

MDB support for a just transition

Summary of progress and proposed next stepsⁱ

Summary

The [High Level MDB Statement](#) published at the UNSG Climate Action Summit on 22 September 2019 stated as its fifth action area: “Each institution will take actions to help clients move away from the use of fossil fuels by...[.]... working with national development banks and other financial institutions, to develop, by COP26, financing and policy strategies supporting a just transition that promotes economic diversification and inclusion.”

To inform the work of multilateral development banks (MDBs), the MDB Paris Alignment Working Group (PAWG) decided to carry out a stocktake of MDB and non-MDB activities related to just transition. This was required to: (1) ensure that all MDBs had a shared understanding of what a just transition is; (2) identify lessons from experience with other transitions; (3) understand how existing MDB instruments and activities support the aims of just transition; and (4) review work related to just transition in other institutions.

Vivid Economics and the London School of Economics (LSE), supported by the EBRD, undertook this analysis between April and August 2020. It comprised desk-based research and a series of structured interviews with MDBs and other relevant stakeholders. The resulting stocktake has now been reviewed by all MDBs, and their feedback and suggestions regarding next steps are reflected in this memo. While acknowledging that the different mandates, geographies and skillsets of the MDBs negate a ‘one size fits all’ approach to supporting a just transition, the [initial stocktake highlighted the following areas for attention](#).

- **The range of views on what a just transition entails** – the focus on protecting workers and communities in vulnerable sectors and creating decent green jobs is well understood, but without common understanding on the overall concept of a just transition, and how MDBs can apply it in different contexts, progress will be hindered.
- **The range of existing MDB activities that can support the aims of a just transition** – including institutional strategies, financing (policy-based lending and project financing), policy engagement, technical assistance or environmental and social standards. MDBs can enhance existing activities to scale impact.
- **The need for MDBs to work with others** – particularly national and regional governments, civil society, other multilateral organisations, and private sector companies and investors, in order to deliver a just transition. Active MDB engagement could provide guidance to these stakeholders and help mobilise the private sector.

To address these areas, [this memo](#) sets out some further considerations for Building Block 4 (Engagement and Policy) of the PAWG, and for the MDB Climate Heads. **It recommends that a ‘Phase 2’ of the MDBs’ joint work on just transition focuses on the following next steps.**

- **Developing a set of High-Level Principles to guide MDB support for a just transition**, to help ensure that MDBs consistently, credibly, and transparently contribute to the aims of a just transition. These Principles should build on the reference to just transition in the Paris Agreement, and should be jointly agreed by the PAWG.
- **Preparing a ‘just transition toolkit’ which sets out the approaches, tools and instruments that can support a just transition.** The principles and peer learning within BB4 will inform the toolkit, including reviewing and sharing relevant approaches and tools such as investments, policy engagement and technical assistance, and developing pilots in priority themes and regions, with the objective of building MDB capacity.
- **Establishing partnerships in support of a just transition to help scale impact**, including practical information-sharing and capacity building, and strategic initiatives to mobilise finance and joint investments, and align MDB and non-MDB actors. Partnerships may focus on specific themes and regions. Some practical areas may be suitable for joint MDB work, while other strategic areas may be best pursued bilaterally or in small groups.

Following discussion of these proposed next steps within BB4, including their scope and delivery, BB4 will seek their endorsement by the MDB Climate Heads, in order to **advance them by COP26 in November 2021** – in fulfilment of the September 2019 commitment, and as a visible and valuable contribution to the alignment of MDB finance and activities with the Paris Agreement (or ‘Paris Alignment’).

Objective 1: Understanding just transition

Recommendation: Develop ‘High-Level Principles’ to guide MDB support for a just transition

The objective of this recommendation is to ensure that there is clarity on the scope of what a just transition entails, so that MDBs can operationalise their support for a just transition in a consistent and transparent manner.

The Paris Agreement references the need for a just transition. It cites ‘the imperatives of a just transition of the workforce and the creation of decent work and quality jobs in accordance with nationally defined development priorities’. While the concept of a just transition emerged from the labour movements of the 1970s, its inclusion in the Paris Agreement reflects the International Labour Organization’s 2015 *Guidelines for a Just Transition towards environmentally sustainable economies and societies for all*. This presents a broad vision to address environmental, social and economic issues together in a comprehensive approach, with a focus on protecting workers in affected sectors and creating decent, green jobs. As such, support for a just transition is relevant to all countries.

The stocktake demonstrates that stakeholders within the MDBs agree on many elements support for a just transition, but still have differing views on some aspects and on which elements MDB approaches should cover. The stocktake assesses the extent to which there is a common understanding of just transition and sets out the approaches of different stakeholders, including the MDBs, against the potential dimensions of a just transition (see Box 1). It notes that even within the context of climate action and the transition to a green economy, just transition is a potentially expansive concept. At the same time, it also identifies several areas of consensus among stakeholders on what a just transition is and is not.

There are several reasons why it is important that MDBs articulate their understanding of just transition.

A common understanding can help guide MDB efforts, creating opportunities to combine MDB resources and optimise assistance. It can also provide clear market signals and a consistent framework for engagement with other partners – including client countries and companies, and national and regional development banks and financial institutions (in turn, helping improve the operational capacity of MDBs at the country level). It can also support a consistent ‘offer’ of support for a just transition in country engagement and, in turn, help support greater climate ambition through revised Nationally Determined Contributions (NDCs) and long-term emission reduction strategies to 2050.

Feedback from the stocktake suggests that a joint operational definition is not necessary, and could absorb time and resources that would be better focused on advancing practical delivery (see Objective 2). The framing of just transition in the Paris Agreement already provides clear guidance, while still allowing scope for the MDBs to define and expand their approach to just transition in a way that reflects their mandate and operational context. At the same time,

many country and civil society stakeholders warn against one-size-fits-all approaches, given the context-specific nature of just transition challenges and opportunities, and stress the need for flexibility and country ownership.

The development of high-level principles to guide MDB support for a just transition would help provide a framework for existing MDB activities that can support a just transition, facilitate consistent implementation and ensure clear signalling to other stakeholders. High-level principles would set the direction for MDBs and their partners, while maintaining scope for tailored, context-specific operational definitions and strategies, and making clear the criteria required for investments and other assistance to support the aims of a just transition. Where MDBs already have explicit or implicit criteria for what qualifies as support for a just transition, these might inform the high-level principles, alongside those used by key external groups such as the ILO. The MDBs would agree these joint principles in Phase 2 of their joint work on just transition. As a starting point, they could include that MDB support for just transition should:

- **build upon existing MDB activities that can support the aims of a just transition**, with the objective of supporting collaboration, optimising resources, and amplifying the impact of MDB assistance
- **be both Paris and SDG (Sustainable Development Goals) enabling**, in that it delivers dual climate and social outcomes
- **be informed by just transition needs and opportunities**, including regional or sectoral vulnerability to transition, and the potential for inclusive and sustainable jobs and livelihoods
- **be transparent and inclusive of all relevant stakeholders**, in both the design and delivery of specific MDB interventions.

There are several issues for the MDBs to consider as they develop these high-level principles.

- **How can MDB support for just transition lead to higher climate ambition and accelerated climate action?** The relationship between the level and speed of climate action and justice remains relatively unexplored. However, recent experience suggests that perceived fairness is one of the strongest predictors of support for climate action, and evidence from past transitions suggests that the earlier a transition gets under way, the less disruptive and expensive it is likely to be. This suggests the need to explore how high-level principles can help support the political and social conditions required for transformative climate ambition including, for example, the accelerated retirement of fossil fuel assets, and concerted efforts to avoid the development of committed coal emissions (therefore avoiding tomorrow’s just transition challenges, as well as addressing today’s).

- **How can opportunities for a just transition be seized in the context of a green recovery from Covid-19?** The impacts of the Covid-19 crisis on fossil fuel demand and prices are accelerating the speed at which fossil fuel assets and companies are becoming distressed, bringing forwards many just transition challenges by several years. This raises the question of how high-level principles could guide 'urgent' interventions (for example, where coal assets come under sudden, extreme pressure and livelihoods are at immediate risk), as

well as 'early' ones in sectors with potentially longer lifespans (including some oil and gas, and carbon-intensive heavy industry) where emergency liquidity support could come with 'green' and 'just' strings attached. The MDBs should also consider explicitly the links between high-level principles for just transition and measures for a green recovery that can generate decent, sustainable jobs in an inclusive manner.

Box 1: Important dimensions of a just transition as per the stocktake interviews

Distributional and procedural justice are crucial motivations for a just transition. Distributional justice means identifying and addressing the distributional implications of transition, while procedural justice means ensuring that policy and decision-making is inclusive and transparent. For MDBs that are already developing just transition approaches, distributional impacts are typically the motivation (with procedural justice assumed). Other MDBs – especially those with a narrower mandate or at an earlier stage of operations – tend to emphasise procedural considerations. In practice, both are crucial.

Climate action and the transition to a green economy provide the context for a just transition. This makes just transition a potentially expansive concept – at its narrowest, considering negative impacts on affected workers and communities, and at its widest, considering issues such as inequitable growth and environmental degradation. While the PAWG is approaching a just transition in the context of Paris Alignment, it is clear that in all conceptions, support for a just transition can contribute to delivering the SDGs. It may also contribute to climate justice, which the Paris Agreement separately cites the importance of, alongside the need to protect ecosystems and biodiversity.

For the MDB representatives and most stakeholders interviewed, the economic impacts of transition, rather than the physical impacts of climate change, provide the trigger for action. As such, just transition approaches tend to focus on the distributional implications of mitigation, rather than adaptation policy. There is a relationship between a just transition and climate impacts, as higher climate ambition and an accelerated transition could reduce climate impacts and adaptation needs, but this has tended not to be the focus so far.

A just transition should focus on both the negative and positive impacts of transition. This means ensuring that no one is 'left behind' by decarbonisation, and ensuring an equitable distribution of the opportunities associated with green growth. The relative focus on negative and/or positive impacts will naturally vary by context, with a greater emphasis on the latter in lower-income and less emissions-intensive contexts. In general, however, there remains greater understanding of the challenges to a just transition faced by fossil-fuel-dependent and other carbon-intensive sectors and regions, than of the opportunities to support their inclusive green growth.

While current engagement with a just transition tends to target production, there is a strong case for considering the distributional impacts of consumption along the supply chain and across the wider economy. This means looking beyond concentrated sectoral and regional impacts, to consider the distributional impact of changing supply chains and policy and regulatory reforms – including subsidies reform and carbon pricing – on the cost of energy, for example. A more holistic approach to a just transition considers distributional impacts and opportunities along the supply chain, in terms of livelihoods and the cost of living.

Support for a just transition means working at scale, including bringing together local, national and regional or international approaches. Many existing just transition approaches, however, are granular and bottom-up, and focus on the distributional implications between workers and companies at sector level. MDBs are able to take a broader, longer-term approach to supporting a just transition, and bring together incumbent and incoming actors, given their role in supporting national and regional development.

Objective 2: Supporting a just transition

Recommendation: Advance peer learning and prepare a practical 'Just Transition Toolkit'

The rationale for this recommendation is to ensure MDBs have the relevant approaches, tools and instruments to identify just transition needs and opportunities, implement just transition interventions, and monitor their impacts. The toolkit should build on existing MDB experience, and be rooted in operational considerations.

The stocktake sets out some of the ways in which MDBs already support the aims of a just transition.

These include where MDBs are actively engaging with a just transition. For example, the Inter-American Development Bank (IADB)'s Climate Strategy includes just transition as a priority area, the European Investment Bank (EIB) is developing its approach in response to the EU's high-level definition of a just transition and its €100 billion Just Transition Mechanism, and the EBRD launched its Just Transition Initiative in July 2020. They are developing just transition criteria and diagnostics (or leveraging those of other actors such as the EU) as part of their operationalisation strategy. Many existing areas of MDB assistance are also relevant to a just transition, including mainstreaming, policy-based financing, project financing and technical assistance.

There is broad consensus among the MDBs on the value of learning-by-doing and practical collaboration on the ground. To support this, the MDBs will require a comprehensive understanding of their potential approaches to supporting a just transition. This means building on existing activities and aggregating these into a typology of approaches and activities – a Just Transition Toolkit – that could identify just transition needs and opportunities and deliver programmes of support in response to them. In terms of institutional approaches to identifying just transition needs and opportunities, there are two related entry points for the MDBs.

- **Just transition-led approaches** – including strategic or analytical tools such as country or sector diagnostics, which focus on identifying opportunities to support a just transition, based on indicators of vulnerability to transition or preparedness for green growth opportunities. To date, this approach is most evident among those MDBs that have developed just transition as an additional area of assistance and/or that have a clear mandate to engage with just transition related policy processes directly, such as the IADB, EIB and EBRD.
- **Just transition mainstreaming** – approaches that systematically assess the potential to integrate just transition considerations within existing processes, such as risk assessments and environmental and social safeguarding. Such an approach can help identify where existing investments and projects can deliver just transition co-benefits. While mainstreaming approaches are useful for all MDBs, they tend to

be emphasised by MDBs at an earlier stage of engagement with a just transition, or those without a direct mandate to engage with distributional impacts or policies.

In building the Just Transition Toolkit, the following issues should be considered.

- **The need for engagement across MDB and government functions.** While climate action and the transition to a green economy provides the context for MDB support, integrating just transition into climate strategy alone is unlikely to drive action. To ensure credibility and country ownership, particularly in fossil fuel-producing and carbon-intensive economies, just transition should be embedded in those areas with the greatest influence, including finance, social development and economic inclusion, labour planning, energy and industrial policy, and extractive industry governance. To support this, peer learning should address how different MDBs are approaching internal consultation and the coordination of activities related to just transition, including the establishment of just transition working groups, the review of MDB areas of assistance and the lead institutions and ministries that they engage with in country, and the development of internal position papers.
- **The potential for existing MDB tools and instruments – including investment, policy engagement and technical assistance – to be enhanced in order to support a just transition.** Looking beyond climate strategy and to other MDB areas of assistance, such as labour markets and economic inclusion, regional development, support for small and medium-sized enterprises (SMEs), and energy and extractives, there are well-established relationships and models of assistance that MDBs can leverage. Traditional support for employment and supply chains in the fossil fuel sector, for instance, could re-focus to support just transition and the growth of green alternatives. To aid this, peer learning should include the review of MDB assistance that is relevant to a just transition, both where just transition-led interventions and just transition co-benefits have been developed or are under development. It should also consider how to integrate these into MDB frameworks, and how to develop the right institutional incentives.
- **The thematic and regional areas that warrant special attention.** Peer learning should also consider how to operationalise support for a just transition, and the benefits of doing so in different contexts. The MDBs should consider collaborating on case studies and/or pilots that explore the appropriate balance of approaches, tools and instruments in priority contexts that are in need of special attention, including:
 - how to **work with fossil fuel producing clients** to not only *reduce fossil fuel consumption* (in line with Action Point 5 of

- the MDB's High-Level Statement in September 2019) but to *reduce structural fossil fuel dependency* (for income, energy and employment), and develop alternative development pathways for countries with fossil fuels (including those with recent fossil fuel discoveries). Questions include:
- how to accelerate coal phase-out (and avoid committed coal emissions)
 - how to engage oil and gas producers, including state actors such as national oil companies
 - how to develop green industrial development pathways, including green hydrogen and the transition to a circular economy.
- how to **work with national development banks and other financial institutions** to develop financing and policy strategies in support of a just transition, in line with the High Level MDB Statement
 - how to develop **sectoral decarbonisation strategies** with the goal of reaching net zero, including the data, modelling and action that would be required to support a just transition in each sector
 - how to **engage the private sector**, including the appropriate balance of public and private finance and concessionality in different contexts, and the role of commercial banks and companies
 - the **potential to create financial approaches and instruments that support a just transition**, for example, establishing links with capital market instruments (such as just transition bonds) and exploring possibilities to utilise tools described in the Paris Agreement (such as Article 6 transactions)
 - how to **prioritise MDB resources** for the greatest impact, for example, where support for just transition in one country could have a transformative effect on the region (for example, Nigeria, South Africa and Poland).
- **How to monitor and track support for a just transition.** The principles that the MDBs agree will inform an appropriate approach to monitoring and tracking MDB support for just transition. Further discussions will be required through Phase 2, including on the appropriate indicators of support for a just transition, and the extent to which disclosures on support for just transition overlap with (and could be integrated within) existing metrics and reporting, such as the Joint Report on Multilateral Development Banks' Climate Finance, and the emerging MDB Paris Alignment methodology. The initial focus should be on learning by doing, with MDBs developing and sharing indicators that are relevant in light of their mandates and operational contexts, and that build on existing MDB processes, and frameworks under development by the EU and others.

Objective 3: Partnerships in support of a just transition

Recommendation: Identify concrete collaboration opportunities within MDBs and non-MDBs

The rationale for this recommendation is to identify opportunities for collaboration among MDBs and between MDBs and non-MDB stakeholders, in order to scale interventions and enhance the impact of MDB support for a just transition.

The stocktake has strongly indicated that MDBs could look for further collaboration opportunities, both with each other and with non-MDB actors. There is a raft of ongoing work outside of the MDBs, including the ILO Climate Action for Jobs Initiative, the establishment of the Coal Regions in Transition Platform in the Western Balkans and Ukraine and the Climate Investment Funds Just Transition Initiative, to cite but a few. The stocktake focuses on opportunities related to information sharing, research, awareness raising, capacity building and investment. The development of these activities and partnerships would help disseminate the Just Transition Toolkit and raise awareness and build capacity among country stakeholders and other partners.

Effective networks and partnerships can help strengthen links between MDBs and other actors, and identify research areas, projects and investments for collaboration. There are several issues to consider here.

First, how can working-level networks develop evidence on sustainable jobs and livelihoods, and integrate distributional impacts in low-carbon pathways and country planning (for example, NDCs and Long-Term Strategies)? The lack of country-level information on emerging employment and economic development opportunities – including the need for better information on job creation in energy efficiency and renewable energy, compared with fossil fuels – was noted by MDBs and civil society in the initial stakeholder engagement. Coordination between MDBs and processes such as the UNFCCC's Katowice Committee of Experts on the Impacts of the Implementation of Response Measures (KCI), the IPCC working group on just transition, and the ILO's Green Jobs Assessment Institutions Network (GAIN) could help build the evidence base on green jobs at the country and at regional levels. Collaboration with mainstream scenario providers such as the IEA and IRENA could also help incorporate distributional impacts in climate and energy scenarios, and support the integration of just transition considerations in NDCs and Long Term Strategies to 2050.

Second, how can successful peer learning and capacity-building platforms on coal transitions be accelerated and adapted to other regions and sectors?

MDBs have been instrumental in supporting the development of coal-focused initiatives such as the EU's Just Transition Platform (the EIB, World Bank and EBRD) and the forthcoming Coal Learning Academy (World Bank). Yet there are few similar platforms in other regions and sectors that are also important to a just transition, including sectors such as oil and gas (and particularly the role of national oil companies in transition) or agriculture (given its frequent role as the largest employer), or in thematic areas such as cities and the development of the circular economy.

Third, what is the potential for the MDBs' work on just transition to help mobilise public and private finance in support of a just transition? Donor and private sector interest in a just transition is growing, but there remains little guidance and no guiding framework for investment, underscoring the importance for the development of principles and a more granular, applied reference point such as a Just Transition Toolkit. There are several opportunities here:

- by working with national and regional development banks, MDBs could help optimise development assistance and build in-country operational capacity
- by working with the EU, and established and emerging donors – including Asian policy banks and MENA funds, for example – MDBs could support a common understanding of just transition, the harmonisation of investment standards and the development of joint ventures
- by working with private sector investors, through the UN PRI's International Investor Working Group on Just Transition, the IIGCC and major asset managers, for example, MDBs could help mobilise capital and potentially develop and co-finance projects. Where coal is concerned, working with the Powering Past Coal Alliance – including collaboration around its Finance Principles – may help support the accelerated decommissioning of coal assets and develop strategic clean energy investments with the potential to help avoid the development of committed coal capacity. Where agriculture is concerned, the Investment Partnership Network for a Just Rural Transition may help advance action.

Next steps to COP26

Drawing on the three recommendations in this memo, and their component activities and outputs, the MDBs will develop a package of just transition deliverables and commitments ahead of COP26, in fulfilment of the commitment they made in 2019. This will include the publication of the 'High-Level Principles', a Just Transition Toolkit, and related commitments to supporting a just transition from MDBs and non-MDB partners.

The Covid-19 crisis has lent further impetus to a just transition, prompting calls for a green **and just recovery**. The health and economic burden of the Covid-19 crisis has fallen on the most vulnerable, both within and between countries, exacerbating pre-existing inequalities and exposing systemic vulnerabilities. The visibility of these impacts, alongside a looming global recession, has changed the context for COP26, refocusing all efforts on a green, jobs- and investment-led recovery. The rapid development of MDB support for a just transition is crucial in this context.

ⁱ This memo was prepared by the EBRD on behalf of Paris Alignment Working Group (PAWG) Building Block 4 (Policy and Engagement), for consideration ahead of a BB4 WG meeting on just transition, held on 15 October 2020.