://www.iea.org/commentaries/why-is-esg-so-important-to-critical-mineral-supplies-and-what-can-we-do-about-it>.

Encouraging human capital formation, in particular by creating employment opportunities and facilitating training opportunities for employees. On the opportunity side, the ILO estimates that with the right training and upskilling processes, over 70% of jobs affected by the net zero transition can potentially be reallocated to new jobs in the green economy, while the IEA's Net Zero by 2050 roadmap estimates that the transition could create over 30 million jobs across the energy sector alone (ILO, 2019^[29]; IEA, 2021^[30]).

Engaging meaningfully with relevant stakeholders or their legitimate representatives to provide opportunities for their views to be taken into account with respect to activities that may significantly impact them. Engaging with impacted stakeholders will be key to better understanding and addressing interlinkages between climate impacts and human rights as well potential harms associated with transition activities. For example, stakeholder engagement can play a key role when decommissioning assets and infrastructure and devising repurposing strategies that can sustain the wellbeing of communities and avoid transferring the cost of stranded assets on broader society (World Bank, 2021^[31]). Stakeholder engagement (as well as principles of Free, Prior and Informed Consent for Indigenous Peoples) will be key for preventing RBC-related risks such as land grabbing, forced displacement or deforestation associated with high land use renewable energy projects.

Carefully weighing decisions to disengage or divest and when deciding to disengage or divest, and doing so responsibly. Exclusion or divestment strategies used by the financial sector to align portfolios with net zero targets may not result in actual emissions reductions in the real economy. This is particularly the case when climate mitigation approaches rely on reducing investor exposure to climate-related risks as a sole strategy to reach net zero and where high-emitting firms do not experience rising cost of capital or diminished access to capital (GFANZ, 2022^[4]; OECD, 2022^[32]). Similar misalignment could be anticipated in the real economy in relation to supply chains. Likewise, ESG investment approaches may not be effective in mobilising transition finance in particular for emerging markets. For example, about 90% of a country's sovereign ESG score is explained by its level of development. In the context of climate action, engagement and disengagement strategies by investors and companies have to balance the need for exercising leverage to achieve decarbonisation of high-emitting sectors while mitigating the risk of contributing to carbon lock-in or undermining net-zero objectives (OECD, 2023^[33]).

In some cases, divestment or disengagement from an asset, investment, supplier or other form of business relationship will be necessary. In such cases, developing a disengagement plan with relevant stakeholders and providing sufficient notice will be important to identify an appropriate process and timeline for disengagement. Likewise preventing or mitigating impacts associated with disengagement or divestment is important. For example, providing appropriate severance packages or training to re-skill workers who will be impacted by a factor closure or engaging in responsible stewardship focused on responsible asset retirement (OECD, 2023^[34]).

6 Conclusions and key considerations

This Note provides details on key elements that would be important to reflect in principles for robust, credible and just transition plans for corporate entities and financial service providers. A summary highlighting particularly important conclusions and key considerations is provided below.

Credible and transparent targets: A transition plan should be aligned with the temperature goal of the Paris Agreement, meaning it should have a 1.5 degree-aligned overall net-zero target – or a 2 degree-aligned one, if 1.5 is not possible. If 2 degrees is chosen, this should be **explained and well-justified**. Some corporates may not be able to develop credible transition plans with 1.5 degree-aligned overall net-zero targets, e.g. because their plan is aligned with their country's NDC, which itself is not aligned with 1.5 degrees. Governments and market participants should consider how this challenge can be addressed, e.g. in the broader context of climate finance, while simultaneously working to strengthen NDCs.

CapEx and Opex plans using sectoral pathways, technology roadmaps and taxonomies: A credible transition plan should explicitly address any current or future needs for capital expenditure, operating expenditure, merger and acquisition activities and research and development expenditures necessary for the delivery of the transition plan and related targets. The use of available tools such as technology roadmaps, taxonomies and/or sectoral pathways to clarify for which activities and technologies future CapEx and OpEx will be used is important to improve credibility and robustness of transition plans.

Transparency on, and mitigation of, carbon lock-in risk: Transition technologies and activities involving fossil fuels may be a legitimate part of transition plans for some emissions-intensive sectors (e.g. hard-to-abate sector such as steel or cement) over the short- or medium-term, and in the absence of feasible low-carbon alternatives. To be credible, transition plans must **clearly identify and report on any assets they are operating, or are planning to operate, that are at risk for carbon lock-in**, and provide an explanation of the **feasibility** assessment made that concluded that low-carbon alternatives were not feasible. They should also describe the mechanisms they are putting in place to reduce and mitigate **lock-in risk**, as well as their plans, timelines, and detailed steps for ultimately **phasing out and replacing** those assets with low-carbon alternatives.

Assessing and taking action to address social impacts in the transition: While a transition to a low carbon economy is critical to long term economic, social and environmental well-being, in the immediate term activities related to the transition can be associated with negative impacts on jobs, energy security, development and human rights. Understanding and taking steps to address such impacts through stakeholder engagement, investment in human capital formation and respecting human rights including core labour right, is essential to contributing to a just transition.

7 Annex

Table 1. Just transition timeline

1990s	Unionists and activists in the United States form the Just Transition Alliance (JTA) to address job losses related to new environmental regulations, bringing together unionists and environmentalists.
2000s	The need to combine climate action and a just transition started to be recognised by trade unions, including the International Trade Union Confederation (ITUC). The ITUC brought the concept into international debates, including COP15 (Copenhagen) in 2009.
2010s	2010: Concept of just transition included in the Cancún Agreement at COP16. The outcome document recognised the possible adverse socioeconomic impacts of response measures to climate change. 2011: At COP17 (Durban), Parties initiated a work programme with the objective of better understanding the impact of the implementation of response measures. 2015: ILO Guidelines Towards a Just Transition, 2030 Agenda, Just Transition included in Paris Agreement. 2018: Solidarity and Just Transition Declaration (Silesia Declaration) adopted at COP 24 and signed by 53. 2019: Climate Action for Jobs Initiative launched at UN Climate Action Summit. 49 nations committed to developing just transitions strategies.
2021	Just Transition Declaration supports the conditions for climate action and decarbonization in developing countries. The outcome document, known as the Glasgow Climate Pact, contains repeated references to human rights, gender equality, the rights of indigenous people, as well as the need for social and environmental safeguards. The EU's Just Transition Mechanism (JTM) provides targeted support to help mobilise around €55 billion over the period 2021-2027 in the most affected regions, to alleviate the socio-economic impact of the transition. MDB Paris Alignment Working Group on Just Transition: Commit to advance 5 high-level principles that guide support for a gender responsive just transition in a consistent, credible, and transparent manner. Just Energy Transition Partnership for South Africa aims to accelerate the decarbonisation of South Africa's economy, with EUR 8.5 billion committed by EU, US, UK, Germany and France.
2022	Dedicated chapter in IPCC report on Accelerating the Transition of Sustainable Development, which focus on the concept of just transition At COP27 (Sharm El Sheik) the work programme on just transition pathways was launched to design and scale pathways to achieve the goals set out in the Paris Agreement in a way that is just and equitable for all. G20 Sustainable Finance Working Group sets out to define a Just Transition Framework.

Source: OECD based on (UNRISD, 2018^[84]; UN DESA, 2022^[85]; Lee and Baumgartner, 2022^[86]).

Table 2. Selected industry initiatives, civil society and benchmarks focusing on just transition

Organizations	Comments
Business-led and industry initiatives	
International Organization of Employers (IOE)	Published a guidance paper on Employment, Just Transition and Climate Governance (here) as well as compendium of best practices (here)
We Mean Business Coalition	We Mean Business Coalition has set up a 'resource platform' to list all useful guidances and tools to support businesses in enabling a just transition (here) and a guide on climate transition plan (here)
World Business Council for Sustainable Development	Publications and guides, including on just transition in the agricultural sector (here) and energy (here)
Council for Inclusive Capitalism	Developed the Just Transition Framework for Company Action (here) and provide a list of companies who publicly committed to adopt the framework (here)
Business for Inclusive Growth (B4IG)	Just transition Indicators (here)
International Petroleum Industry Environmental Conservation Association (IPIECA)	Published a just transition literature review (here)
Glasgow Financial Alliance for Net Zero	Just transition expectations in their guidances for transition planning for investors (here)
Climate Investment Funds	Published a Just transition Planning Toolbox for Investor (here)
Civil society and expert groups initiatives	
London School of Economics and Political Science/ Grantham Research Institute	Guidance on just transition plan for the financial sector (here and here), a brief for investor (here), a tool for investors and banks (here)
Institute for Human Rights and Business	Produced a number of reports and articles on just transition (here) focusing on JETPs, Indigenous Peoples, community ownership, etc. and a guidance for the banking sector (here)
Shift	Produced policy brief on just transition and just resilience based on UNGPs (here)
B-Lab/B-Team	A guide for business on 'how to center climate action in climate justice' (here)
World Economic Forum	Produced a guide on Climate Stakeholders: Understanding How Key Groups Are Responding Today and How They Might Respond Tomorrow (here)
Business and Human Rights Resource Centre	Number of reports and articles, including on renewable energy and Indigenous Peoples (here), the Renewable Energy Benchmark (here), the Transition Minerals Tracker (here) and investor expectations (here)
Just Transition Initiative	Partnership developed by the CSIS and the Climate Investment Funds (CIF) to investigate how to achieve a just transition. Include a Resource Library (here)
Impact Investing institute	Developed 'just transition criteria' for investors (here)
International Institute for Sustainable Development	A report on just energy transition (here)
Data providers and benchmarks	
The World Benchmarking Alliance	Assessment of 450 largest companies on their just transition actions (here) and methodology (here), a compendium of good practices (here) and a guide for implementation of just transition actions (here)
Climate Action 100+ Initiative	Assess the world 100 most polluting companies on their climate transition including on just transition action (here) and article on just transition planning (here)
Moody's	Produced a 'just transition report' assessing sovereign markets, sustainable finance policies and corporate practice (here) and report on just transition risks (here)

Source: OECD's compilation.

Table 3. Mapping of key elements of existing initiatives focused on transition plans

Initiative	L-T target	Interim target	Use of scenario analysis	Consistency with 1.5	Scope 3 emissions	Use of taxonomies	Performance and progress measurement	Information on use of carbon credits and offsets	DNSh	Just transition	Financial plans and internal coherence; governance and accountability	Transparency and verification	Tailored approach for SMEs	Policy engagement
ACT	PA temperature goal	N/A	Yes	No	- Coverage varies by sector. - To be included where relevant.	Yes	Yes	- In line with standards (whether national or international) guaranteeing robustness, additionality, transparency, and permanence - Shall not be subtracted from the GHG inventory - Excluded from the calculation of quantitative ACT indicators related to targets, material investments and sold product performance.	No	No	Yes	Yes	Yes	Yes
CA100+	GHG targets by 2050	2025 and 2026 - 2035 targets	Yes	Yes	- targets to include scope 3 relevant for the sector - publish methodology for scope 3 targets	Increase/disclosure green revenues in line with EU taxonomy	Yes	No offsets where viable decarbonisation options exist	No	under development	Yes	No	No	Yes
CBI	Net zero by 2050	3-5 year target	No	Yes	Upstream scope 3 emissions	No	Yes	Should not be used	No	No	Yes	Yes	No	No

Initiative	L-T target	Interim target	Use of scenario analysis	Consistency with 1.5	Scope 3 emissions	Use of taxonomies	Performance and progress measurement	Information on use of carbon credits and offsets	DNSh	Just transition	Financial plans and internal coherence; governance and accountability	Transparency and verification	Tailored approach for SMEs	Policy engagement
		gets			to be included in KPIs; downstream to be disclosed for stranded activities									
CDP	Net zero by 2050	Five-ten year interim	Yes	Yes	Included in annual inventory	No	Yes	No	No	Yes	Yes	Yes	No	Yes
CPI	Net zero by 2050	Yes	Yes	Yes	For all companies including sub-sidiaries	No	Emission metrics in both absolute terms and intensity-based; to be updated annually	• State share of offsets (to decline over time) • Consistency with global standards	Transparency on unavoidable trade-offs	Yes	Yes	Yes	Yes	Yes
CSL	Net zero by 2050	2030 targets	Yes	Yes	Included in targets when significant and data allows	No	Yes	Use clear rules if using carbon offset	Yes	Yes	Yes	No	No	Yes
EFRAG	PA temperature goal	5-year rolling	Yes	Yes	To be disclosed	Disclosure required by the EU Taxonomy	Yes	• Removals, carbon credits or avoided emissions should not be means to achieve	As per EU taxonomy	Covered in the social stan	Yes	Yes	Yes	Covered in the RBC standard

Initiative	L-T target	Interim target	Use of scenario analysis	Consistency with 1.5	Scope 3 emissions	Use of taxonomies	Performance and progress measurement	Information on use of carbon credits and offsets	DNSH	Just transition	Financial plans and internal coherence; governance and accountability	Transparency and verification	Tailored approach for SMEs	Policy engagement
		targets and 2030 target				(share of Taxonomy-compliant turnover, CapEx and OpEx or on their green asset ratio)		targets • When carbon credits are used, explanation needed on the extent of their use and quality		dards				
GFANZ	Net zero by 2050	To 2030 and earlier	No	Yes	Net-zero commitments to cover Scope 3 emissions of companies in sectors that are significant climate change contributors or where Scope 3 emissions are material and data is available.	Yes	Yes	Consider credits purchased by portfolio companies separately from their emissions and advocate for disclosure regarding type of credit and accounting methodology	No	Yes	Yes	Yes	Yes	Yes
ICMA	L-T GHG targets		No	Ideally	Included in targets. Estimated	No	Intensity and absolute	No	Yes	just transition reference	Yes	Yes	No	No

Initiative	L-T target	Interim target	Use of scenario analysis	Consistency with 1.5	Scope 3 emissions	Use of taxonomies	Performance and progress measurement	Information on use of carbon credits and offsets	DNSh	Just transition	Financial plans and internal coherence; governance and accountability	Transparency and verification	Tailored approach for SMEs	Policy engagement
					on a 'best effort' basis for some sectors until calculation methodologies are developed.									
IFRS/ISSB	PA temperature goal	Yes	Yes	Yes	To be disclosed. If excluded, the reason for omission to be provided.	No	Yes	Disclosure on: extent of reliance on offsets; verification/certification; type and other factors/assumptions	No	No	Yes	Yes	No	No
IGCC	Alignment with PA temperature goal and net zero by 2050.	Yes	Yes	Yes	To be included in net-zero targets if material.	No	Yes	To be used only as a last resort. When used, disclosure needed on: • Share of targets consisting of offsets • Share by type of offset • Average price paid and assumptions on permanence and other factors • Intended timeframe for their use	No	Yes	Yes	Yes	No	Yes

Initiative	L-T target	Interim target	Use of scenario analysis	Consistency with 1.5	Scope 3 emissions	Use of taxonomies	Performance and progress measurement	Information on use of carbon credits and offsets	DNSH	Just transition	Financial plans and internal coherence; governance and accountability	Transparency and verification	Tailored approach for SMEs	Policy engagement
								• Criteria used to assess credibility • How double-counting is avoided.						
SBTi	Net zero by 2050	5-10 year targets	No	Yes	To be included in targets. For companies with scope 3 emissions that are at least 40% of total emissions at least 67% of scope 3 emissions must also be covered in near-term targets.	No	Yes	Targets require long-term deep decarbonisation targets of 90-95% across all scopes before 2050. When a company reaches its net-zero target, only a limited amount of residual emissions can be neutralised with high quality carbon removals (no more than 5-10)	Partially	No	No	No	Yes	No
TCFD	Transparency on dates	No	Yes	global temperature goal (e.g.	Transparency on scope of emissions	No	Yes	Transparency on use of removals and offsets	No	No	Yes	Yes	No	No

Initiative	L-T target	Interim target	Use of scenario analysis	Consistency with 1.5	Scope 3 emissions	Use of taxonomies	Performance and progress measurement	Information on use of carbon credits and offsets	DNSH	Just transition	Financial plans and internal coherence; governance and accountability	Transparency and verification	Tailored approach for SMEs	Policy engagement
TPT	Alignment with PA temperature goal, ideally 1.5 by 2050.	Yes	Sensitivity analysis	No	Yes	No	Yes	Transparency on the reliance of offsets/carbon credits: • Whether they are verified/certified • Type • Factors to assess credibility and integrity (e.g., permanence)	Partially	Yes	Yes	Yes	Yes	Yes

Note: This mapping includes some initiatives which are in draft/proposal form, such as the ISSB Exposure Draft on Climate-related Disclosures, the draft EU Sustainability Reporting Standards and the UK Transition Plan Taskforce (TPT) Call for Evidence document. This mapping includes GFANZ Recommendations and Guidance on Financial Institution Net-zero Transition Plans, noting the Real-economy Transition Plans workstream is under development.

Source: OECD (2022), OECD Guidance on Transition Finance: Ensuring Credibility of Corporate Climate Transition Plans, Green Finance and Investment, OECD Publishing, Paris, <https://doi.org/10.1787/7c68a1ee-en>.

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