Driving a just transition through fixed income instruments

By the early 2030s, The International Energy Agency estimates that $4.5 trillion of annual investments will be required to achieve the transition to net zero[1]. The size and depth of the global bonds markets – which amount to almost $100 trillion by The Organisation for Economic Co-operation and Development (OECD) estimates[2] – could, according to the Impact Investing Institute, provide an important and growing source of capital to achieve the transition.

Increasingly, there is recognition that costs and benefits of the transition to a net zero economy need to be distributed fairly and evenly - a concept more commonly known as the "just transition". However, the alignment of fixed income instruments with just transition objectives remains nascent. According to research by the London School of Economics' Grantham Research Institute and the Climate Bonds Initiative, issuances with just transition objectives represent only a small fraction of global bond markets and are dominated by a few development banks[3].

The Impact Investing Institute, in partnership with the Morgan Stanley Institute for Sustainable Investing, brought together a group of issuers, investors and industry initiatives to understand the dynamics surrounding the just transition, and how issuers and investors can integrate positive social outcomes with environmental ones when structuring and issuing fixed income products and investment solutions.

Investors participating in the roundtable were clear that they are increasingly looking to assess just transition elements as part of fixed income fund strategies. Likewise, issuers are seeking to reflect just transition considerations in their business activities and issuances, including in transition planning. Both parties highlighted space for more alignment on mutual expectations of good practice on this theme to support their respective ambitions. Participants in the roundtable debated what could be needed to enable just transition instruments to fully support a global just transition:

(1) **Just transition considerations could be integrated into existing frameworks:** Participating investors noted limited appetite for the introduction of a distinctly labelled, new instrument. Instead, a preference was shown towards leveraging existing green and/or social debt frameworks and integrating just transition elements. Investors highlighted that today, just transition elements are most commonly incorporated by issuers through the reporting of social co-benefits as a side effect. That said, they noted that moving forward their preference would be to see a move towards social co-benefits being integrated into prioritization mechanisms, rather than having them reported as a knock-on.

(2) **Harmonized reporting might support increased efficiencies:** Investors were in agreement that the lack of standardized reporting makes both peer benchmarking and year on year progress assessment challenging. Issuers flagged that new reporting regulations (e.g. The Corporate Sustainability Reporting Directive and The Corporate Sustainability Due Diligence) could provide tangible solutions to some of the

challenges today. They also underscored the importance of finding balance between harmonization and allowing enough flexibility to capture context-specific information, which issuers stressed is particularly important for the just transition where social impacts are often highly localised.

(3) There is demand for more impact metrics: Measuring the success of just transition initiatives is complex due to the absence of clear key performance indicators (KPIs) and metrics. Investors highlighted that this makes distinguishing between outputs, outcomes, and impacts particularly challenging. For example, while it might be straightforward to report the number of jobs created or people reskilled, assessing the long-term impact of these actions on communities is more nuanced. Investors noted that issuers today were leveraging engagement work and surveys of impacted communities in order to communicate impacts. The Impact Investing Institute highlighted the UK government's Transition Plan Taskforce (TPT) as tool for issuers and investors looking for guidance in the impact reporting space.

The just transition is still a nascent topic for most investors and issuers, but its integration in a net zero transition will be important to ensure that communities, workers and social groups are considered as part of climate goals. More dialogue is needed to advance common understandings and best practice. The Impact Investing Institute highlights the following resources for stakeholders looking to further explore the topics.

Resources

- **Impact Investing Institute: Just Transition Criteria**
- **London School of Economics and the Climate Bonds Initiative:** Mobilising global debt markets for a just transition
- **ICMA:** Social Bond Principles and Green Bond Principles, including guidance on the integration of just transition aspects.
- **Transition Plan Taskforce:** Putting People at the Heart of Transition Plans: key steps and metrics for issuers

[1] Net Zero Roadmap: A Global Pathway to Keep the 1.5 °C Goal in Reach, The IEA
[2] Global Debt Report 2024, OECD
[3] Mobilising Global Debt Markets For a Just Transition, The LSE

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