PRI Principles for Responsible Investment

DISCUSSION PAPER

THE SOCIOECONOMIC IMPLICATIONS OF THE TRANSITION: ANALYTICAL FRAMEWORK FOR A WHOLE-OF-GOVERNMENT APPROACH

OCTOBER 2024

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ABOUT THE PRI

The Principles for Responsible Investment (PRI) works with its international network of signatories to put the six principles into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, the financial markets and economies in which they operate, and ultimately the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles offering possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system. More information: www.unpri.org.

ABOUT THIS PAPER

This discussion paper explores how social issues could inform the policy approach to the economic transition, as analysed in the PRI's white paper on Investing for the economic transition: the case for a whole of government approach. The paper presents an analytical framework aimed at:

- supporting policy makers in identifying key socioeconomic impacts of the transition;
- improving the coherence and effectiveness across different transition policy areas; and
- understanding the conditions for broad-based support for economic transition policy reforms.

The paper also invites discussion with signatories on socioeconomic implications of the transition from a policy perspective, and serves as a resource for signatories' own policy engagements on these issues with governments.

While the analysis focuses on the transition to net zero emissions, and the policies aimed at supporting it, there is a recognition that this is not the only transition facing our current economic system. Others, such as the technological and demographic transitions can also affect the socioeconomic conditions of different societal stakeholders, as well as their fundamental rights.[1] While governments will need to address the interactions among all three of them, this paper primarily focuses on the climate transition.

This paper builds on research and interviews with experts from civil society, academia, international organisations, and PRI signatories. It is a starting point rather than a definitive solution. The policy approaches that we present as part of this research are not exhaustive but instead lay a foundation for placing people at the centre of the climate transition, managing the competing interests inherent to this transition, and setting a course for future work in this area.

[1] PRI (2022), How investors can advance decent work.

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EXECUTIVE SUMMARY

The recent backlash against the net zero transition and the policies aimed at achieving it has emphasised the importance of accounting for the transition's social effects in terms of socioeconomic conditions and the protection of fundamental rights.

With this paper, the PRI explores in further detail how social issues could inform a whole-of-government policy approach to the economic transition. It presents an analytical framework aimed at supporting policy makers in identifying potential adverse impacts, promoting effectiveness across all segments of transition policy reform, and securing broad-based support for the economic transition. The paper can also inform investor engagement with policy makers on social issues related to the transition.

The analytical framework provides a new reading on enabling a transition that is both economically successful and socially just. It highlights possible policy solutions and instruments that governments can use to better anticipate the overall effectiveness of transition reforms. The framework is built on three components:

- whole-of-society stakeholder mapping from the lens of the economic transition;
- policy areas relevant to the transition;
- key policy levers as identified in PRI's white paper on investing for the economic transition.

While analyses on the just transition usually focus on four stakeholder groups (own workforce, workers in the value chain, affected communities, consumers and end users), in this paper we broaden the scope to include all parts of society that might ultimately be affected or have a role to play in the transition.

Key findings of the paper include:

- The economic transition's success depends on achieving buy-in across diverse societal groups and sectors. Policy makers need a complete understanding of the transition's stakeholders, including their needs, societal constraints, and the drivers of their resistance to the transition.
- Policies should target the root causes of social discontent and economic disparities to foster inclusive development and social cohesion, committing to the respect of fundamental rights as a baseline for any policy intervention.
- To effectively address the transition's socioeconomic implications, policy makers should adopt a whole-of-government approach, involving all stakeholders on whom different policy areas of the transition depend, and all available policy levers (addressing externalities, incentivising markets, and enabling finance to support the transition).
- Investors play an important role by engaging with policy makers to support the development of socially conscious transition policies.

RATIONALE AND IMPLICATIONS OF THE TRANSITION TO NET ZERO

The economic transition to net zero emissions implies a transformation of unsustainable economic activities with unmanaged environmental and social externalities to more sustainable, inclusive, resilient growth models. Understanding and managing the socioeconomic factors at play will be instrumental in achieving a transition that is both economically successful and socially acceptable. The effective implementation of net zero policies will ultimately depend on whether transition pathways can produce social gains and garner widespread support across diverse societal groups.

The current dynamics of global economies have contributed to mounting environmental and social externalities and systemic risks. Challenges such as climate change, biodiversity loss, and high and rising inequality underscore the limitations of an economy that is strongly reliant on extractive practices prioritising short-term gains over long-term sustainability considerations. As more than half of the world's GDP is moderately or highly dependent on nature – totalling US$58 trillion of economic value generation – biodiversity loss and climate disasters can be considered systemic financial risks.[2] Increased social tensions partly resulting from high inequality create volatile market conditions and deter investment, further exacerbating financial and other system-level risks.[3]

There is a growing consensus on the necessity to transition to a sustainable and equitable economy that safeguards natural systems and fosters social cohesion. The economic transition aims to shift economic activity from a mode that degrades the environment beyond planetary boundaries to one that the Earth's natural systems can sustainably support, which is necessary for long-term value creation.[4] However, the transition should also ensure social cohesion by reducing extreme inequality, upholding human rights, and protecting vulnerable people and communities from the impacts of transition.[5]

The economic transition is an opportunity to build a model for sustainable and inclusive growth. It is estimated to result in a net gain in the number of jobs created.[6] It can contribute to enhanced competitiveness through innovation and the creation of new markets, support positive public health outcomes in developed and developing countries,[7] and enable the growth of healthier and more ethical products for consumers.[8] According to McKinsey, the transition's most significant benefit is that "it will prevent the build-up of physical risks and reduce the odds of initiating the most catastrophic impacts of climate change".

The economic transition will be felt across all groups and levels of society, resulting in profound implications for workers, communities, consumers, entrepreneurs, capital holders, and entities such as corporations and institutional investors. Transitional challenges are already occurring against the backdrop of increasing political polarisation in many countries, which can lead to inconsistent policy support and public resistance.[9]

[2] PWC (2023), More than half of global GDP is exposed to material nature risk without immediate action, finds PwC.
[3] IMF (2023), The economics of social unrest.
[4] Planetary Boundaries Science (2024), Planetary health check.
[5] PRI (2023) Investing for the economic transition: the case for whole-of-government policy reform.
[6] ILO (2022), Skills development for a just transition.
[7] McKinsey Sustainability (2022), Six characteristics define the net-zero transition.
[8] ILO (2019), Skills for a greener future: a global view; Lee (2023), How do companies' net zero efforts affect consumer product evaluation through reciprocity and trust? A study in Korea.
[9] Mannan and Noreen (2023), The Impact of Political Polarization on Governance: Exploring Causes and Consequences of Divisiveness.

There is global popular support for tackling its challenges. For instance, the United Nations polled people in 77 countries – representing 87% of the world's population – about their attitudes towards climate action, among whom 80% reported wanting their governments to take stronger action in addressing climate change.[10] According to the World Economic Forum's Global Risks Report 2023, the world is facing a polycrisis in which related global risks compound one another "such that the overall impact exceeds the sum of each part".[11] In the short term, the most severe risks are the cost of living, natural disasters and extreme weather resulting from climate change, and the erosion of social cohesion and societal polarisation. Over a longer timeframe of ten years, the likely global impact of the failure to mitigate climate change and biodiversity loss will increase in severity.

Public policy will be critical to mediate between the competing interests of different societal stakeholders. Governments will only be able to successfully facilitate, enable, and deliver national economic and sustainability objectives if they effectively anticipate and manage negative social impacts of the economic transition and ensure broad societal support for transition measures. Policy makers need a full understanding of the transition's key stakeholders, including their needs, societal constraints, and the drivers of their resistance to the transition.

Investors also have a pivotal role to play in supporting the transition. They can ensure that the companies in which they invest have transition plans in place and implement environmental and social due diligence measures to manage the effects of the transition, adopt transition plans and due diligence processes themselves, and engage with policy makers to ensure that the transition is managed effectively.

[10] UN (2024), The People Vote on Climate 2024.
[11] World Economic Forum (2023), Global Risks Report 2023.

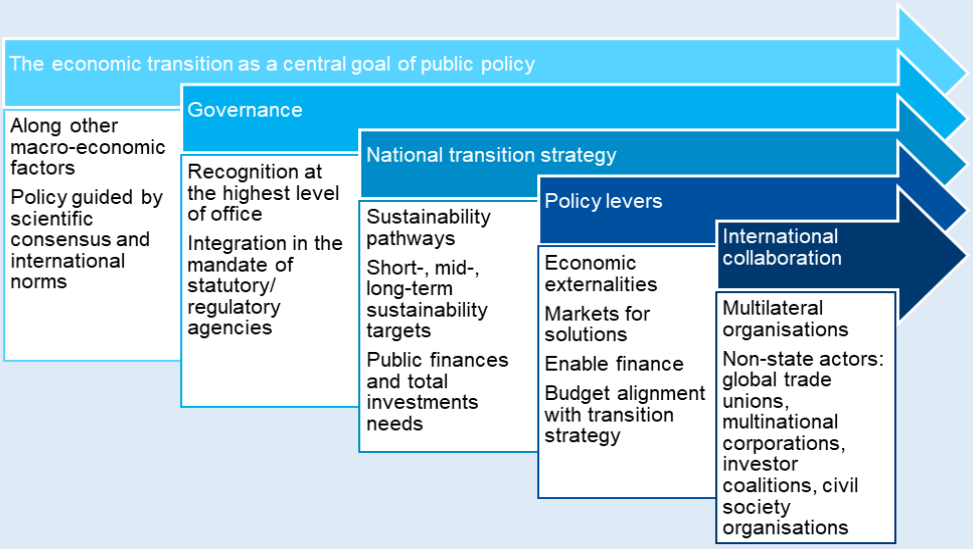
Box 1: A whole-of-government approach to the economic transition

Today's society and economy are at a critical juncture in terms of sustainability. At the international level, sustainability goals have been adopted under – for instance – the Paris Agreement on Climate Change, the UN Sustainable Development Goals (SDGs), the Convention on Biological Diversity, and the International Bill of Human Rights and its ensuing conventions and guidelines. These international instruments are being implemented in national and sub-national policies around the world, underpinning an increased flow of capital towards sustainability goals and increased attention to sustainability in policymaking.

However, financial flows are not yet at the required scale, societal buy-in for the transition remains insufficient, and environmental and societal progress are still inadequate.[12] An economy-wide transition is urgently needed to address environmental and social challenges that are posing growing threats to prosperity around the world.

To effectively address the transition's numerous policy goals, the whole of government needs to be mobilised. A high-level conceptual framework of the whole-of-government approach (fig.1) is presented that outlines the key role of collaboration and consistency of policymaking.

Figure 1. High-level policy framework for a whole-of-government approach to the economic transition



Source: Investing for the economic transition: The case for a whole of government approach

[12] UNFCCC (2023), New Analysis of National Climate Plans - UNFCCC; Yale Center for Environmental Law & Policy (2024) Environmental Performance Index 2024; UN Sustainable Development Group (2024) 2024 SDG Report: Global Progress Alarmingly Insufficient.

SOCIAL CONTEXT OF THE TRANSITION TO NET ZERO

Understanding the social context of the net zero transition is essential for designing effective transition policies. For example, high and rising inequality can fuel resistance to such policies, as marginalised groups might feel unfairly affected. Other groups might not be ready or willing to change their consumption patterns regardless of living standards. Political polarisation can obstruct the effective development of a lasting, whole-of-government approach to the transition. Governments should account for such underlying societal challenges to address the needs of diverse societal groups, which is required for securing broad buy-in and ultimately implementing effective policies.

In reviewing today's social landscape, it is necessary to acknowledge the role of increasing inequality and political polarisation in shaping both the urgency of and challenges to achieving a successful economic transition. For many, the economic transition brings uncertainty and fear about who stands to gain or lose, with some segments of society perceiving the transition as a threat to their current livelihoods or lifestyles rather than an opportunity for economic empowerment or improving their welfare. Globally, stakeholders are concerned about whether the costs and benefits will be fairly distributed, and whether policy makers and decision-making processes will consider the diverging circumstances of different societal groups.[13] Such doubts can lead to concerns about the fairness of such policies and altogether resistance to the transition's goals.

There is a growing global consensus that inequality is a critical issue. A recent Pew Research Center survey underscores this shared recognition across different societal groups, revealing that in 31 of 39 nations surveyed, half or more of respondents consider inequality a significant problem. "Elites and average citizens often disagree on economic issues, but on the topic of inequality there is broad agreement".[14] This widespread concern presents an opportunity for unity that transcends social standing and political ideologies, signalling a compelling mandate for transformative change.

Extreme inequality has surged over recent decades. In numerous countries, the gap between the highest and lowest income earners has sharply widened. Over the last four decades, the richest 10% have earned more than half of global income, compared to the bottom 50% having earned just 8.5%.[15] Higher-wage workers – such as those in the technology and finance sectors – have enjoyed substantial income growth, contrasting with stagnant wages for low-skilled workers. The decline of unions and other labour market institutions has weakened collective bargaining and eroded platforms for worker advocacy.[16] This is evidenced by the fact that "union workers as a share of the total number of workers has halved since 1983".[17] Trends in housing also reflect rising inequality, with more than 1.8 billion people around the world living in informal settlements or inadequate housing and homelessness being an increasing challenge in many economically advanced countries.[18] Simultaneously, the wealthiest individuals have seen their wealth grow exponentially compared to the rest of the population. The wealth disparity figures are even worse than those related to income. "The poorest half of the global population owns just €2,900 (in purchasing power parity) per adult, while the top 10 percent owns

[13] FT (2023), How net zero became an election issue around the globe.
[14] Pew Research (2013), The global consensus: Inequality is a major problem.
[15] World Inequality Lab (2022), World Inequality Report 2022.
[16] OECD (n.d.), Collective bargaining and social dialogue.
[17] Economic Policy Institute (2021), The enormous impact of eroded collective bargaining on wages.
[18] OHCHR (n.d.), The human right to adequate housing.

roughly 190 times as much".[19] This is partly due to asset price dynamics and tax policies that have largely favoured capital accumulation.[20,21]

Inequality has significant implications for investors and financial markets at large. The United States Federal Reserve found that an increase in income inequality is associated with companies taking on more debt, which can make them more vulnerable to economic downturns, increases in "the ratio of assets to GDP for mutual funds and life insurers", which can lead to a market concentration, and greater use of non-bank short-term funding, which can also contribute to instability in the financial market at large.[22]

The climate crisis is inextricably linked to inequality, which can increase if climate policies inadequately tackle the societal drivers of climate change.[23] Wealthier stakeholders frequently benefit from resource extraction while not fully shouldering the environmental costs, whereas climate burdens often fall disproportionately on vulnerable communities. In fact, the divergence in income growth between the richest 1% and the poorest 50% has also been linked to inequity in carbon emissions. Since 1990, the top 1% of emitters have been responsible for 23% of the increase in carbon emissions globally, compared to the bottom 50% being responsible for only 16%.

The OECD reports on the social consequences of widening economic disparities and hollowing out of the middle class, which have left many feeling economically marginalised and disillusioned with the current economic growth trajectory.[24] This sentiment of being left behind is pervasive globally, fuelling widespread discontent with the status quo and prompting social tensions, which in turn contribute to political division. This has manifested globally through movements advocating for change and supporting anti-system alternatives.[25]

Box 2: The EU Nature Restoration Law and the farmers' protests

The EU Nature Restoration Law aims at restoring ecosystems, species and habitats. It aims to achieve the targets set by the Global Biodiversity Framework (GBF), implementing restoration targets for specific habitats and species to cover at least 20% of the region's land and sea areas by 2030.

It was officially adopted in June 2024, breaking a months-long deadlock due to opposition from a number of member states. This opposition was partly fuelled by protests organised in several member states (including Belgium, France, and Italy) by farmer movements claiming that the provisions in the law would put their livelihoods at risk.[26] The fact that the final votes on the law coincided with the approaching EU elections further fuelled the controversy about its effects.[27]

The law was eventually passed with a substantially reduced ambition. Among other changes, requirements for restoring agricultural land were carved out, while the targets for reviving drained peatland were left voluntary for farmers and private landowners. Carve-outs from the requirements were also implemented for small farmers.

The protests and subsequent retreat on environmental policy signify the need to integrate socioeconomic considerations into environmental policies from the design phase onwards.

Notably, in November 2023 (before the protests began), it was decided that "by 2033, the Commission will review the application of the regulation and its impacts on the agricultural, fisheries and forestry sectors, as well as its wider socioeconomic effects".[28] Such provisions can support policy makers in understanding the longer-term effects of regulations and provide assurance to affected stakeholders that possible negative effects can be mitigated, especially if adopted early in the policy lifecycle.

[19] IMF (2022), Global inequalities.
[20] CEPR (2018), Asset prices and wealth inequality.
[21] Center for Public Integrity (2022), How four decades of tax cuts fuelled inequality.
[22] Federal Reserve (2024), Inequality and financial sector vulnerabilities.
[23] Pande (2023), The climate crisis is a crisis of inequality.
[24] OECD (2019), Under Pressure: The Squeezed Middle Class.
[25] LSE (2022), Who are 'the left behind'? Forget culture wars: it's the economics, stupid!
[26] Associated Press (2024), As the rumble of tractor protests grows, the EU offers more environmental concessions to farmers.
[27] Politico (2024), How the EU's flagship nature law became an electoral punching bag.
[28] EU Council (2024), Nature restoration law: Council gives final green light.

The recent farmer protests across Europe offer a prime example of what is at stake when transition policies are siloed and highlight the need for intergovernmental coordination. The protests reflected backlash to regulation on environmental protection and its potential impact on prices, leaving farmers feeling neglected and burdened by this transition-related policy.[29]

The ongoing wave of anti-ESG bills in the United States further exemplifies resistance to transition efforts. Such a backlash persists despite evidence that responsible investment practices informed by environmental, social, and governance considerations do not compromise returns but rather can create value and enhance the long-term resilience of portfolios to shocks and risks. However, it is important to note that anti-ESG bills have not received popular support, having encountered broad opposition by a wide range of stakeholders, including elected officials, public pension fund officials, advocacy organisations, and business groups.[30]

The social context of the transition to net zero is influenced by a different set of challenges and priorities in emerging markets and developing economies (EMDEs) than in advanced economies. For instance, such countries need to balance their transition goals with the urgency of economic development and climate adaptation. For many EMDEs, the pressing need to address poverty, create jobs, and improve access to basic services such as education, healthcare, and energy might take precedence over long-term climate goals.[31] Challenges in attracting foreign investment and repaying substantial sovereign debt can also be hindrances to EMDEs' pursuit of the transition.[32] Public resistance might stem from fears that climate policies could threaten economic growth or exacerbate existing inequalities, while climate policies adopted by developed economies might have spillover effects on EMDEs. Policy makers should identify these impacts (in terms of both their risks and opportunities) in the policy design phase and aim to address them accordingly.

The benefits of the transition cannot be underestimated. According to the Network for Greening the Financial System (NGFS) and the International Monetary Fund (IMF), "an orderly transition to net zero by 2050 could result in global gross domestic product being 7 percent higher than under current policies".[33] The impacts of the climate transition will also be felt beyond the raw economic data, having a direct positive effect on the lives of people around the globe. Studies show that measures to tackle climate change can potentially benefit human health, such as through reductions in pollution,[34] improved access to public goods such as education, energy, and transportation,[35] and ultimately address inequality.[36]

The inherently social nature of this transition necessitates better addressing factors influencing social buy-in and acceptance. Policies should target the root causes of social discontent and economic disparities to foster inclusive growth and social cohesion. The transition's success hinges on whether policies not only tackle the fears and uncertainties but also reflect the priorities of diverse societal groups. This should be underpinned by a commitment to the respect of fundamental rights as a baseline for any policy intervention. For policy makers and investors alike, this approach is crucial for ensuring that transition efforts avoid exacerbating existing inequalities and instead act as a unifying force for more inclusive economies.

[29] Reuters (2024), Why are farmers protesting in France and other parts of Europe?
[30] PRI (2023), Anti-ESG bills found unified opposition in US statehouses.
[31] NGFS (2024), Tailoring Transition Plans: Considerations for EMDEs.
[32] Bloomberg NEF (2023), Mobilizing Capital in and to Emerging Markets.
[33] IMF (2023), Benefits of Accelerating the Climate Transition Outweigh the Costs.
[34] Imperial College London (2021), Climate change action will improve health and save lives now and in the future.
[35] McKinsey Sustainability (2023), An affordable, reliable, competitive path to net zero.
[36] IIED (2018), How tackling climate change could tackle inequality.

FRAMEWORK FOR INTEGRATING SOCIAL DIMENSIONS IN TRANSITION POLICIES

We propose a high-level analytical framework to support government efforts to pursue an equitable economic transition. This framework guides policy makers on how considerations of social issues can be integrated into a whole-of-government approach to the transition, and in turn the policy solutions that exist to achieve cross-society buy-in for the transition.

This framework underscores the importance of adopting a people-centric approach to transition policies, meaning that policy makers should first understand the transition's key stakeholders and their needs to craft effective and inclusive policy.[37]

WHOLE-OF-GOVERNMENT APPROACH APPLIED TO SOCIAL ISSUES IN THE TRANSITION

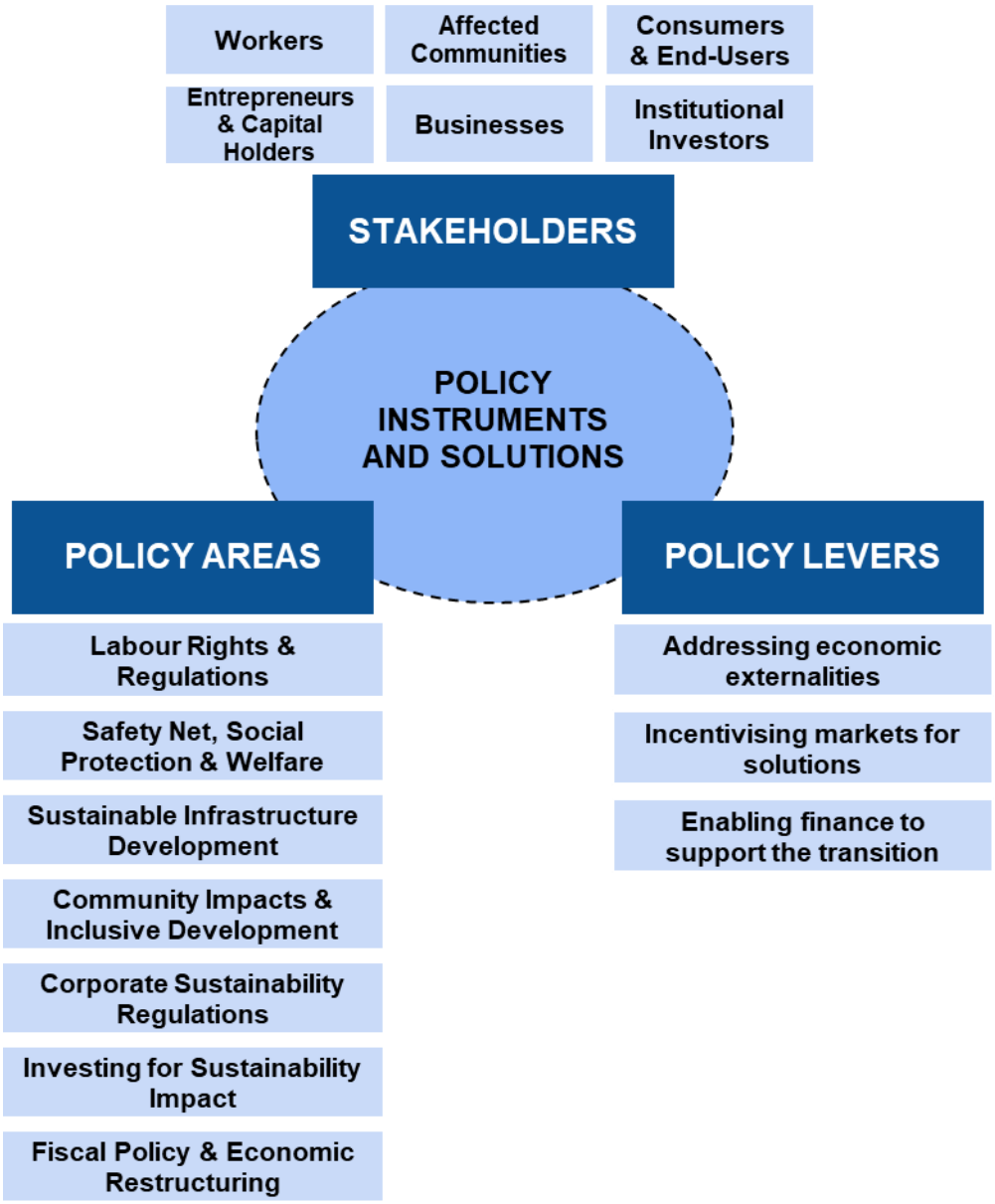
The aim of the analytical framework identified is to guide policy makers in minimising negative impacts, promoting collective gains across all segments of society, and securing broad-based support for the economic transition.

Building on the PRI's white paper on investing for the economic transition, this paper acknowledges that coordinating efforts across different sectors and levels of government is crucial to address the diverse social challenges and opportunities arising from the transition. Further, a unified approach in which the social costs of certain policies are harmonised with the benefits of other policies – including through social safety nets or incentives – can help to address the concerns of affected stakeholders. This can help to avoid potential and significant pushback against specific environmental policies, as well as risking undermining public trust, both of which weaken the overall case for the transition.

A whole-of-government approach can mitigate these issues by ensuring that all relevant perspectives are considered and integrated into policy planning and implementation. A comprehensive strategy and cross-department coordination can also enable policy makers to identify synergies and avoid policies that conflict one another, making the transition smoother and more efficient.[38]

[37] See research methodology in annex.
[38] Kennedy et al. (2015), A Primer on Implementing Whole of Government Approaches.

Figure 2: Key components of a whole-of-government approach to addressing the social aspects of the climate transition



COMPONENT 1: STAKEHOLDERS

The first component of the framework is the relevant stakeholder groups that might benefit or incur risks with the transition. By extensively considering which groups are affected by which policy area and what policy lever should be actioned, the benefits and opportunities of the transition can be fairly and equitably shared. The stakeholder groups below are not mutually exclusive, as many individuals likely fall into more than one group.

Workers[39] are directly affected by industry changes and constitute the labour force needed to drive productivity in new markets. It is crucial that the transition supports the right to decent work, as defined by the International Labour Organization (ILO). Key illustrations of this group include:

- Workers whose livelihoods are at risk, including in fossil fuel or other hard-to-abate industries.
- Those who might face poor working conditions in emerging, less regulated industries, including migrant workers.
- Workers requiring re/upskilling and other support to facilitate a smooth career transition in new sustainable industries.
- Members of the future workforce, who will need to be educated to join emerging sectors that will be pivotal to ensure the transition's success, or green industries that will emerge as a result of the transition.

Affected communities are those who are directly and immediately affected by changes resulting from the transition to a net zero economy yet have the fewest resources to adapt, such as:

- People whose rights are compromised by transition efforts, including Indigenous People and local communities affected by resource extraction activities or new energy facilities developed on or near their territory, with inadequate protections.
- Communities in struggling regions, such as former coal towns or rural and agricultural areas, where targeted regional economic development will be necessary.
- Displaced individuals and communities forced to relocate due to either climate change or the transition itself, who will need substantial support to rebuild their social and human capital and foster resilience in their new environment.

Consumers and end users, whose adoption of new products and services is critical to economic growth. Viewing the transition through the lens of consumers draws attention to those who will need to change their consumption patterns, despite not necessarily having the means or motivation to do so:

- Individuals struggling to meet their basic needs – such as access to energy, finance, affordable housing, and other public goods – stand to significantly benefit if the transition provides a path towards enhanced wellbeing. Transition policies should prioritise compensating these individuals to ensure that they will be better off in the long term, as well as securing their ability to adopt low-carbon behaviours.[40]
- Households who have the financial capacity to consider adopting more sustainable solutions yet might be resistant to changing their consumption patterns. Providing incentives to balance or outweigh the costs of such lifestyle adjustments will be vital in convincing this group.
- Residents in urban and rural areas facing high living costs and environmental challenges can benefit from policies that promote sustainable urban development, such as affordable transportation and pollution reduction measures.

[39] Referring to workers whose livelihoods are tied to the sectors undergoing transitions, and who might experience significant career impacts due to these shifts.
[40] Kukowski & Garnett (2023), Tackling inequality is essential for behaviour change for net zero.

Entrepreneurs and capital holders can include private equity firms, venture capitalists, and high-net-worth individuals. Members of this group can drive innovation and scale sustainable technologies, provided that convincing incentives for sustainable investments are in place:

- Entrepreneurs will be able to support the development and implementation of new technologies and provide high-quality green jobs for workers involved in high-emitting industries, as well as those entering the workforce in the future. In this way, they can support the transitioning both into a green economy and out of high CO_2-emitting sectors.
- Private equity firms and venture capitalists will be able to support investments in new sectors and solutions (e.g. direct air carbon capture and storage, AI for climate adaptation, etc.), while engaging with existing high emitters to support changes in their business models.
- High-net-worth individuals have the means to support the transition through their investments and philanthropic efforts, but also by leveraging their public position and exposure to bring the spotlight onto the need for the economic transition. Such individuals will also need to be supported in shifting their consumption patterns to more transition-aligned products and behaviours.

Businesses have a role and interest in ensuring that the transition to net zero is achieved in a speedy and orderly fashion, as a central stakeholder in the economic system. This will allow them to limit the risks of the transition, while capitalising on its opportunities.

- Small and medium-sized enterprises (SMEs) and start-ups are important in driving economic innovation but will need financial incentives, regulatory support, and a competitive market landscape to pivot their business towards sustainability.
- Multinational corporations are large industry leaders with significant influence and resources to drive industry-wide shifts. Given that they might be slower in changing their operations depending on their existing investments, shareholders' interests, and potential value chain exposure to physical and transition risks, they will need to be convinced of the transition's need and benefits. Providing clear and consistent policy frameworks that pair regulatory measures with financial incentives can help in this respect, along with highlighting consumer demands for sustainability and equity.

Institutional investors such as pension funds and large asset managers have significant influence and potentially abundant resources to direct substantial investments towards socially and environmentally sustainable initiatives. Policy makers will need to collaborate with – and learn from – these stakeholders to ensure that transition pathways are the most viable in the long run.

COMPONENT 2: KEY POLICY AREAS

The second component of the framework is the relevant policy areas for the transition. For further illustration, each policy area includes key policy solutions and instruments that were most commonly cited in literature and interviews as having the strongest potential to address stakeholders' needs. This list should not be treated as exhaustive – given that it does not include cross-border aspects of the transition – but rather as an example of areas of focus for policy makers. The specific situation in the different jurisdictions (e.g. level of economic development, demographic makeup, access to natural resources) will necessarily influence the type of policy instruments and solutions to be prioritised.

Several principles underpin the policy solutions and instruments selected:

- Many interviewees expressed the **need for policies to be people-centric and targeted, considering all affected stakeholder groups while efficiently allocating resources**. Targeted interventions tackling specific objectives or impacts of the transition are crucial, likewise broader systemic changes addressing underlying inequalities and promoting inclusive development.
- **Policies should speak to the needs and contributions of all relevant societal groups and entities.** In managing these groups' competing interests, policy makers can implement policies that address social vulnerabilities or negative externalities resulting from the transition, along with those appealing to influential stakeholders whose participation and resources can drive sweeping change.
- In order to be sustainable**, policies should be rooted in long-term planning and resilient to changes in policy priorities, anticipating future needs and planning for the next generation**.
- The transition policy agenda should **strike a balance between incentivising and regulating behaviours, as the perceived costs and benefits strongly influence public opinion**.[41] Pairing costs with rewards – such as timing increased regulation with increased subsidies – can enhance public support and ensure successful policy implementation.

COMPONENT 3: POLICY LEVERS

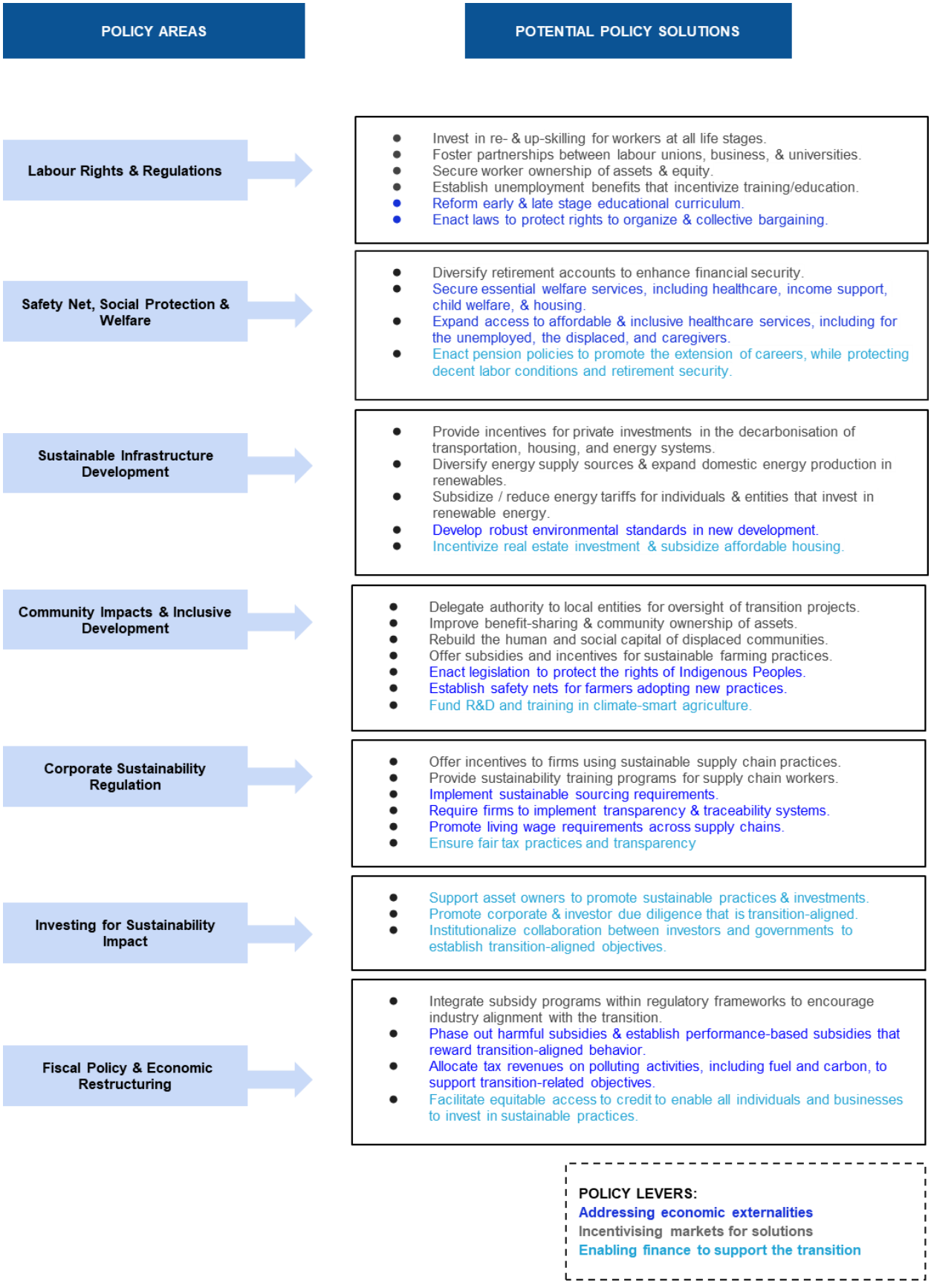
The framework includes the three key policy levers of the transition identified by the white paper on investing for the economic transition:

- **Addressing economic externalities**
- **Incentivising markets for solutions**
- **Enabling finance to support the transition**

Green budgeting can be considered as a crosscutting instrument, although it is not included in the framework. A detailed view of the instruments typically included in each lever is presented in the annex.

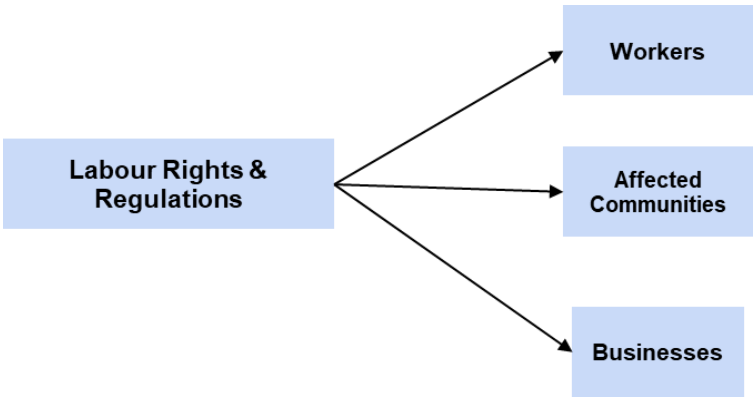
[41] Harvard University (2024), Fighting Climate Change: International Attitudes Toward Climate Policies.

Figure 3: Targeted policy solutions for policy makers to consider across core policy areas and levers



DETAILED ANALYSIS PER POLICY AREA

1. LABOUR RIGHTS AND REGULATIONS

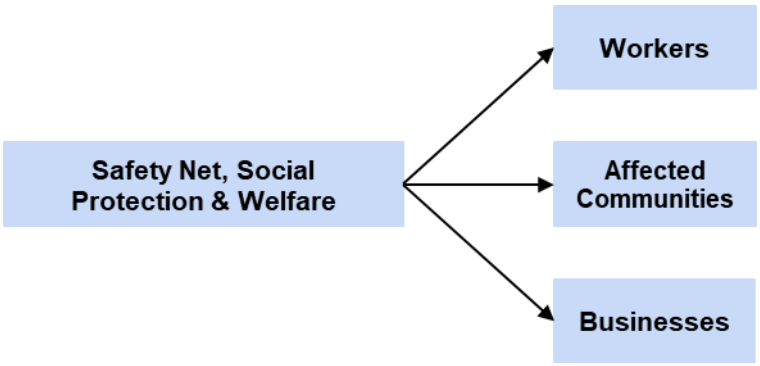


This policy area focuses on protecting worker rights, especially for workers who transition out of old and into new jobs, and supporting current and future workers to build new skills and shift to new careers. This area was the most frequently mentioned among interviewees, as current statistics show continuing skills gaps and employment mismatch between those working in the highest emitting sectors, or brown sectors, and transition-aligned green sectors.[42]

This policy area is essential to ensure that current and future labour forces are well equipped and motivated to participate in the necessary sectors to bring about a sustainable economy. Imperative to this is protecting civic rights and strengthening unions to secure the right to decent work at all career stages.[43] This calls for re-skilling programmes and – more broadly – advancements in the education sector to align supply and demand in labour markets.[44] Other areas of priority can include ensuring that jobs lost due to the transition are offset with green jobs that at the same or higher level, and in the same geographic areas.[45] Increasing worker ownership and equity as a strategy for reducing systemic inequalities has also been widely cited.[46] The Equity Investment Act in the United States could serve as a model, providing loan guarantees for investment funds that are working to expand employee-owned firms and facilitate the process of selling companies to employees.[47]

[42] EBRD (2023), Transition Report 2023-24.
[43] Prinze & Pegels (2018), The role of labour power in sustainability transitions: Insights from comparative political economy on Germany's electricity transition; Robins et al. (2018), Financing climate action with positive social impact How banking can support a just transition in the UK; IRENA (2023), Finding common ground for a just energy transition: Labour and employer perspectives.
[44] Borde et al. (2022), Education as a strategy for climate action and mitigation.
[45] ILO (2018), World Employment and Social Outlook 2018 – Greening with jobs [Summary].
[46] Weissbourd et al. (2021), Race and gender wealth equity and the role of employee share ownership; Mygind & Poulsen (2021), Employee ownership – pros and cons – a review.
[47] US Congress (2023), S.1618 - Employee Equity Investment Act of 2023 - Congress.gov.

2. SAFETY NET, SOCIAL PROTECTION & WELFARE



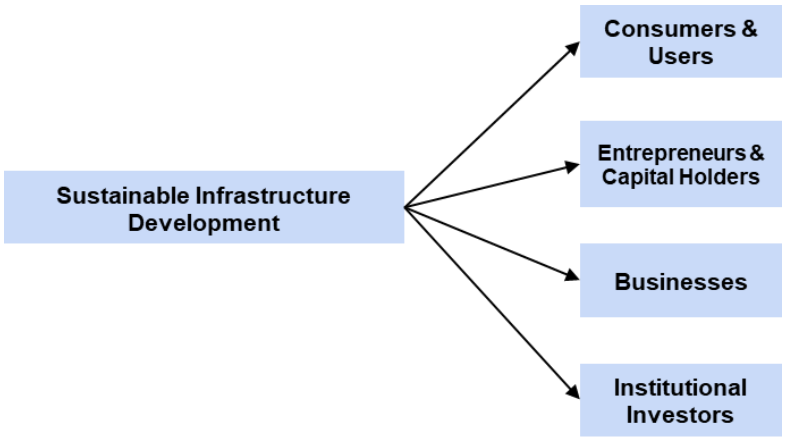
This policy area recognises the need for governments to enhance social safety nets during times of change, ensuring that those who are less able to adapt to a new economy will have support in doing so. The importance of social protection measures extends beyond addressing urgent externalities of the transition, as such measures can also accelerate transition-aligned behaviour by making individuals and entities feel supported in taking risks in their consumption or production choices. Ensuring comprehensive social safety nets can reduce the fear of economic instability, encouraging individuals and businesses to make leaps towards the transition. The EU Platform Work Directive – adopted by Parliament in April 2024 – is one step towards strengthening the rights of those working for digital labour platforms to ensure that more individuals feel safe in joining this growing economy.[48]

Policy should be geared towards both mitigating negative impacts on welfare and enhancing social and financial security through the transition. This area captures the need to prioritise services aimed at advancing the wellbeing and financial stability of individuals and families, which could include income support, affordable healthcare and other care services, access to nutritious and affordable food, and healthy living environments.[49] For instance, income support can soften workers' transition from declining industries to emerging green sectors.

Further, the connection between healthcare and the transition is particularly significant. More sustainable practices will generate improved public health outcomes, such as reduced pollution-related illnesses and increased access to nutritious food.[50] These positive effects can lead to a decrease in overall healthcare costs and other care services, which can reduce the financial burden on families, allowing them to further participate in the transition and produce positive macroeconomic impacts overall.

[48] European Parliament (2024), Parliament adopts Platform Work Directive.
[49] WEF (2024), 4 ways businesses, cities and communities around the world are reshaping the care economy; Olivares-Tirado et al. (2012), Effect of in-home and community-based services on the functional status of elderly in the long-term care insurance system in Japan; ILO (2019), The Unpaid Care Work and the Labour Market. An analysis of time use data based on the latest World Compilation of Time-use Surveys.
[50] Ramaswami et al. (2023), Toward Zero-Carbon Urban Transitions with Health, Climate Resilience, and Equity Co-Benefits: Assessing Nexus Linkages.

3. SUSTAINABLE INFRASTRUCTURE DEVELOPMENT



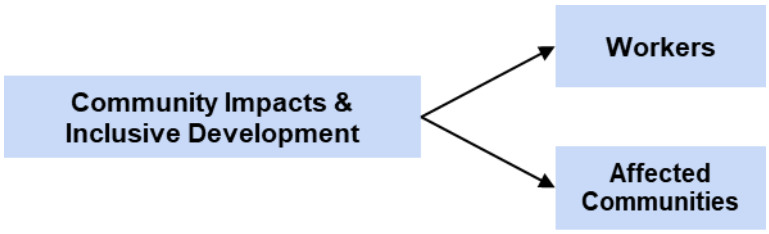
The shift to sustainable, Paris-aligned infrastructure is a well-known requisite of the transition.[51] **This policy area highlights priority sectors for decarbonisation – such as transportation, housing, and energy, along with physical infrastructure in healthcare and education – signalling to policy makers the need to attract investment in sustainable construction, real estate, and renewable energy.**[52] This area also speaks to a broader need to incorporate long-term climate resilience goals into the transition. While achieving a "low-carbon, climate resilient world" as stated in the Paris Agreement[53] should guide all transition efforts, the issue of resilience is particularly material to investments in low-carbon infrastructure, which will continue to face physical climate risks. The UK Transition Plan Taskforce Disclosure Framework includes climate resilience as a key factor for entities to consider in their pursuit of decarbonisation.[54]

Essential to this area is the recognition that the greening of these sectors cannot overlook the more fundamental issue of access. Globally, many populations deal with energy poverty, lack public transport options, and struggle to afford housing, healthcare, and education. For instance, "only half of the urban population around the world has access to some form of public transport services".[55] The greening of infrastructure should simultaneously enhance accessibility and affordability, which will require initiatives to ensure that the high short-term costs of development do not jeopardise affordability for consumers.[56] For instance, attention should be paid to the housing sector, in which homeowners are increasingly asked to upgrade to greener technology. Policy makers can provide financial incentives and support for sustainable home improvements, as well as addressing the broader issue of rising housing prices as a means to reduce social inequities. The availability, accessibility, acceptability and quality (AAAQ) criteria enable measuring the level of realisation of economic, social and cultural (ESC) rights, reflecting a useful tool for policy makers in developing transition plans regarding infrastructure.[57]

Broadly, this area highlights how embedding social considerations in sustainable infrastructure policy presents the opportunity to stimulate growth in domestic industries, motivate consumer adoption, and address system-level inequality.[58] Blended finance can play a crucial role in this policy area by combining public and private resources to help bridge funding gaps, reduce investment risks, and attract more investors.[59]

[51] WEF (2024), A seven-point guide to getting the net zero transition on track.
[52] PRI (2022), Policy briefing: sustainable infrastructure; Xian Li et al. (2022), Towards zero carbon housing in Victoria, Australia: A policy and incentive framework.
[53] UNFCCC (2015), Paris Agreement.
[54] TPT (2023), Disclosure framework.
[55] UN (2020) SDG 11.
[56] WEF (2024), Accelerating an Equitable Transition: A data-driven approach.
[57] Danish institute for Human Rights (n.d.), AAAQ Toolbox Concept Note.
[58] IHRB (2024), Advancing Just Transitions In The Built Environment.
[59] Choi (2020), Catalyzing Capital for the Transition toward Decarbonization.

4. COMMUNITY IMPACTS & INCLUSIVE DEVELOPMENT



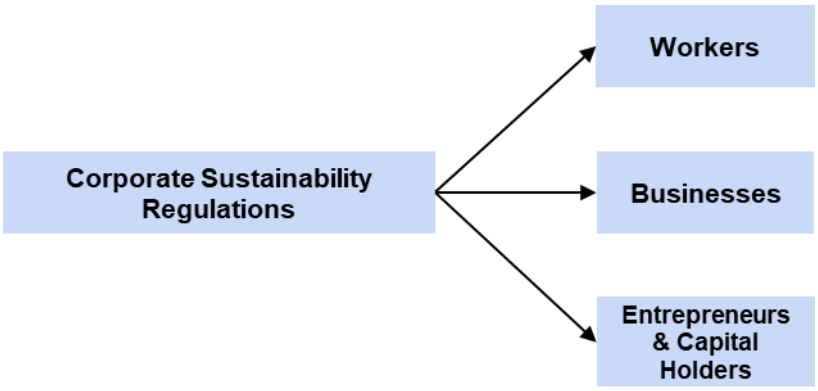
This dimension encompasses policies and strategies to ensure that the benefits of transition-aligned development are equitably distributed and avoid vulnerable communities being disproportionately affected by structural changes. Recognising the contributions of these communities in advancing the transition is essential. For instance, this area could include efforts to safeguard and empower Indigenous Peoples as the stewards of "a quarter of the world's land surface, and…about 40% of all terrestrial protected areas and ecologically intact landscapes".[60] Further, Indigenous communities can be key stakeholders in the transition to renewable energy, as many of the world's critical minerals exist on Indigenous lands. Obtaining consent from Indigenous communities is a prerequisite to securing the necessary raw materials to develop energy transition technologies, which is estimated to be a multi-trillion dollar economy.[61] This need was echoed by international civil society organisations and the European Parliament in their call for including Indigenous Peoples' right to free, prior and informed consent (FPIC) in the text of the 2023 Critical Raw Materials Act (CRMA).[62] While the CRMA lays a strong foundation for environmental and social standards, the final text stands to be further strengthened in terms of protecting Indigenous Peoples' rights.[63]

This policy area also focuses on displaced individuals, including those economically displaced or migrating due to climate change. Job and skills matching initiatives can ensure that a country reaps the benefits of migration. A World Bank report underscores that "when migrants bring skills and attributes in demand in the destination country, the benefits typically outweigh the costs".[64] Immigration can increase entrepreneurship and innovation, strengthen links for international trade and investment, and improve the provision of services such as education and healthcare. For instance, "about 17 percent of healthcare workers in the United States, 12 percent in the United Kingdom, and 79 percent in the Gulf Cooperation Council (GCC) countries are foreign-born". Further, immigration to countries with ageing populations can help to address demographic challenges, including the simultaneous declining active workforce and increasing pension costs, which place pressure on established pension systems.[65]

Additional areas for intervention can include stimulating investment in mid-sized and smaller cities to stimulate technological innovation across diverse regions. For example, rural agricultural regions stand to gain significantly from efforts to reduce physical climate risk but will also be at the forefront of the transition's initial impacts. Estimates show that cutting agrifood emissions will have net positive effects, with economic, environmental, and health benefits estimated at as much as $4.3 trillion by 2030.[66] Growth will also be felt at the household level, with estimates suggesting a 15-25% return on investment for farmers who adopt regenerative practices. However, public policy should support farmers in attaining these benefits by reducing costs for adopting sustainable practices, among other incentives.[67]

[60] Garnett et al. (2018), A spatial overview of the global importance of Indigenous lands for conservation.
[61] IRENA (2023), Investment Needs of USD 35 trillion by 2030 for Successful Energy Transition.
[62] European Commission (2024), European Critical Raw Materials Act's aims.
[63] BHRRC (2023), EU: Parliament votes to strengthen FPIC principles in CRMA but misses other opportunities to expand their rights.
[64] World Bank (2023), World Development Report 2023: Migrants, refugees and societies.
[65] IMF (2020), Can Immigration Solve the Demographic Dilemma?
[66] World Bank (2024), Recipe for a Livable Planet: Achieving Net Zero Emissions in the Agrifood System.
[67] Piñeiro et al. (2020), A scoping review on incentives for adoption of sustainable agricultural practices and their outcomes.

5. CORPORATE SUSTAINABILITY REGULATIONS



As one of the transition's main stakeholders, ensuring that corporate actors' activities work in support of the economic transition will be fundamental to ensure its success. This should be achieved through a mix of regulation and incentives, with due attention paid to the nature of the different stakeholders affected (e.g. SMEs vs. multinational corporations).

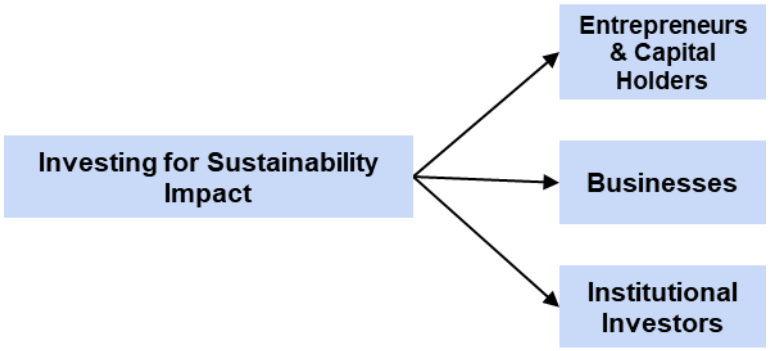
Better data on the risks and impacts of corporate activities is fundamental for policy makers to adopt evidence-based transition policies, including regarding social issues. For investors, this data supports the redirection of capital towards activities that support the transition. Mandatory disclosure requirements are therefore pivotal in ensuring that well-designed policies are adopted.[68]

The transition will inevitably have effects along national and international value chains. Risk-based due diligence requirements aligned with international standards such as the UN Guiding Principles on Business and Human Rights and the OECD Guidelines will be necessary to limit the human rights and environmental impacts of economic activities, supporting buy-in for the transition.[69,70,71]

Transition plans provide forward-looking information that supports medium- and long-term investment decisions. They are also crucial in enhancing non-state actors' accountability in translating sustainability commitments into action and mobilising transition finance. Transition plans are key vehicles for embedding social considerations into a country's transition pathway, in which priorities such as economic and procedural justice and the disclosure of social risks associated with the transition should be reflected.[72]

[68] PRI (2022), What data do investors need to manage human rights risks?
[69] OHCHR (2011), Guiding Principles on Business and Human Rights.
[70] OECD (2023), Guidelines for Multinational Enterprises on Responsible Business Conduct.
[71] OHCHR & ILO (2023), Human Rights and a Just Transition.
[72] IHRB (2023), It's time to mainstream the Just Transition.

6. INVESTING FOR SUSTAINABILITY IMPACT



This policy area involves enabling investors to pursue sustainability goals and integrate social considerations into investment decision-making,[73] along with ensuring that the proper real economy incentives are in place to motivate financial actors.

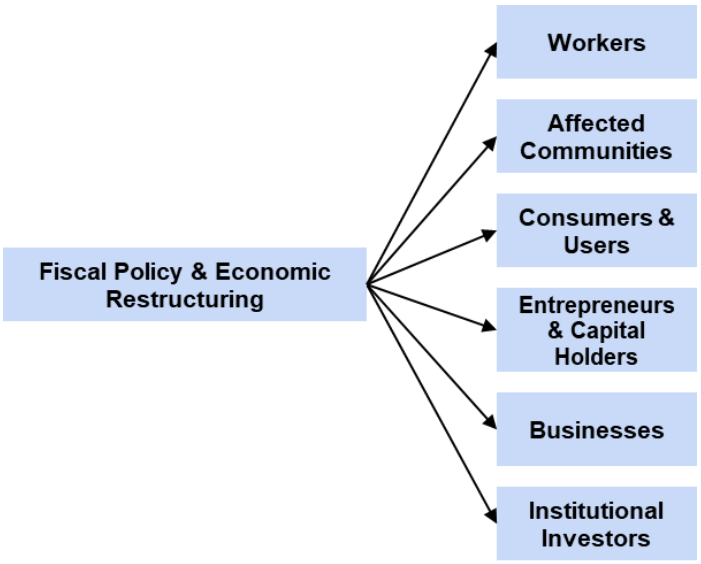
Embedding social considerations in financial policies requires clear government guidance and establishing credible metrics and targets. In the PRI's discussions with interviewees, financial authorities including Ministries of Finance consistently emerged as pivotal government departments in mobilising and coordinating these efforts. The EU Taxonomy Regulation serves as an example, mandating transparency and disclosure requirements for companies and financial institutions against environmental goals with social safeguards.[74]

This area also emphasises governments' role in facilitating access to finance. This is particularly relevant to SMEs that might grapple with stranded assets due to market changes and face more challenges in accessing financing compared to larger firms,[75] despite the fact that "SMEs represent around 99% of all firms, are a main source of employment, and generate 50% to 60% of value added on average. Moreover, SMEs are vital for nurturing local communities and driving economies' and societies' major transitions".[76]

Effective engagement between investors and policy makers repeatedly surfaced as a pressing need mentioned by interviewees.[77] Through collaboration with investors, policy makers can craft effective policies that promote long-term economic stability. In strengthening this alliance, investors might also better understand the mutual benefits of supporting sustainable practices, whereas this understanding is reportedly lacking among financial institutions.

[73] PRI (2024), A Legal Framework for Impact: Summary Report.
[74] Platform on Sustainable Finance (2023), Final Report on Social Taxonomy.
[75] Previati et al. (2022), European small and medium-sized enterprises in the pandemic context: national recovery and resilience plans, SME challenges, and banking system role; Martinez et al. (2020), A meta-analysis of SMEs literature based on the survey on access to finance of enterprises of the European Central Bank.
[76] OECD (n.d.), SMEs and entrepreneurship.
[77] PRI (2022), A sustainable finance policy engagement handbook.

7. FISCAL POLICY & ECONOMIC RESTRUCTURING



Fiscal policies will play a central role in such a transformation, including subsidy and tax reforms designed to ensure that the transition's benefits are equitably distributed across society. Tax-related policies can be narrowly focused on encouraging transition-aligned behaviour through instruments such as tax incentives on renewable energy production and consumption. Nonetheless, a broader scope of taxation policies is likely to be necessary, as achieving transition goals will require a transformation of underlying consumption, production, and investment decisions across all stakeholders.[78]

Redistributive tax measures become essential to achieve an equitable transition. Implementing a progressive tax and incentive system can mitigate systemic inequalities and generate revenues to support vulnerable populations affected by the transition, while rewarding early adopters and leaders in sustainable practices. Canada's carbon tax system offers a model, in which about 90% of the revenue collected through the fuel charge system is returned to individuals through the Canada Carbon Rebate, while the remaining 10% goes to farmers, SMEs and Indigenous governments.[79] This policy also models the need to continuously engage with affected groups, as some farmers advocate for further carbon pricing exemptions in addition to those already in place by the Canadian government.[80]

Box 3: Carbon pricing and inequality in France: The *gilets jaunes* movement

In 2018, the French government announced plans to increase the country's fuel tax, with the declared goal of advancing the country's energy transition. This was attempted at a time when fuel prices were already on the rise (up to 25%),[81] and caused a wave of demonstrations across the country from the so-called *gilets jaunes* movement (named after the yellow vests widely worn by demonstrators). Initially aimed at the proposed tax, the protests exposed wider anti-government sentiments, including complaints about the fairness of the tax system, rising inequalities, and governmental policies viewed as pro-business and anti-workers. This is evidence of the risk that environmental measures could become the catalyst for a range of wider grievances if the wider socioeconomic conditions are ignored.[82]

When not paired with provisions to limit their negative socioeconomic consequences, some environmental policies (and fuel taxes in particular) can be seen as exacerbating existing inequalities.[83]

[78] IMF (2023), Climate crossroads: fiscal policies in a warming world.
[79] Government of Canada (n.d.), How carbon pricing works.
[80] The Narwhal (2023), Farmers are at the centre of Canada's latest carbon pricing debate.
[81] Science Po (2019), Gilets Jaunes: Is the Energy Transition Possible while still Reducing Inequality?
[82] Guardian (2018), Who are the gilets jaunes and what do they want?
[83] Glaeser et al. (2022), How Regressive are Mobility-Related User Fees and Gasoline Taxes?

For example, fuel taxes might disproportionately affect rural communities as they are generally more reliant on private cars and have less access to public transportation.

This emphasises how policy makers should not ignore rising inequalities and their effects on the success of environmental policies. As experts interviewed shortly after the rollback of the tax stated, "countries where inequalities are the highest are the ones where these kinds of pushbacks are mostly likely".[84] Combating inequalities in income, wealth distribution, and access to services is essential for behaviour change towards the transition.[85]

Targeted subsidy reform plays a pivotal role in facilitating both short-term adaptation and the sustained advancement of the transition. Governments can redirect funds towards transition-aligned initiatives by reducing harmful subsidies, such as those supporting environmentally damaging activities. However, as demonstrated by the *gilets jaunes* example, any removal of subsidies might negatively affect those who rely on them for their income. Subsidies are instrumental in addressing transition externalities by uplifting hard-hit industries or reducing the costs of public goods while markets adjust to the transition. Further, subsidies can strategically accelerate the transition through easing the process of adopting new technologies or reducing exposure to volatility in new markets. Ultimately, subsidy reform can be built on a dual approach that is both revenue-neutral and behaviour-changing.

This area also underscores the importance of a nuanced fiscal policy approach featuring balance and coordination between incentives and regulatory measures. For instance, integrating subsidies within regulatory frameworks ensures that industries not only comply with environmental standards but also are motivated to and rewarded for actively contributing to the transition. The United States' Inflation Reduction Act (IRA) exemplifies this balanced approach by combining regulatory measures with initiatives aimed at reducing financial barriers to adopting and investing in sustainable technologies. This strategy promotes the development of emerging sectors that are crucial for facilitating the transition.

[84] Reuters (2018), France's Macron learns the hard way: green taxes carry political risks.
[85] Nature (2023), Tackling inequality is essential for behaviour change for net zero.

CASE STUDIES OF NATIONAL POLICIES

The social impacts of the economic transition are becoming clearer, as increasingly reflected in governments' national transition strategies and policies. The selected jurisdiction-level analyses below demonstrate that transition policies are moving towards the integration of social dimensions to some extent. There is increasing acknowledgement of the role that inequality plays in obstructing countries' transition pathways and the need to expand the scope of transition policies to appeal to diverse stakeholders and achieve cross-society buy-in. While the jurisdictions below offer examples of relatively inclusive policies across both EMDEs and advanced economies, gaps remain in their consideration of the transition's social implications.

The policies and plans below are selected to illustrate the diversity in how different jurisdictions integrate social considerations into their national transition strategies and policies. Given that each jurisdiction's socioeconomic and institutional context will shape its approach, these policies should not be viewed as a direct comparative analysis but rather as examples that vary in terms of strategic direction, implementation level, and the prominence of different policy levers.

Some jurisdictions have developed overarching national strategies, while others focus on policy reforms in specific sectors. The former are exemplified by initiatives such as South Africa's Just Transition Framework (JFT) and Canada's Federal Sustainable Development Strategy (FSDS), which sit primarily at the national level and aim to mobilise and guide various government departments. Brazil's Ecological Transformation Plan (PTE) is also designed as a strategic roadmap for the country's transition set at the national level, although this strategy differs in terms of how it was developed. The PTE aims to consolidate and elevate Brazil's various existing sustainability initiatives into a cohesive national strategy. Japan's Grand Design and Action Plan for a New Form of Capitalism is even more ambitious in its strategic intent. Whereas the JFT, FSDS, and PTE establish their national strategies within the countries' existing federal structures, Japan's Grand Design has embedded the transition in a larger economic revitalisation strategy driven from the cabinet level. Contrary to these national-level strategies, Canada's Sustainable Jobs Act narrows in on the social dimensions of the transition as they pertain to workers, whereas South Africa's Climate Chance Act focuses on climate change mitigation and adaptation strategies, emphasising the integration of social equity considerations within this context.

Another area of divergence among the policies outlined below is the varying prominence of policy levers. While each policy incorporates all three levers to some extent, some place greater emphasis on specific levers. For instance, the US IRA encompasses many market-based mechanisms to drive innovation and accelerate the adoption of sustainable technologies, while Canada's Sustainable Jobs Act places a strong emphasis on financial mechanisms and investment in workforce development. It establishes a Sustainable Jobs Secretariat and Advisory Council that helps to mobilise government resources and foster public-private partnerships. Conversely, South Africa's Climate Change Act strongly focuses on addressing externalities by creating a regulatory framework to internalise the social and environmental costs of carbon emissions.

BRAZIL

The Ecological Transformation Plan (PTE) is Brazil's government-wide plan for transitioning to a greener economy through job creation, reducing emissions, and improving social equality and inclusiveness.[86] The PTE serves to introduce a new strategic vision outlining long-term goals while also consolidating Brazil's existing policies under a single, coordinated approach to ecological transformation. The PTE also aims to strengthen coordination between different sectors and government branches, reflecting an objective that is also supported by the Pact for Ecological Transformation between Three Branches of Government, as further discussed below.

The decarbonisation of infrastructure is a key goal of the PTE, emphasising the plan's incorporation of the transition's social dimensions. The Brazilian government's Amazon Energy programme – which aims to reduce greenhouse gas emissions by replacing energy generation in the Amazon with renewable sources – is the "largest decarbonization programme in the world".[87]

The Nova Industria Policy[88] prioritises investment areas such as healthcare access and urban wellbeing, focusing on sustainable infrastructure, sanitation, housing, and mobility. These investments aim to produce both economic and social gains and have the potential to reap benefits for several stakeholder groups, namely consumers and users of such urban infrastructure, public goods, and welfare services. While the policy does not explicitly address the affordability of these goods and services or household-level incentives for adopting sustainable behaviours, it is likely that such incentives might emerge from the government's future efforts to promote a circular economy,[89] including the "review of taxation and regulatory measures to stimulate product circularity", such as remanufacturing, recycling, and energy recovery.

The Amazon Energy programme prioritises renewable energy production in isolated communities to address energy poverty. The PTE also includes multiple credit programmes for advancing agri-technology, with the Family Farming Harvest Plan incentivising agricultural producers to adopt sustainable practices through technical assistance and bonuses.[90] The Mais Alimentos programme provides credit lines specifically for young women, traditional communities, rural youth, and low-income farmers.[91] These programmes effectively target populations that this paper has included under the "affected communities" stakeholder group. However, Indigenous Peoples and the protection of their rights – including their land rights and/or right to deny infrastructure projects – are seldom referenced in the PTE.

Another strong point of the PTE is its emphasis on the involvement of entrepreneurs, businesses, and institutional investors in advancing the transition, and its inclusion of incentives and regulatory measures to ensure their alignment. In targeting these stakeholders, the PTE includes programmes aimed at improving the business environment so that start-ups and entrepreneurs can more easily enter green markets. The National Fund on Climate Change offers lower interest rates for transition-aligned investments, such as sustainable urban development and green innovations.[92] Programmes such as the Amazon Biobusiness Center support new businesses using forest resources sustainably and offer training in sustainable activities for SMEs, entrepreneurs, and traditional communities.[93] Other programmes for these stakeholders aim to guide businesses and investors in aligning their operations with the transition. The PTE includes the Ministry of Finance's Brazilian Sustainable Taxonomy, which is set to be published in November 2024.[94] The government's

[86] Government of Brazil (2024), Ecological transformation plan.
[87] Government of Brazil (2023), Decreto que institui programa Energias da Amazônia é assinado pelo presidente Lula.
[88] Government of Brazil (2024), Brazil launches new industrial policy with development goals and measures up to 2033.
[89] Government of Brazil (2023), Economia circular.
[90] Brazil de Fato (2024), The federal government launches the Harvest Plan, aimed at agribusiness and family farming.
[91] Government of Brazil (2023), Governo lança Programa Mais Alimentos para ampliar produção de máquinas à agricultura familiar.
[92] Government of Brazil (2024), Federal government signs contract for BRL 10.4 billion from the Climate Fund.
[93] The Brazilian Report (2023), Market Roundup: Amazon Biobusiness Centre let loose.
[94] Government of Brazil (2023), Sustainable Taxonomy of Brazil.

plan for the taxonomy aims to generate decent work, reduce socioeconomic inequalities, and promote quality of life.[95] Further, the government plans to prioritise "social services for the quality of life" and address the gaps in Brazil's current initiative to promote gender and race equality.

Another notable aspect is the PTE's inclusion of programmes explicitly targeting workers. These programmes predominantly focus on education and skills building through programmes such as the Sustainable and Innovative Federal Universities programme. However, there is less emphasis on protecting workers' rights – such as unemployment benefits or collective bargaining rights – indicating a potential area for improvement.

The PTE aligns with all three policy levers in the PRI's proposed framework, with the Brazilian government employing diverse strategies to achieve its goals. For instance, the MOVER programme combines regulation and tax incentives to encourage sustainable technologies aimed at reducing transportation's carbon emissions, addressing economic externalities and incentivising market solutions.[96] The aforementioned Sustainable Taxonomy and National Fund on Climate Change are examples of enabling finance to support the transition, as these programmes embed sustainability outcomes in financial regulation and provide public finance in support of sustainable finance, respectively.

A particular strength of Brazil's Ecological Transformation Plan is that it has been accompanied by the launch of the Pact for Ecological Transformation between Three Branches of Government to coordinate and harmonise efforts from Brazil's executive, legislative, and judicial branches regarding ecological transformation. The pact mirrors the focal areas of the PTE and establishes a set of objectives related to three main axes: land and territorial planning, energy transition, and sustainable development with social, environmental and climate justice. To achieve these objectives, the pact outlines key measures for each branch to execute, including expanding financing and reducing the cost of credit for sustainable sectors, prioritising bills related to ecological transformation, and implementing measures to accelerate judicial demands involving environmental, land and climate issues.[97] While the PTE outlines Brazil's roadmap for achieving ecological and sustainable development goals, the pact solidifies whole-of-government support for the PTE's initiatives, thus ensuring that is has the necessary institutional backing for its implementation.

[95] Government of Brazil (2023), Sustainable Taxonomy of Brazil - Action Plan.
[96] Agencia Brazil (2024), Brazil creates program to decarbonize national fleet.
[97] Government of Brazil (2024), President Lula signs Pact for Ecological Transformation between Three Branches of Government.

SOUTH AFRICA

This analysis explores South Africa's Just Transition Framework (JTF),[98] **Just Energy Transition Investment Plan (JET-IP), and Climate Change Act. Overall, the government's intentions to consider the social dimensions of the transition are reflected in all three texts**, which are guided by the acknowledgement that advancing the transition requires addressing existing inequalities. As such, the three documents focus development efforts on the most vulnerable and tackling structural impediments such as racial or gender-based inequality and poverty.

While the JET-IP focuses on transitioning the energy sector, the JTF and the Climate Change Act take a more holistic view of the transition, highlighting the wide array of sectors that need to participate in achieving transition goals. This is made clear in the JTF, which indicates that "the just transition policy imperative (and this framework) should be located within the central planning system of government, specifically in the National Development Plan, the Medium-Term Strategic Framework, Annual Performance Plans, and annual budgeting processes".[99] Through this national strategy, the JFT addresses risks and opportunities in four value chains – coal, auto, agriculture, and tourism – detailing their impacts on stakeholders and potential growth opportunities. This follows the PRI's proposed framework, which encourages governments to first identify affected groups and sectors to craft socially inclusive policy solutions.

Both the JTF and JET-IP make strong efforts to protect worker rights. The JTF identifies labour unions as critical "social partners" and sets forth plans for replacing lost jobs with high-quality jobs in the same regions. The imperative for decent work and targeting the most vulnerable work forces is also echoed in the Climate Change Act, while the JET-IP includes curriculum transformation and teacher capacity development. Notably, the JFT also aims to increase worker ownership of productive assets, which was a common call in the PRI's interviews with interviewees, despite rarely being included in labour policies.

These texts also effectively consider the role of finance in achieving a socially inclusive transition. It is clear in these texts that the government plans to expand the use of blended finance and support private investor participation to "catalyse new investment opportunities for the just transition". This is illustrated by the National Treasury's Green Finance Taxonomy,[100] which establishes minimum social safeguards aligned with the International Labour Organisation, OECD Guidelines on Multinational Enterprises, and UN Guiding Principles on Business and Human Rights. Established in 2022, South Africa's Presidential Climate Finance Task Team further illustrates the country's efforts to mobilise financing and connect ministries with the recommendations of the financial sector regarding how best to carry out the transition.[101]

One uncertainty about the JFT and the JET-IP is that they are not mandatory procedures, which raises questions about the likelihood of their full implementation. However, the recent signing of the Climate Change Bill into law in July 2024 is a positive sign, providing legally binding mechanisms for ensuring transition goals. It is particularly encouraging that the law embeds social dimensions into mandatory transition efforts. For example, the Climate Change Act mandates carbon budgeting across certain high-emissions sectors and – importantly – mandates that the minister is required to consider the socioeconomic impacts of imposing the carbon budget.

[98] South Africa Presidential Climate Commission (2022), A Framework for a Just Transition in South Africa.
[99] South Africa Presidential Climate Commission (2022), A Framework for a Just Transition in South Africa.
[100] Republic of South Africa - National Treasury (2022), South African Green Finance Taxonomy.
[101] Republic of South Africa (2022), South Africa's Just Energy Transition Investment Plan (JET-IP).

UNITED STATES

The United States' Inflation Reduction Act (IRA) was signed into law in 2022 and marks one of the "largest investments in the American economy, energy security, and climate that Congress has made in the nation's history".[102] Furthermore, the IRA includes provisions and funding mechanisms that align with the goals of the administration's Justice40 initiative, which aims to ensure that 40% of the benefits from certain transition-aligned federal investments, including clean energy, affordable and sustainable housing, and workforce development flow to disadvantaged communities.[103]

Green fiscal policy is central to both the IRA and Justice40, which implement extensive tax and subsidy reforms to encourage sustainable practices and mitigate the transition's impact on historically under-resourced communities. Notably, the IRA's Production Tax Credit and Investment Tax Credit work together to incentivise advances in clean energy, with a particular focus on providing credits for entities that might confront more challenges in accessing credit, such as local and Tribal governments, as well as creating well-paid jobs in disadvantaged communities. These initiatives underscore the government's commitment to addressing systemic inequality.

There is a clear focus on supporting affected communities with both the IRA and Justice40. The IRA pays particular attention to 'energy communities', rural and agricultural areas, and communities vulnerable to environmental health risks. Within this focus, significant support is provided for Indigenous Peoples and Tribal Communities, such as Justice40's Tribal Science, Technology, Engineering, and Math (STEM) Grant programme and the IRA's allocation of $235 million for climate resilience planning to protect Tribes' natural and cultural resources. There is also abundant targeted support for 'energy communities' – namely those reliant on extractive industries and facing higher unemployment – including the IRA's Energy Infrastructure Reinvestment Financing programme, which guarantees loans to projects to repurpose or replace closed energy infrastructure. Other transition stakeholders who are noticeably prioritised are workers in transitioning industries. The Department of Labor's programmes under Justice40 are noteworthy in this regard, including the YouthBuild programme[104] as a pre-apprenticeship programme providing vocational training and education for in-demand industries and the Workforce Opportunities in Rural Communities (WORC) Grant programme,[105] which funds grant projects to support employment and training opportunities in certain rural communities.

When examining the policy lever of "enabling finance to support the transition", the IRA and Justice40 initiatives both excel in providing public finance in support of sustainable finance. For example, the aforementioned Investment and Production Tax Credits are mechanisms for accelerating private investment in renewable energy. Further, the IRA provides the Environmental Protection Agency with $27 billion to award grants that leverage private capital for clean energy and climate projects. Nonetheless, it is important to note that clear efforts to embed sustainability outcomes in financial regulation and corporate accountability are lacking. As noted by the report interviewees, the United States' transition plans provide ample tax and subsidy incentives, particularly among the most impacted stakeholder groups, but could benefit from pairing such incentives with further regulation. One example of the US moving in this direction is the Securities and Exchange Commission's final rule regarding climate-related disclosures for investors. The rule – decided in Spring 2024, but under a regulatory stay at the time of this paper – will "require information about a registrant's climate-related risks that have materially impacted, or are reasonably likely to have a material impact on, its business strategy, results of operations, or financial condition", along with "certain disclosures related to severe weather events and other natural conditions".[106]

[102] U.S. Department of Treasury (2022), Inflation Reduction Act.
[103] U.S. Department of Energy (2021), Justice40 Initiative.
[104] U.S. Department of Labor (n.d.), YouthBuild.
[105] U.S. Department of Labor (n.d.), Workforce Opportunity for Rural Communities (WORC) Initiative.
[106] U.S. Securities and Exchange Commission (n.d.) The Enhancement and Standardization of Climate-Related Disclosures for Investors.

CANADA

Canada's 2022–2026 Federal Sustainable Development Strategy (FSDS) is the country's primary instrument for pursuing the economic transition. It establishes seventeen targets related to Canada's goals for climate, conservation, sustainability, and society. Coordinated at the federal level by the Sustainable Development Office, the FSDS involves all federal departments and agencies and requires such bodies to develop a sustainable development strategy. In this way, the FSDS is an ambitious whole-of-government approach to the transition.

Several of the FSDS targets closely align with the policy areas in this paper's framework and emphasis Canada's thorough consideration of diverse stakeholder groups and societal challenges, as well as the commitment to ensuring that the transition stimulates inclusive growth. Notably, goal 4 of promoting knowledge and skills for sustainable development includes efforts to reduce childcare costs and relieve the costs of education for students pursuing STEM. Goal 8 focuses on encouraging inclusive and sustainable economic growth in Canada, which involves expanding training programmes for clean technology employment and introducing sustainable jobs legislation to ensure an inclusive and locally driven transition. Protecting the rights of Indigenous Peoples is central to goal 10 of advancing reconciliation with Indigenous Peoples and taking action to reduce inequality, which aims to monitor the government's implementation of the United Nations Declaration on the Rights of Indigenous Peoples, including FPIC. Finally, goal 11 of improving access to affordable housing, clean air, transportation, parks, and green spaces, as well as cultural heritage in Canada is an exemplary approach to embedding housing issues into the economic transition. This involves support for innovative housing solutions and adopting "a 'whole-of-government' approach that aligns housing with other important goals like creating jobs, increasing access to healthcare and education".[107]

In addition to the FSDS' overarching framework, Canada's Sustainable Jobs Act has a targeted focus on the workforce implications of the transition. Signed into law in June 2024, the act marks a milestone for the Canadian government as it sets legal requirements around providing support to those affected by the economic transition to net zero. Accordingly, the act requires Sustainable Jobs Action Plans to ensure measurable and inclusive outcomes are achieved and establishes a Sustainable Jobs Secretariat to harmonise policies across the government and the Sustainable Jobs Partnership Council comprising diverse representatives who will guide the Canadian government. While many of this paper's proposed policy areas are beyond the act's scope, its integration of social considerations is reflected in the purpose of the act to establish legal governance parameters for coordinating the transition.

The Sustainable Jobs Act sets out to address underlying inequalities in the job market by promoting "fair income, job security, social protection and social dialogue" in the pursuit of achieving the country's climate goals.[108] The act's people-centric approach is also reflected in its mandate that the Partnership Council is to include representatives from trade unions, Indigenous communities, various industries, and civil society, among others. This is further reflected in the key action areas of the interim Sustainable Jobs Action Plan,[109] including to "promote Indigenous-led solutions and a National Benefits-Sharing Framework" and "introduce a sustainable jobs stream under the Union Training and Innovation Program". Further, the Act emphasises providing support at regional and local scales, which will help to address uneven impacts of the transition and ensure that job growth takes place in the same areas where job loss is experienced. One gap to note is the lack of time-bound targets or quantitative metrics around job creation and other workforce transition goals. This would orient the plan as being more outcome-driven – similar to the FSDS – and strengthen the accountability of the departments responsible for its implementation.

[107] Government of Canada (2024), Federal sustainable development strategy.
[108] Government of Canada (2024), The Canadian Sustainable Jobs Act Becomes Law.
[109] Government of Canada (2023), Government of Canada releases interim Sustainable Jobs Plan to enable the creation of good, middle class jobs across Canada.

JAPAN

The Grand Design and Action Plan for a New Form of Capitalism sets the strategic roadmap for realising a new form of capitalism in Japan that grows the economy while solving "social disparities, climate change, and issues of economic security".[110] Developed under the leadership of Prime Minister Fumio Kishida, the Grand Design is signed off at the highest level of government, setting the country's overarching policy priorities for achieving "sustainable well-being of all citizens"[111]. The plan underscores the importance of mobilising the private sector and establishes a multitude of incentives to achieve this, particularly in its green transformation plans, while recognising that solving societal challenges requires both market and state involvement.

A critical component of the Grand Design is its vision for addressing climate change. Notably, this entails promoting initiatives that align with Japan's Basic Policy for the Realisation of GX, which is Japan's core climate policy framework laying out the country's green transformation (GX) goals. Diverse societal groups are considered within the GX component of the Grand Design, including facilitating labour mobility to growth areas, providing support for those who are transitioning to green jobs, supporting start-ups and academia in emerging GX fields, and attracting foreign professionals who are highly skilled in such fields.

Overall, in its climate plans and beyond, **the Grand Design has a strong focus on social finance and human capital investment, with the aim of broadening the middle class.** The former entails a set of policies focused on strengthening support for entrepreneurs and start-ups – including those related to GX – and promoting impact investing. The latter includes efforts to increase financial education, support childcare, and increase wages. In this way, the Grand Design supports the worker and social protection areas of this paper's framework and delivers on the policy levers of both addressing economic externalities and incentivising market solutions. The Grand Design's focus on supporting regions facing economic challenges is also noteworthy. The Digital Garden City Nation initiative aims to promote Japan's digital economy and bridge the digital divide between urban and rural areas. In rural areas, the Grand Design aims to provide grants for digital infrastructure projects, expand public transportation, increase digital literacy, and support sustainable technology such as renewable energy. With this initiative, the Japanese government deploys all three policy levers, addressing the externality of uneven regional development, incentivising market solutions by promoting the expansion of the digital economy, and enabling finance to enable such an expansion.

[110] Japan Government (2022), Investing in People for a New Form of Capitalism.
[111] Japan Government (2022), Investing in People for a New Form of Capitalism.

ANNEX 1: RESEARCH METHODOLOGY

The PRI conducted semi-structured interviews with experts working in international bodies, civil society, academia, and investment firms. Interviewees shared their perspectives on the most pressing issues to address, key sectors and societal groups to include, and critical factors for successful policy implementation. This was paired with a literature review and policy analysis to understand what is needed to craft socially acceptable policies and garner public support for systemic changes.

Informed by this research, the policy framework proposes a list of policy areas that are relevant to addressing the diverse concerns and interests of those affected by the transition. These policy recommendations are not exhaustive nor intended to be universal or prescriptive. Instead, they reflect insights gathered from academics, practitioners, and politicians regarding the key issues shaping today's discourse on the transition.

The list of stakeholders used in this report reflects those most relevant to the transition, encompassing both individuals and entities, both of which will be affected by and drivers of the transition.

The policy areas are crucial to fostering an equitable transition and achieving cross-society buy-in from the transition's central stakeholder groups. The policy areas reflect the important goals that policy makers should prioritise to ensure that policies account for and appeal to diverse stakeholders.

The term "policy area" aims to capture the complexity and interconnectedness of each policy focus. It speaks to both a policy's substance – namely its elements and how they interact to address societal problems, such as specific community protections and rights – as well as its process, meaning dynamics of decision-making and implementation, such as how to effectively enforce community protections (Kuenzler & Stauffer, 2022). In this way, it emphasises a holistic approach to policy design and implementation, ensuring that any given policy is informed by the broader context within which it operates.

The three policy levers are taken from the PRI white paper on investing for the economic transition and aim to underscore how a whole-of-government approach to addressing these social aspects will require diverse policy solutions. They can guide policy makers when crafting specific policy solutions for any given policy area. For instance, in the framework above, the policy area of 'sustainable infrastructure' encompasses solutions that span all three policy levers.

ANNEX 2: POLICY LEVERS

■ Addressing economic externalities	■ Incentivising markets for solutions	■ Enabling finance to support the transition
▪ Pricing instruments (e.g., carbon pricing and emission trading schemes) ▪ Adopting performance standards (e.g., for vehicles, buildings and household appliances) ▪ Setting phase-out dates for polluting sectors (e.g., unabated fossil fuel power plants) and demand-side measures for hard-to-abate sectors ▪ Subsidy reform (e.g., phasing out harmful subsidies) ▪ Requiring minimum social safeguards from economic actors (e.g., decent work) and highlighting good-job externalities (e.g., increased social cohesion)[112] ▪ Regulation relative to public goods (e.g. affordability standards in the housing market, data protection regulation)	▪ Setting sustainability targets (e.g., for renewable energy, energy savings and nature restoration) ▪ Issuing credible and predictable sector-specific policies, targets, and transition plans ▪ Providing tax exemptions and/or subsidies for clean technologies and sectors ▪ Supporting measures for early-stage innovation and R&D ▪ Adopting and implementing public procurement policies ▪ Up/reskilling and of the workforce	▪ Embedding sustainability outcomes in financial regulation as per the PRI and World Bank policy toolkit[113] and the Legal Framework for Impact[114] ▪ Providing public finance in support of sustainable finance (e.g., green development banks, concessional finance, grants, guarantees and other risk-sharing instruments, long-term credit lines and investment guidelines)
■ **Sustainable budgeting** ▪ Using the budget and public financial management to drive transformation in all sectors of the economy. This should build on existing public financial management processes so that sustainability is mainstreamed throughout the entire budget cycle. Furthermore, detailed line ministry budgets should fully reflect government sustainability priorities and include aligning public investment management and procurement practices with sustainability objectives.[115]		

[112] Dani Rodrik (2022), An Industrial Policy for Good Jobs.
[113] PRI and World Bank (2020), How policy makers can implement reforms for a sustainable financial system.
[114] PRI (2021), A Legal Framework for Impact.
[115] Coalition of Finance Ministers for Climate Action (2023), Strengthening the Role of Ministries of Finance in Driving Climate Action.

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The Principles for Responsible Investment (PRI)

The PRI works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system.

More information: www.unpri.org

The PRI is an investor initiative in partnership with **UNEP Finance Initiative** and the **UN Global Compact**.

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UNEP FI is a unique partnership between the United Nations Environment Programme (UNEP) and the global financial sector. UNEP FI works closely with over 200 financial institutions that are signatories to the UNEP FI Statement on Sustainable Development, and a range of partner organisations, to develop and promote linkages between sustainability and financial performance. Through peer-to-peer networks, research and training, UNEP FI carries out its mission to identify, promote, and realise the adoption of best environmental and sustainability practice at all levels of financial institution operations.

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The United Nations Global Compact is a call to companies everywhere to align their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption, and to take action in support of UN goals and issues embodied in the Sustainable Development Goals. The UN Global Compact is a leadership platform for the development, implementation and disclosure of responsible corporate practices. Launched in 2000, it is the largest corporate sustainability initiative in the world, with more than 8,800 companies and 4,000 non-business signatories based in over 160 countries, and more than 80 Local Networks.

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