STAKEHOLDERS IN THE JUST TRANSITION

FINANCE FOR TOMORROW
by Paris Europlace

N°1 INTEGRATING WORKERS INTO INVESTMENT AND FINANCING FRAMEWORKS

This paper was published in partnership with the Observatoire de la responsabilité sociétale des entreprises (ORSE), a multistakeholder organization seeking to accompany corporates in their corporate social responsability strategies.

The notion of "Just Transition" stems from the belief that a transition to a cleaner, more sustainable economy must be conducted in a way that is fair to all stakeholders: workers, consumers, local communities and society at large. In this light, providing decent and quality jobs to workers all along companies' supply chains will be absolutely critical if we are to successfully embark on a Just Transition. In this regard, the private sector, and more specifically the financial industry, also has a fundamental role to play to ensure that a Just Transition takes place across sectors and industries.

This paper, part of a "Stakeholders of the Just Transition" series, aims to assess the ways in which financial actors can better incorporate the dimension of workers into their strategies, to mitigate risks associated with the transition and maximize the opportunities it can bring about. Three areas for action have been identified: the integration of indicators linked to career management and social dialogue into investment and financing frameworks, continuous engagement with companies on themes related to social inclusion and employment, and the development of innovative Just Transition instruments across asset classes. In line with the Just Transition roadmap established by Finance for Tomorrow, its members are dedicated to making these developments possible by supporting the emergence of Just Transition methodologies and indicators, encouraging engagement policies and the development of multistakeholder initiatives, as well as promoting financial innovation.

The financial sector has increasingly started to acknowledge that broad and deep socioeconomic changes will occur as part of a shift to a low-carbon economy. These evolutions include sector restructuring, loss and transformation of jobs, impacts on taxation and redistribution, increases in prices, among others. Additionally, these developments are occurring in an already difficult social context, characterized by increasing levels of inequality, decreasing middle-class living standards and labor market polarization.[1]

The concept of the "Just Transition" aims to tackle this very issue. The International Labor Organization (ILO) defines the Just Transition as a strategy seeking to mitigate the negative social consequences of transitioning towards sustainable economic models and to maximize the positive aspects of a transition to a low-carbon economy.[2] The concept first emerged in the 1970s in the United States, as a reaction to changes faced by labor unions with the emergence of the first environmental regulations.

Originally a defensive strategy employed by sectors negatively affected by these new laws, it progressively became a proactive one that extended beyond the U.S. More recently, the Just Transition was reinvigorated in the period leading up to the Paris Agreement, as labor unions worked hard to include this concept in the 2015 climate deal. That same year, the UN's Sustainable Development Goals took the Just Transition agenda into consideration, notably through Goal 8 ("Decent work and economic growth") and the International Labor Organization produced a policy framework for the Just Transition.[3] [4]

The Just Transition involves a variety of stakeholders. As put forward in *Finance for Tomorrow*'s 2020 position paper, a just and inclusive transition must strive to achieve sustainable economic models that address **four different dimensions**: workers, local communities, consumers and society at large.[5] The first of a series of four, this paper aims to tackle **issues faced by workers in sectors most affected by decarbonization plans.** This dimension is crucial, as taking labor considerations into account in the environmental transition will be a prerequisite for this very transition to take place. The "Yellow Vests" movement in France provides a salient example of this, as protesters framed the unrest as a social backlash to the government's climate policies. In this context, it seems clear that the transition to a low-carbon and environmentally-friendly economy must be thought out in a way that does not compromise the basic rights of workers, both those within the company's workforce and those all along its supply chain.

The aim of this paper is three-fold:

1. Understand the role of the financial sector in promoting objectives in line with the Just Transition;

2. Assess the current approaches used by investors to take the dimension of workers into account;

3. Explore new avenues of work to better integrate this dimension into investment practices and strategies.

1 Under Pressure: The Squeezed Middle Class, OECD, 2019 https://www.oecd.org/social/under-pressure-the-squeezed-middle-class-689afed1-en.htm

2 ILO, https://www.ilo.org/global/topics/green-jobs/publications/WCMS_432859/lang--en/index.htm

3 UN Sustainable Development Goals, https://sdgs.un.org/goals/goal8

4 ILO, https://www.ilo.org/global/topics/green-jobs/publications/WCMS_432859/lang--en/index.htm

5 Finance for Tomorrow Position Paper (October 2020) "Making a Just Transition: the Roadmap of the Paris Financial Center"

1/ WORKERS: A KEY STAKEHOLDER IN THE JUST TRANSITION

Workers and companies face **several challenges** resulting from the transition to greener economies. First, economic restructuring leads to the displacement of workers and to potential job losses, especially in mining, fossil fuels and energy intensive industries. Second, the need for companies and workplaces to adapt to climate change to avoid the loss of assets and livelihoods is becoming ever more pressing.[1]

Nonetheless, the environmental transition also offers a number of **notable opportunities**, the first of which is a potential for net gains in employment thanks to investments in environmentally sustainable industries. According to an ILO report, 24 million new jobs will be created globally by 2030 if policies are implemented to meet the Paris Agreement, and notably if sustainable practices are adopted in the energy sector (changes in energy mix, promotion of electric vehicles use, improved energy efficiency of buildings).[2] At the same time, there will be a potential loss of 6 million jobs in fossil fuel and mining sectors, thus resulting in net job gain of 18 million. Second, improvement in **job quality and income** from more productive processes can be identified as notable consequences of these changes. Lastly, the OECD predicts that combining economic reforms with ambitious climate policies can **boost economic growth**. Using a model that accounts for avoided climate damages, a 2017 report forecasts a 4.6% increase in long-run output on average across G20 countries, compared to a scenario where governments take no action.[3] Ultimately, **the objective will be to generate decent and quality jobs all along the supply chain**, while upgrading jobs and skills in high value added sectors and improving productivity in more labor-intensive industries.

In light of this, **four areas of focus** can be identified to facilitate a fair and inclusive transition.

1 UNFCCC Technical Paper (April 2020) "Just Transition of the Workforce, and the Creation of Decent Work and Quality Jobs" https://unfccc.int/sites/default/files/resource/Just%20transition.pdf

2 ILO (2018) "World Employment and Social Outlook 2018: Greening with Jobs" https://www.ilo.org/global/publications/books/WCMS_628654/lang--en/index.htm

3 OECD (2017) "Investing in Climate, Investing in Growth" https://www.oecd.org/environment/cc/g20-climate/synthesis-investing-in-climate-investing-in-growth.pdf*

1. INCLUDE WORKERS AND THEIR REPRESENTATIVES IN THE JUST TRANSITION PROCESS

Reaching a strong social consensus on the goals and pathways to this new sustainable economy is fundamental, which means **workers and trade unions should be key stakeholders around the negotiating table.** Social dialogue should be transparent and include consultation and co-design practices, so as to give workers and their representatives the opportunity to influence decisions at every stage of the process. It should also be conducted at the territorial level, by involving local labor union representatives, as well as regional and local public authorities.

An important point to keep in mind is that labor and their representatives make up a heterogeneous entity: the process therefore needs to aggregate different types of actors and represent a variety of interests. For example, this was a key characteristic of the "Yellow Vests" movement in France, in which various forms of social demands coexisted.

2. ANTICIPATE CHANGE THROUGH TECHNOLOGY INVESTMENTS

As economies start to decarbonize, the capacity of companies to adapt their investment strategies to evolving uses and market opportunities is a topic that labor unions are closely monitoring. The most important areas of opportunity for companies include investments in clean technology, green buildings, renewable energy, pollution prevention, and sustainable water systems.

A good example of such action is embodied by **automobile manufacturer Renault**, which has announced the transformation of its Douai plant in the North of France into the largest battery car facility in Europe.[4] The group is also planning on repurposing its Flins facility outside Paris as a research and recycling center with the objective for the automotive sector to always reduce the negative externalities of pollution generated by heat engines or electric batteries.

4 Financial Times (January 2021) "Renault boss hails EV supremacy on road back 'from hell'" https://www.ft.com/content/9eb36fad-5f00-4240-a5a0-ae957345db9f

3. ENSURE THAT WORKERS CAN FIND ALTERNATIVE JOBS AND HAVE UNIVERSAL ACCESS TO TRAINING AND SKILLS DEVELOPMENT

Here, efforts should focus on sectors that are most relevant for environmental sustainability and job creation, namely agriculture, water management, energy, transport and buildings. Moreover, priority should be given to regions with lower financial capacity to invest in diversification, so as to foster economic activity at the local level. The capacity of companies to offer training to their workforce will play a key role: local and national training programs need to be developed for workers to adapt to sector and job changes. Possible scenarios for the workforce include:

- **Changing occupations**, requesting different skills;
- **Newly emerging occupations**, demanding deep knowledge of technology;
- **New skills across occupations**, leading to a need in multidisciplinary training.

4. PROTECT WORKERS BY PROVIDING SOCIAL BENEFITS WHEN RE-EMPLOYMENT IS NOT POSSIBLE

After a restructuration of the sector, and eventhough they've been trained in order to reclassify them, workers cannot be re-employed, thus there is a need to **scale up social safety nest**. These efforts should be focused in regions that will be rapidly impacted by large-scale decarbonization and where existing social protection is limited. Social protection includes healthcare benefits, unemployment benefits and early retirement schemes. Other forms of support may also be deployed, such as job-seeking assistance, mental health counselling and financial planning.

WHY SHOULD THIS DIMENSION MATTER TO INVESTORS?

Academic and practitioner work has demonstrated that **integrating environmental and social factors into investment strategies significantly improves returns and reduces value at risk for investors**.[1] The financial sector thus has a key role to play in financing activities and conversions in line with Just Transition objectives.

5 motivations for investor action can be identified:[2]

1. **Expanding their consideration of systemic risks** stemming from climate change, by including issues such as social exclusion and inequality;
2. **Upholding fiduciary duty** by taking worker interests into account in sectors and regions impacted by the transition;
3. **Recognizing material value drivers**, as business performance will increasingly depend on the success of the Just Transition;
4. **Diversifying investment opportunities across asset classes**, combining climate and social goals aligned with the objectives of the Just Transition;
5. **Contributing to societal objectives**, especially the respect of international labor standards and more broadly the achievement of the UN SDGs, notably Goal 8 "Decent work and economic growth".

The investor community should therefore integrate this dimension of the Just Transition into their core practices, and engage in active discussions with companies and trade unions to ensure that low-carbon investments are compatible with an inclusive economy.

However, **the Just Transition currently lacks a clear methodological framework**, as there is no consensus on its precise definition across sectors and regions.[3] The absence of technical tools can make it difficult for investors to incorporate this dimension in their investment strategies.[4] Still, several existing approaches can serve as useful starting points to address the social dimension of climate change.

1 PRI & Grantham Research Institute on Climate Change and the Environment (December 2018) "Climate change and the just transition A guide for investor action" https://www.lse.ac.uk/granthaminstitute/wp-content/uploads/2018/12/Climate-change-and-the-just-transition_Guide-for-investor-action.pdf

2 Ibid.

3 https://www.orse.org/nos-travaux/extension-de-la-securite-sociale-et-la-responsabilite-sociale-des-entreprises-multinationales

4 https://www.orse.org/nos-travaux/indicateurs-de-reporting-pour-les-entreprises-en-matiere-de-couverture-sociale-a-l-international

2/ INTEGRATING WORKFORCE ISSUES INTO INVESTMENTS AND FINANCINGS

Financial actors can adopt several approaches – that are not mutually exclusive – to take the dimension of labor into consideration:

1. **Integrating this dimension into investment strategies through the use of cross-sectoral extra-financial indicators** on social dialogue and career management;
2. **Engaging with companies through continuous dialogue** to encourage their adoption of social themes such as employment and social inclusion;
3. **Developing financial instruments to reallocate capital** to investments focused on increasing resilience to the social impacts of climate change.

1. INTEGRATION OF EXTRA-FINANCIAL INDICATORS: WHAT EXISTS AND WHAT REMAINS TO BE DEVELOPED

Investors are already integrating several **extra-financial indicators** into their investment strategies to assess companies on this topic. We have broken them down into four broad categories:

1. **Skills development**, to assess resources allocated to adapting employee skills and career paths;
2. **Investment in green technologies**, capturing the extent to which companies anticipate change and take advantage of opportunities in new markets;[1]
3. **Social dialogue** measuring the extent to which workers are represented in Just Transition negotiations;
4. **Management of change**, to ensure the existence of a proper safety net to workers affected by the transition.

Among these indicators, **the most developed to date seem to be:** [2]

Skills development

→ Hours of training per employee per year and by CSP

→ Share of employees benefiting from training programs

→ Budget allocated to training programs

Sustainable investments

→ Investments in green property or related to increased connection of renewable power to electric grid

→ Targets to increase investment in clean tech, green buildings, renewable energy, etc.

→ R&D / Sales ratio and trend

Social dialogue

→ Percentage of workforce represented by trade unions or covered by a collective agreement

→ Employee representation at the board level

Management of change

→ Net job creation/loss

We have identified **other essential indicators** that deserve to be taken into further consideration by the investor community, to better assess company performance across sectors.

Skills development

→ Nature of training provided (compulsory vs. optional)

→ Training action specific to the transformation of the sector

Social dialogue

→ Mention of the Just Transition in collective agreements (anticipation of

1 MSCI provides indices to identify companies that focus on offering products or services that contribute to a more environmentally sustainable economy.

2 Consider the work currently underway at European level on extra-financial reporting and data standardization.

change, training programs etc.)

→ Salary levels (starting salary vs. country minimum wage)

Management of change

→ Relocation of jobs and/or redundancy plans

→ Internal mobility programs

→ Quality of employment (permanent vs. temporary contracts)

2. ENGAGEMENT STRATEGY: ENCOURAGING DIALOGUE AND FORWARD PLANNING

Although the consultation and monitoring of indicators is an essential step for investors, **it is not sufficient to fully assess a company's integration of Just Transition issues.** The approach adopted by financial actors vis-à-vis companies could be enriched by:

- **An analysis of the various reports** regularly produced by companies, such as extra-financial reporting and integrated reporting. Investors should grasp what major developments could affect a company's business model and workforce, as well as assess its capacity to anticipate these changes.

- **Continuous dialogue with management.** This involves having a comprehensive understanding of:

1. **The major trends** likely to influence the business model of the company in the short, medium and long term;

2. **Their impact on different business lines** (jobs created or lost, or whose content is modified);

3. **Preventive and accompanying measures** to tackle these issues, related to training, internal or external mobility programs, pre-retirement, redundancies etc.

This is precisely the purpose of the **Strategic Workforce Plan** ("Gestion prévisionnelle des emplois et des compétences" – GPEC in French). It is a multi-year exercise – both qualitative and quantitative – which aims to characterize an organization's jobs, workforce and current skills, to project them in the short and medium term, to explore future needs for jobs and skills and anticipate gaps, and ultimately to develop a comprehensive action plan in terms of workforce training and job assignments.

The French government has implemented an **incentive policy in favor of the creation of the Strategic Workforce Plan by companies**. Several laws refer to it, in particular the 2005 Social Cohesion Act ("Loi de programmation pour la cohésion sociale") which requires the negotiation of such a plan in companies with 300 or more employees. Social partners have also committed to this issue, in particular through a **2009 national interprofessional agreement** related to a lifelong development, professionalization and securing of workers' career paths. More recently, the **2021 "Climate and Resilience" Act** requires stakeholders to pay particular attention to sectors linked to the environmental transition in the negotiation of companies' Strategic Workforce Plan.

3. INVESTMENT OPPORTUNITIES: A RANGE OF OPTIONS ACROSS ASSET CLASSES

Lastly, the Just Transition and, more specifically, the impact of the environmental transition on workers, can be integrated into **new investment opportunities, spanning a number of asset classes**, such as listed equity and fixed income, private equity, and real estate and infrastructure.

In this regard, **public finance institutions** have an important role to play in developing financial products connecting environmental and social goals in order to crowd in private capital.[1] More broadly, a large number of stakeholders, such a local authorities, communities, businesses and trade unions, can contribute to the **development of pipelines of assets that combine a low-carbon transition with social inclusion.**

A few examples of promising asset classes include:

- **Bonds:** As issuers are now extending environmental criteria to include social and sustainability factors, investors should target bonds linked to sectoral or regional Just Transition plans and funding (e.g. green bonds with proceeds earmarked for specific affected areas).

- **Public equities:** Just Transition factors can be integrated into index design and benchmarking. Investors can also identify listed companies focused on providing environmental solutions in affected regions and sectors, to better target Just Transition plans.

- **Real assets:** Responsible Contracting Policies (RCPs) provide investors with a tool to protect their investments in renewable infrastructure and green real estate. They cover issues such as fair wages and benefits, diversity, union participation, training and skills, as well as regulatory compliance.

1 Grantham Research Institute and Initiative on Responsible Investment (2018) "Climate change and the just transition: A guide for investor action" https://www.lse.ac.uk/granthaminstitute/wp-content/uploads/2018/12/Climate-change-and-the-just-transition_Guide-for-investor-action.pdf

3/ THE PARIS FINANCIAL CENTER: TAKING THE LEAD ON SOCIAL DIALOGUE

Finance for Tomorrow has made the Just Transition one of its priority areas, since the 2019 Climate Finance Day devoted to this topic. More concretely, members of the "Just Transition Taskforce" have already identified key areas of work, leading to the creation of a roadmap detailed in our 2020 position paper. Some of the taskforce's missions include:

- **Encouraging constructive dialogue** with companies to integrate the Just Transition into their strategies and to better anticipate workforce and training changes.
- **Consulting a wide range of stakeholders,** starting with major national and European labor union representatives, to adopt a regional approach and identify the main areas of attention.
- **Working on a methodology and indicators** to integrate the Just Transition within financing and investment strategies, and ultimately reach an industry-wide consensus.
- **Providing support to municipal authorities** to develop sustainable finance vehicles geared towards the Just Transition.
- **Prompting leading national universities to engage in research** on the social and financial impacts of the transition and on local transition exposure.

Considering the multiplicity of stakeholders involved in the Just Transition, investors cannot address this topic alone. In this context, **place-based approaches offer opportunities for investors** to connect with initiatives conducted at the local, regional and national levels. Moreover, as the Just Transition is a relatively new dimension of investors' climate change agenda, *Finance for Tomorrow* members will contribute to making these solutions more broadly known to companies, local authorities and trade unions. Going forward, it will also be important to develop a process for investors to learn from experience and to review the results of corporate engagement, capital allocation and policy advocacy on the Just Transition.

As asset owners and managers, investors can help shape the behavior of Boards of Directors, whether as shareholders of publicly listed corporations or limited partners of private equity funds. Thus, **corporate engagement on the Just Transition** could help define some structuring elements, by setting out investor expectations of companies drawn from consensus documents such as the ILO guidelines for a Just Transition; promoting climate disclosure using the Task Force on Climate-related Financial Disclosures' (TCFD) framework and extending this to include reporting on the social dimension; improving investor practices on the social dimension of the transition through dialogue with management, as well as through shareholder resolutions.

With COP26 scheduled in November, **2021 will be a pivotal year to accelerate international efforts to curb climate change**. Nonetheless, it will also be a year to promote a social recovery, as governments around the world continue to fight the Covid-19 pandemic. With this in mind, *Finance for Tomorrow* is dedicated to contributing to a fair and inclusive transition, by leveraging on the leadership and innovative capacity of the Paris Financial Center.

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This document was produced by the Just Transition Taskforce under the supervision of Jean-Jacques Barberis, Vice-President of Finance for Tomorrow, Head of Institutional and Corporate Clients and ExCom member at Amundi, and Anne Claire Roux, Managing Director of Finance for Tomorrow, with the support of Joan Elbaz and Théophile Pouget-Abadie, Investment Solutions Associates at Amundi, and Pierre-Alix Binet, Head of Programs and Strategic Development at Finance for Tomorrow.

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FINANCE FOR TOMORROW

Finance for Tomorrow, launched in June 2017 is the branch of Paris EUROPLACE to make green and sustainable finance a key driving force in the development of the Paris Financial Centre and to position it as a hub of reference on these issues. The nearly 80 members and observers of Finance for Tomorrow are committed by a joint charter to help redirect financial flows towards a low-carbon and inclusive economy, in line with the Paris Agreement and the UN's Sustainable Development Goals (SDGs). Finance for Tomorrow is chaired by Thierry Déau, Founder and CEO of Meridiam.

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