

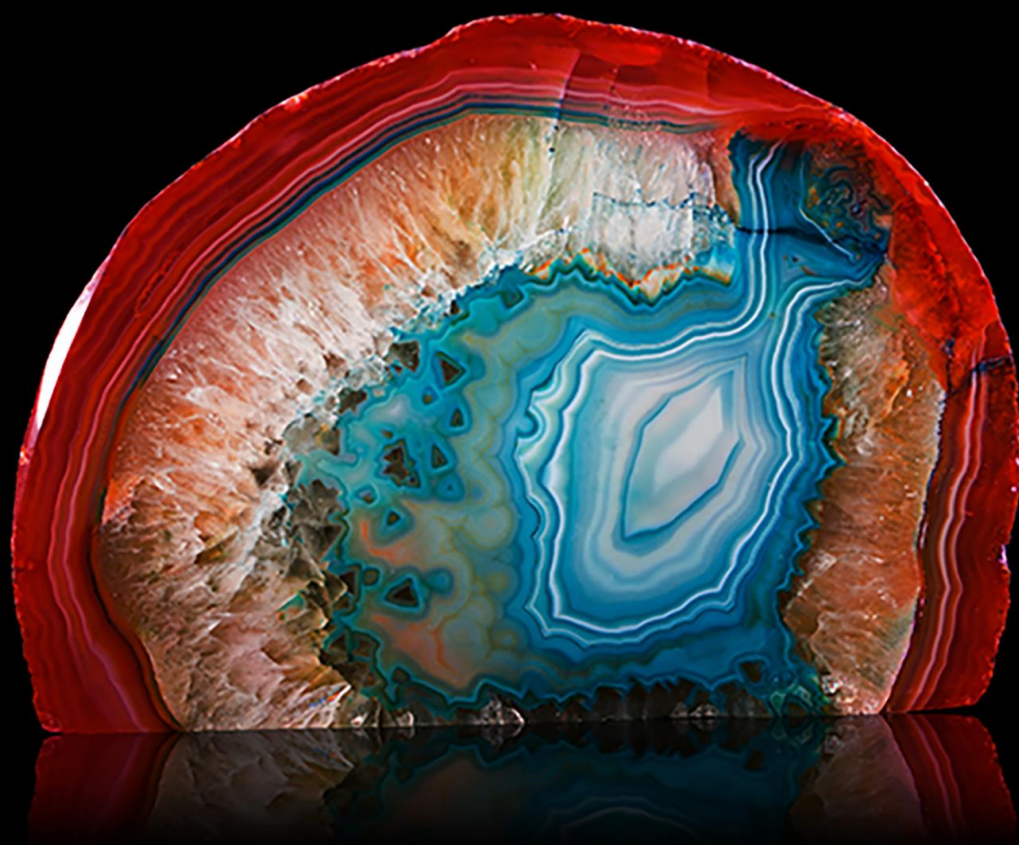
Asset Management

A Just and Inclusive Climate Transition

Stewardship Perspective

For professional investors only

Q4 2022



HSBC

Opening up a world of opportunity

Foreword	2
1 Executive Summary	3
2 Introduction	6
3 Social issues arising from siloed transition efforts	9
4 Considerations for investors	11
4.1 Corporate engagement	11
4.2 Engagement with multilateral institutions	13
4.3 Engagement with regulators and policymakers	15
5 Identifying stakeholder impacts	18
5.1 Workers	19
5.2 Consumers	23
5.3 Communities and rights holders	24
5.4 Women and girls	27
5.5 Supply chains and business partners	28
5.6 Migrants and refugees	30
5.7 The future generation	32
6 Concluding comments	34
Authors and contributors	35

As a signatory to the Net Zero Asset Management Initiative, we are taking tangible steps to decarbonise our portfolios and engage with issuers on their climate strategies. This is a core part of our strategy and reflects ongoing commitments to support our clients with their net zero transition and to increase the resilience of their investments.

As both governments and the private sector step up their efforts to address the impacts of climate change, the decades ahead will see deep and systemic shifts in our economies, with sweeping changes to our energy systems, transport and industrial processes. However, we must not forget that at the centre of this transition, are people. The transition has had and will continue to have significant impact on people's lives and livelihoods.

Millions are employed in climate-sensitive sectors such as energy generation, resource extraction and manufacturing. The transition's impacts will also extend beyond workers to have broader implications on supply chains and communities, amongst other stakeholders as discussed in this paper. For the transition to succeed it must be inclusive and take into consideration the human impact arising from this momentous shift. This interconnectedness between environmental issues such as climate change, and social issues such as inclusive growth and human rights, presents a compelling case that we must break silos and apply a systemic lens in identifying sustainability risks and opportunities.

As a global asset manager with access to local knowledge, HSBC AM is well positioned to support a just and inclusive transition and to bring awareness of the risks and opportunities that may arise. We facilitate the movement of finance, and the transfer of knowledge, solutions and expertise across regions in which we operate. As a responsible steward, this includes engaging with portfolio companies and other stakeholders to uplift sustainable and inclusive practices. We also believe that such an approach will drive resilience, value and the identification of new opportunities around the just transition.

I am pleased to share this paper, which takes a stakeholder centric approach to the climate transition, examining the various issues that may arise within key stakeholder groups, and the strategies and solutions that companies and investors may consider to pre-emptively address these challenges, foster engagement and build resilience.

Central to our engagement approach, is a conviction that businesses that successfully engage their stakeholders will be able to navigate social risks, and capitalise on new opportunities from the transition.

We invite you to share comments, and engage in further dialogue with us on this important and pressing topic. Thank you for your support.



Nicolas Moreau
Chief Executive Officer
HSBC Asset Management

A Just and Inclusive Climate Transition

Following on from the Paris Agreement, countries and companies have committed to achieving net zero emissions by mid-century, limiting warming to 1.5 degrees. Achieving these objectives will require significant and near-term structural changes to our energy systems and economies. At the centre of this transition are people whose livelihoods stand to be affected by this momentous shift; whether they are coal workers facing redundancies, consumers hit by higher energy prices, or indigenous communities that have depended for years on the socioeconomic benefits of oil extraction. For the climate transition to succeed, it must leave no one behind.

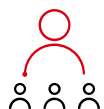
Companies must consider what proactive steps they can take to remain inclusive, capitalising on the opportunities related to the transition, while mitigating risks and negative impacts to people. To investors, identifying and engaging with companies on these issues will provide for a more holistic view of transition risks in their portfolios, create resilience, and provide new opportunities for growth by investing in companies that will be at the forefront of this transition.

1 The critical role that investors play through engagement



1. Corporate engagement

By engaging directly with companies, investors raise expectations on companies to manage the social risks and opportunities arising from the transition, uplifting expertise and sharing good practice across borders, and between small and medium enterprises (SMEs) and large businesses. Engagements should aim to discern the company's approach to stakeholder consultation, value chain engagement and remediation. This is with the ultimate aim of reducing systemic risks, improving portfolio resilience and creating long-term sustainable value. Investors should consider just transition objectives in their stewardship plans and climate strategies.



2. Engagement with multilateral institutions

Emerging economies will require significant funding in order to transition their economies, up to US\$ 1.7 trillion per year in Asia alone.¹ Through engagement with multilateral institutions, investors will be an instrumental force in mobilising and directing capital to businesses that will be at the forefront of an inclusive transition. Multilateral institutions also help in mitigating perceived risks associated with investments, bringing in local expertise while mobilising private capital through new sources of commercial financing, and open up avenues for private sector investment and engagement.²

1. ADB 2019 - <https://www.adb.org/sites/default/files/publication/512376/mdbs-private-sector-sustainable-development.pdf>
2. ADB 2017 - <https://www.adb.org/news/asia-infrastructure-needs-exceed-17-trillion-year-double-previous-estimates>





3. Engagement with regulators and policymakers

Taxonomies

A clear social taxonomy will help to drive social investment and contribute to inclusive aspects of the transition, while also allowing investors to clearly assess and draw comparisons on the social outcomes attached to their financing. With jurisdictions increasingly producing their own environmental taxonomies, some with social objectives, investor views on alignment of these frameworks will be crucial in securing the private-sector funding required to achieve development aims.

ESG disclosure

ESG disclosure allows for improved comparability and transparency on the impacts and opportunities from climate change and the transition. By engaging directly with both companies and regulators, investors have a role to play in promoting the measurement and management of positive transitional outcomes and externalities, while aligning on metrics.

Policy maker engagement

Investors should engage with government in encouraging a greater focus on inclusion in relation to the transition. They should encourage that just transition aspects be considered in national roadmaps, in climate-strategies at state owned enterprise, and in providing a view on the shaping of inclusive transition energy policies. By engaging with SOEs and relevant government departments, investors can encourage and outline the importance of an inclusive transition, along with associated risks and opportunities for these state actors.

2 Corporates must identify and address impacted stakeholders



1. Workers

Industries such as fossil fuel extraction and power generation face the highest pressure to decarbonise, whether through the sale of assets, downscaling or early decommissioning of projects or assets. Other impacted sectors include transport, cement, steel, agriculture, forestry, manufacturing and the automotive sector. Workers in these industries will face the prospects of job displacements and redundancies. Companies should proactively engage with their workers and labour unions as early as practicable, pre-emptively mediating any conflict, while providing avenues for reskilling and re-deployment across the business, or early voluntary downsizing or retirement. Such considerations should be across both gender and ethnicity.



2. Consumers

Business will need to pay due consideration to the products and services that further objectives of the transition, with an aim to ensure inclusive and equitable access and uptake, for example in the case of feed-in tariffs for the power sector. In some cases, this will mean addressing underlying or historic disparities that have been barriers for the use of such solutions. Companies should be proactive and inclusive in their marketing initiatives, being mindful of affordability and customer needs.



3. Communities and rights holders

The decommissioning of a carbon intensive facility will affect livelihoods and have knock on impacts on the local economy. In some cases, particularly where a region's finances are very much dependent on fossil fuel extraction, this may drive emigration and place stress on public budgets. Addressing these issues will be complex and start with assessing exposure to communities likely to be stranded. Identifying opportunities for reskilling employees, diversification of operations and support for local governments in their ambitions will be key to developing resilience against such impacts.



4. Women and girls

Gender equality should be central to the transition. Women are disproportionately affected by climate change as a result of entrenched socio-economic structures, inequalities and societal norms. They are directly impacted by job displacement and tend to work in more climate vulnerable sectors across Asia and sub-Saharan Africa. Women are also indirectly impacted through loss of household income, where they are then more exposed to working in the informal sector.¹ However, when companies actively consider gender dimensions in their human capital and climate strategies, there are opportunities to attract and retain talent, address historic inequalities and build resilience in the workforce.



5. Supply chains and business partners

SMEs are likely to be more affected by the transition. Being less diversified and having less access to finance, they are more likely to see margin shrinkage as high-carbon customers cut costs. Making up more than 96 per cent of all Asian businesses,¹ a successful transition must account for this important group. Given the projected growth in raw materials required for electrification, companies must have robust human rights due diligence and engagement with their suppliers to ensure that growth is not met at the expense of adverse human rights impacts.



6. Migrants and refugees

Businesses will be exposed to new challenges from migration, which will see declines or increases in population affecting demand for goods and services, shifts in the availability of skillsets, a growing or declining labour pool and increasing pressure to address needs of rapidly evolving consumer segments. By identifying new employment prospects across its operations or value chain for migrants, a company may address labour shortages, building brand equity and its social license to operate. However, integration and hiring objectives must be recommendations in consideration² of local community needs or this poses additional reputational risks to the company.



7. The future generation

The climate transition, if done in a way that protects and improves the wellbeing of people and the environment, presents significant opportunities to contribute to the Sustainable Development Goals (SDGs) and their underlying targets. In this respect, the SDGs provide a targeted and consistent framework for companies to contribute to the sustainable development of the people and the planet as they embark on the just transition. The UN has convened Technical Working Groups (TWGs) to accelerate the energy transition, one of which has been focusing on how a just transition can support and enable the SDGs. The TWG published eight recommendations² in 2021. We encourage companies to consider these as they develop their own just transition strategies, being mindful of inclusive growth.

1. [ADB 2018 - https://www.adb.org/publications/role-smes-asia-and-their-difficulties-accessing-finance](https://www.adb.org/publications/role-smes-asia-and-their-difficulties-accessing-finance)

2. [Theme Report On Enabling SDGs Through Inclusive, Just Energy Transitions 2021 - https://www.un.org/sites/un2.un.org/files/2021-twg_3-b-062321.pdf](https://www.un.org/sites/un2.un.org/files/2021-twg_3-b-062321.pdf)

“ A just transition for **affected workers and communities**, including the **creation of ‘green’ jobs** that position them to build a **productive and sustainable future** that leaves no one behind”

- World Economic Forum, *Just and Urgent Energy Transition* (2021)

“Recognises the need “to ensure just transitions that **promote sustainable development** and eradication of poverty, and the **creation of decent work and quality jobs**, including through making financial flows consistent with a pathway towards low greenhouse gas emission and climate-resilient development, including through deployment and transfer of technology, and provision of support to developing country Parties”.

- Glasgow Climate Pact (2021)



The first two decades of the 21st century have seen unprecedented warming, with temperatures averaging 1.1 degrees Celsius above pre-industrial levels.¹

Following on from the Paris Agreement, countries and companies have committed to achieving net zero emissions by mid-century, aiming to limit warming to below 1.5 degrees. Despite this, current climate policies and commitments mean the world is on track for 2.7 degrees Celsius warming above pre-industrial levels, with thermal coal consumption now set to peak by 2035 only.²

This temperature rise will pose significant consequences to local economies, livelihoods and result in major biodiversity and species loss. The near-term challenges that companies and communities are facing are evident and discussed through this paper. Prompt action is needed to address not just the environmental but social impacts of climate change.

For a global climate response to be effective, it must be inclusive and leave no one behind. To achieve the aims of the Paris Agreement, we will need structural changes to our energy systems and economies. The climate transition will see demand for fossil fuel reduce over time, while hard-to-abate sectors such as steel and cement will require a significant decarbonisation of their industrial processes. This will affect the millions of people currently employed in these sectors and their supply chains. As demand for renewable energy and energy storage increases, demand for green-tech and raw materials will also grow. Innovative solutions across the economy will be crucial, impacting business models, while product and service offerings will transform.

People are at the centre of this momentous shift, particularly those who are at risk of being left behind by the transition – whether they are workers facing redundancies, consumers hit by higher energy prices, or communities that have depended for years on the socioeconomic benefits of a nearby coal mine or power plant. Without more equitable outcomes, these stakeholders are likely to resist and oppose the transition, whether decommissioning of a mine or coal-fired power plant, potentially hindering and even reversing the progress towards net zero.

Why is prompt climate action critical?

To prevent the more dangerous impacts of climate change, immediate action is needed, with carbon emissions to be peaked by 2025 and to be at an overall level of zero by 2050, underscoring the need for rapid and immediate investment and scaling of solutions that will facilitate the transition. This is through investment in renewable power, energy storage, carbon capture and storage technology among others.

In 2021, this amounted to US\$ 750 billion invested in the energy transition, up from US\$595 billion the previous year³.

1. IPCC 2021 - https://www.ipcc.ch/report/ar6/wg1/downloads/report/IPCC_AR6_WGI_SPM.pdf
2. Bloomberg 2022 - <https://www.bloomberg.com/news/articles/2021-06-15/gas-is-so-scarce-in-europe-that-coal-is-making-a-comeback>
3. Bloomberg Energy Transition Investment Trends 2022 - <https://assets.bbhub.io/professional/sites/24/Energy-Transition-Investment-Trends-Exec-Summary-2022.pdf>



“If we cannot convince our citizens that this transition is just, there's just not going to be a transition.¹”

- Frans Timmermans, Vice President of the European Commission

“Transition has to be fast; but if we at the same time fail to bring our people with us we will have one destructive populist blowback after another. Success requires moving together; that’s called a Just Transition.”

- Sean Kidney, CEO, Climate Bonds Initiative

“Equity has two sides. One is inclusiveness in a society within the boundaries of a country, the other is equity between countries at different stages of socio-economic development. This will entail that developed countries should support developing countries with financing and technology to combat climate change. The 100 billion pledge is far from fulfilled, thus all countries that have the resources and capacity should do whatever they can to help resolve the equity issue between countries. All initiatives that help to achieve this goal, no matter where it comes from, should be welcome. Problems we face in the world can only be solved via multilateralism and collective action.”

- Shouqjing Zhu, Head of Climate Action, Greater China, World Economic Forum

Companies have a fundamental responsibility to respect human rights and to address any adverse impacts that they have involvement in – this includes how they transition to net zero. Companies that identify and take proactive steps to capitalise on the opportunities related to the transition and mitigate resultant social and environmental risks will allow for greater value generation and resilience.

To investors, identifying and engaging with companies on the just transition will provide for a more holistic view of transition risks in their portfolios, create more resilience, and provide new avenues for engagement and growth by investing in companies that will be at the forefront of this transition.

The purpose of this paper is threefold:

1

First, to provide a human-centric perspective on the climate transition, examining the impact on various stakeholder groups;

2

Second, to provide a blueprint for both companies and investors to better assess the risks and opportunities posed from the just transition, allowing for the incorporation of these considerations as objectives within their climate strategy; and

3

Third, to guide investors to engage with stakeholders who have an instrumental role to play in fostering an inclusive transition.

1. Timmermans 2022 - https://ec.europa.eu/commission/commissioners/2019-2024/timmermans/announcements/opening-remarks-session-just-transition-informal-council-energy-and-environment_en

Relevance for companies and investors

The takeaways from this paper can help companies to:

- ◆ Identify those who are most affected by the transition in their operations and supply chain, and identify the associated risks and opportunities.
- ◆ Assess actions outlined under the section 'expectations on companies' for each impacted stakeholder group, and consider these initiatives and actions in the development of their climate strategy.
- ◆ Incorporate and define measurable metrics, targets and ambitions that capture their just transition commitments.

Investors can also use the key takeaways to help:

- ◆ Identify companies most exposed to the climate transition and resultant impacts on its value chain and stakeholders.
- ◆ Engage with portfolio companies to address just transition risks and opportunities.
- ◆ Assess opportunities for engagement with governments, multilateral institutions, regulators and NGOs on the application of just transition principles.



Many companies have embraced and improved on their climate disclosures, especially since the final recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD) were published in 2017. However, a lot of these reports fail to make the appropriate connections between material climate risks, their climate strategy and the social and economic outcomes of operationalising their net zero goals. Climate change sits in silo within the environmental section of sustainability reports, whilst the impacts from climate change to workers, communities, customers and suppliers are reported separately or not at all. Companies with more experience in climate reporting will typically assess the physical and transitional issues posed to their business, but discussions or assessments of any social considerations are still limited. This includes assessing the social and health challenges posed by climate change, discussed more broadly by the Intergovernmental Panel on Climate Change (IPCC), to the more near-term impacts resulting directly as a result of the energy transition.

As companies in extractive and power generation industries assess their business models and operations, certain communities and skillsets risk being stranded, with certain jobs and ultimately livelihoods at stake.

The transition is likely to disproportionately affect low and middle income workers as well as indigenous and minority communities who have relied on employment in sectors such as coal-mining and oil and gas extraction.^{1,2} Many indigenous communities and land around the world are being disrupted by the developed world's hunger for raw materials and minerals that fuel the energy transition.

Instruments to address climate change such as carbon taxes may disproportionately affect

low and middle income households who are then faced with higher energy and transport costs. Additionally, these households are typically unable to invest in energy conserving retrofits such as electricity panels for their homes and small businesses. For communities that were built around a coal mine or a thermal power plant, the impact of the transition is not only on the workers facing redundancies. There are foreseeable community-wide economic shocks in places that are primarily coal economies, petro-states and communities.

This inequality can spark community dissent and political and social opposition to the transition. The transition must therefore consider the needs of these communities and their wellbeing to be successful.

The International Labour Organisation (ILO) estimates that up to 24 million new jobs will be created as a result of the transition, with 14 million of these in Asia, but net job losses are to occur in the Middle East and Africa.³ For a just transition to take effect, care must be taken not to exacerbate historic inequalities nor contribute to the creation of new ones in the transition to renewables. Inadequately considering these issues is likely to contribute to gross social inequality and ultimately, the delay or even failure of the transition while posing risks to companies and investors.

1. Fourth National Climate Assessment 2018 - <https://www.globalchange.gov/nca4>

2. Canadian Energy News Network 2022 - <https://www.canadianenergynewsnetwork.com/divesting-from-canadian-oil-and-gas-harms-the-13900-indigenous-workers-in-the-field-as-well-as-indigenous-communities-who-have-hundreds-of-joint-ventures-with-the-energy-industry/>

3. ILO 2018 - https://www.ilo.org/global/about-the-ilo/newsroom/news/WCMS_628644/lang-en/index.htm

Companies must focus on realising a just transition, assessing the possible risks and opportunities posed. Failure to do so may result in the company losing its social license to operate, disruption to operations, reduced demand for products and negative impact on brand value. Given the rapid transformation that will be required with select industries, businesses will also need to assess the skillsets, technology and services needed to transition their businesses and operations.

Asset managers who fail to assess the risks from an inequitable transition are also likely to see their portfolios exposed to unpriced social risks and miss the opportunity to capitalise on gains from just transition strategies, such as from companies enacting leading retention and skills development programmes.

Rising fuel costs can stoke social discontent

In October 2019, Ecuador's abrupt end to a 40-year-old fuel subsidy saw the cost of fuel almost double overnight. This resulted in violent protests by the most affected groups, including indigenous communities, students and low-income earners. Millions of dollars in damages occurred, and the reversal of government policy after 11 days.¹

In 2018, in France, a carbon tax resulted in high fuel cost. Broad social disruption (mouvements des gilets jaunes) resulted in 12 deaths and estimated losses of €1 billion, while cutting growth for the year by 0.1 per cent.²

These examples illustrate the importance of investments in low carbon energy, and how a lack of engagement with stakeholders in low carbon policy initiatives can reinforce social stress.

1. Woods 2019 - <https://climatechangenews.com/2019/10/14/11-days-civil-unrest-ecuador-reinstates-fuel-subsidies/>
2. Keohane et Agnew 2018 - <https://www.ft.com/content/62e2f894-fc8c-11e8-aebf-99e208d3e521>

The information provided is for informational purposes only and should not be construed as a recommendation or solicitation for any security. The views expressed were held at the time of preparation and are subject to change without notice.

In 2018, 49 investors including HSBC Asset Management, representing assets of US\$ 3.7 trillion endorsed the Statement of Investor Commitment to Support a Just Transition on Climate Change and committed to take action to support the transition by incorporating labour and social considerations within their climate practices.¹

Asia Pacific will require US\$1.7 trillion per year to not only achieve its net zero objectives but deliver on climate adaptation and resilience measures.² Investors have a crucial part to play in allocating capital to businesses at the forefront of the transition, but will need to consider social issues and risks associated with these funding decisions.

There are existing frameworks that provide investors with a guide to realising a just transition, such as that of the Guide for Investor Action by the Grantham Research Institute, which details the importance of investment strategy, capital allocation,

engagement and policy advocacy in realising an inclusive net zero commitment.³ Investors are encouraged to refer to this document to gain an understanding of how just transition aspects may be incorporated within the investment process.

Investors have a leading role to play. This includes disseminating good practice, contributing to improved disclosure standards and taxonomies, and frameworks in relation to the just transition.

Investor-led engagements should follow an assessment of the various risks and opportunities posed to select issuers. This could involve a review of potential issues, considering stakeholder impacts and investment exposure to specific industries, or across geographies.

Key engagement opportunities are outlined below.



4.1. Corporate engagement

By engaging directly with companies, investors raise expectations on companies to manage the social impacts arising from the transition, uplift expertise and share good practices. This helps companies manage the transition more holistically, reduce systemic risks and ultimately improve risk-adjusted returns.

Many investors are already experienced in engaging on companies' climate strategies, human capital management, governance and risk management, with tailored questions based on market and sector nuances. This should now extend beyond climate targets to include considerations for the stakeholder groups most impacted by the transition. These details are discussed below and should be incorporated within an investor's stewardship and engagement objectives.

1. [Investor Statement 2018 - https://www.workerscapital.org/IMG/pdf/jt_investor_statement_26_oct_2018.pdf](https://www.workerscapital.org/IMG/pdf/jt_investor_statement_26_oct_2018.pdf)

2. [ADB 2017 - https://www.adb.org/news/asia-infrastructure-needs-exceed-17-trillion-year-double-previous-estimates](https://www.adb.org/news/asia-infrastructure-needs-exceed-17-trillion-year-double-previous-estimates)

3. [Robbins et al 2018 - https://sustainabledevelopment.un.org/content/documents/22101ijtguidanceforinvestors23november1118_541095.pdf](https://sustainabledevelopment.un.org/content/documents/22101ijtguidanceforinvestors23november1118_541095.pdf)

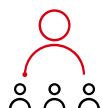
Employing a human-centric lens, engagements should aim to discern the company's approach to stakeholder consultation, value chain engagement and remediation measures. This aims to reduce systemic risks and drive sustainable value creation. Investors may consider the following questions in their engagements with companies.

- A** Does the company acknowledge the social risks and opportunities arising from the climate transition?
- B** How does the company's board engage on social issues related to climate change?
- C** Has the company published its climate strategy? If yes, how has the company discussed social impacts or issues arising from its plans?
- D** Has the company identified operations and/or jobs within its business and value chain that are at risk of this transition? How has the company identified any impacted stakeholders?
- E** What educational and skillset development programmes has the company developed? How are these objectives defined and measured?
- F** What steps has the company taken to engage with its stakeholders, including local government, labour unions and local communities in the development of its climate strategy? How has this feedback been incorporated within its strategic plans?
- G** Have impacts on communities been analysed, taking ethnicity, gender, and income into consideration? How have their views been incorporated within the company's climate strategy?
- H** How is the company engaging with stakeholders throughout its value chain on the impacts of the transition?
- I** How does the organisation plan to minimise adverse impacts and/or generate social value as part of the transition?
- J** Has the company identified any skills gaps in its transition plans? How does it plan to address this?
What tools or analytics is the organisation using to assess the availability of these skillsets?
- K** How is the company tracking its progress in ensuring a just transition? What metrics and indicators are the company using? Does it have targets?
- L** In the divestment or decommissioning of any assets e.g. an industrial site, how is it being remediated in respect of both social and environmental concerns?
- M** Do the company's lobbying activities align with just transition principles?
- N** What metrics and timelines have the company established to measure and report on progress and outcomes associated with just transition objectives?

Establishing suitable metrics

An effective just transition strategy will include specific, measureable and time-bound targets and metrics related to a company's transition objectives. The company should select metrics relevant to its operations, and sector, considering both stakeholder requirements and relevant regulation. An organisation may consider disclosing the following data points and targets in relation to their transition objectives:

1. Jobs lost or impacted
2. Jobs created
3. Targets in relation to employee reskilling e.g. employee certifications or training hours
4. Retention targets and objectives
5. Objectives on social dialogue and stakeholder engagement both internally and within the community
6. Workforce diversity data and objectives
7. Indicators to monitor and mitigate community social impact



4.2. Engagement with multilateral institutions

Emerging economies will require significant funding in order to transition their economies. Through engagement with multilateral institutions, investors can make an impact by mobilising and directing capital to businesses that will be at the forefront of an inclusive transition.

Multilateral institutions lead in structuring and directing finance to developing economies on the transition, coordinating in the creation of multi-stakeholder mechanisms that bring in regional and local expertise. These institutions also help in mitigating perceived risks associated with investments while mobilising private capital through new sources of commercial financing, opening up opportunities for private sector investment and engagement.¹

The Asian Development Bank's Energy Transition Policy² outlines the institution's commitment to the just transition and critical need for justice, equity, diversity and inclusiveness through its energy sector operations. At COP26, the ADB announced the launch of the Energy Transition Mechanism to phase out coal while scaling up renewables in South East Asia. The partnership was endorsed by governments and financial institutions, including HSBC,³ with the aim to accelerate the retirement of five to seven coal power plants, adding in new clean energy investments in generation, storage and grid upgrades, creating new jobs and saving 200 million tonnes of carbon emissions.⁴ The ADB aims for US\$3-5 billion in funding for a dedicated Carbon Reduction Fund and Clean Energy Fund,⁵ with investments from the private sector.

1. ADB 2019 - <https://www.adb.org/sites/default/files/publication/512376/mdbs-private-sector-sustainable-development.pdf>
 2. ADB 2021 - <https://www.adb.org/sites/default/files/institutional-document/737086/energy-policy-r-paper.pdf>
 3. Herweijer 2022 - <https://www.hsbc.com/insight/topics/how-we-are-enabling-the-transition-from-coal-to-clean>
 4. ADB 2021 - <https://www.adb.org/news/adb-indonesia-philippines-launch-partnership-set-energy-transition-mechanism>
 5. ILO 2022 - https://www.ilo.org/asia/publications/WCMS_845700/lang-en/index.htm

The funding gap

It is estimated that Asia will require approximately US\$ 2.5 trillion annually to transition its energy and infrastructure systems, with approximately \$2.8 to \$4.8 trillion of GDP at risk by 2050 from climate inaction.¹ This transition is, in many cases, contingent on international aid and investment.

To address the need for some of the funding required, the United Nations Framework Convention on Climate Change (UNFCCC) Conference of Parties' "Roadmap to US\$100 billion", pledged to mobilise at least US\$ 100 billion per year to address climate change and mitigate disparities between the Global North and South. In 2019, the OECD claimed to have provided \$80 billion in grants and loans, however this number has been contested.²

Through engagement with multilateral institutions, investors have an opportunity to play a prominent role in creating new partnerships that will direct financing to key aspects of the transition, and develop transition frameworks that include just transition principles and social impact assessments.



1. McKinsey & Company 2022 - <https://www.mckinsey.com/business-functions/sustainability/our-insights/climate-risk-and-response-in-asia>
2. Timperley 2021 - <https://www.nature.com/articles/d41586-021-02846-3>



4.3. Engagement with regulators and policymakers

“ The low-zero-carbon transition is in effect a revolution that cannot be achieved without clear-headed long-term public policies. Only governments have the tools to achieve decarbonisation alongside a just transition at scale. Hence, governments and industries must cooperate to dovetail decarbonisation plans with talent planning, worker retraining, retirement provisions etc. so that risks-and-gains and cost-and-benefits are shared across the economy. Investors may wish to take a wider view in how they might be able to encourage this transition by questioning both companies and governments”

**Christine Loh, Chief Development Strategist,
Institute for the Environment, Hong Kong University of Science and Technology**

| Taxonomies

Investors have a role in shaping the development of ESG taxonomies, which provide a common language for sustainable activities and help investors consistently classify the environmental and social impact of their investments. Recent years have seen a proliferation of green taxonomies, however there has been less focus on social attributes.

To address this gap, in May 2022 the European Union’s (“EU”) Expert Group on Sustainable Finance published its Final Report on Social Taxonomy. A clear social taxonomy will help to drive social investment and contribute to inclusive aspects of the transition. While green taxonomies focus on alignment with climate science, a social taxonomy will need to establish and achieve alignment on a determined set of values-based criteria, with objectives in the EU draft focusing on decent work, adequate living standards and wellbeing for end-users, and inclusive and sustainable communities.¹ Unfortunately, delays have meant that we are unlikely to see a final Social Taxonomy released in the EU in the near term. Other jurisdictions such as South Africa have outlined commitments within environmental taxonomies to develop principles and standards that contribute to specific social objectives for subsequent updates.²

In the United Kingdom (“UK”) both investors and banks have also urged the government to develop just transition definitions and priorities to support investment into areas that would benefit workers and communities most exposed to carbon intensive sectors.³ These frameworks will not only draw investment toward social objectives, but allow investors to clearly assess and draw comparisons on the social outcomes attached to their financing.

With each jurisdiction producing their own local taxonomies, investor views on alignment of taxonomies will also be crucial in streamlining objectives across jurisdictions and in securing the private-sector funding that emerging economies will require to achieve development aims.

1. [Platform on Sustainable Finance 2022 - https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/documents/280222-sustainable-finance-platform-finance-report-social-taxonomy.pdf](https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/documents/280222-sustainable-finance-platform-finance-report-social-taxonomy.pdf)
2. [South African Green Finance Taxonomy 2022 - https://sustainablefinanceinitiative.org.za/wp-content/downloads/SA-Green-Finance-Taxonomy-1st-Edition-Final-01-04-2022.pdf](https://sustainablefinanceinitiative.org.za/wp-content/downloads/SA-Green-Finance-Taxonomy-1st-Edition-Final-01-04-2022.pdf)
3. [Azizuddin 2021 - https://www.responsible-investor.com/investors-and-banks-tell-uk-government-to-develop-investment-standards-for-just-transition/](https://www.responsible-investor.com/investors-and-banks-tell-uk-government-to-develop-investment-standards-for-just-transition/)

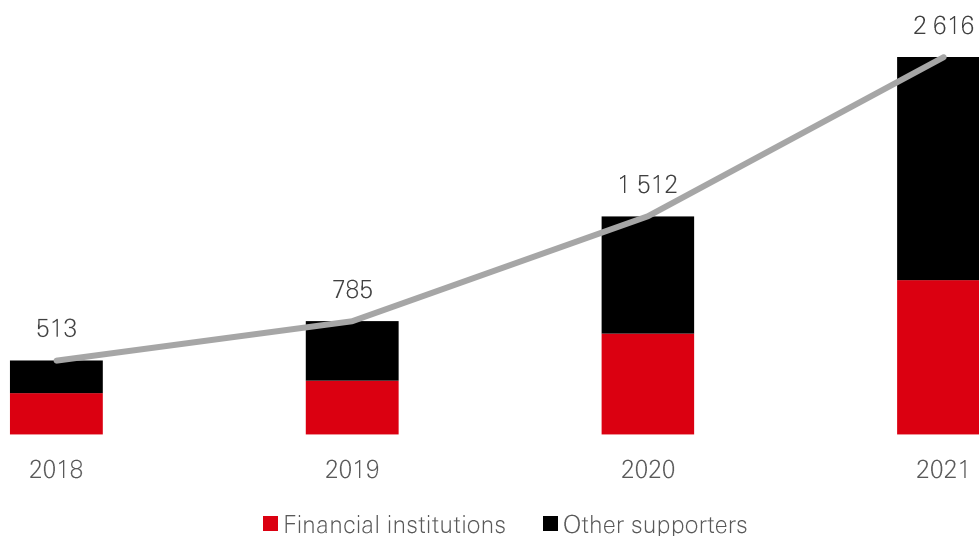
ESG disclosures

Consistent and transparent ESG disclosures allow for improved comparability and understanding of the impacts related to climate change. Investors need to engage directly with both companies and regulators to drive more transparency.

The TCFD for example has seen rapid uptake by regulators globally, including in Hong Kong, Singapore and Europe, with growing awareness of the impacts of climate change. Most recently this has extended to the Securities and Futures Commission in Hong Kong requiring in-scope fund managers to include climate-related risks in their investment and risk management processes, sending ripple effects along the investment chain.

In 2021, the number of organisations that are TCFD supporters grew by over 70 per cent globally compared to the previous year (as shown in Figure 1), yet disclosure quality has yet to improve, with only 13 per cent of supporting companies disclosing the resilience of their strategies under different climate scenarios.¹ By engaging directly with regulators, investors can help shape market standards and drive improvements in climate-related disclosures promoting transparency and accountability.

Figure 1 - Number of TCFD supporters globally from 2018 to 2021



Source: TCFD (2021)

1. TCFD 2021 - https://assets.bbhub.io/company/sites/60/2022/03/GPP_TCFD_Status_Report_2021_Book_v17.pdf

In August 2022, the UNPRI published a just transition disclosure framework for Chinese companies to report on their strategy and action towards a just transition.¹ This paves the way for more structured disclosures of a company's exposure and response to the social impact of their climate transition plan.

Table 1: Overview of UNPRI's just transition disclosure framework, August 2022

1 Acknowledgement and commitment		1.1 Responsibilities of the board of directors
		1.2 Responsibilities of senior management
		1.3 Commitment to a just transition
2 Strategy		2.1 Social impact identification and assessment
		2.2 Social impact management
3 Action	Social dialogue and stakeholder engagement	3.1 Social dialogue and stakeholder engagement
	Workers	3.2 Protection of workers' rights
		3.3 Skills development
		3.4 Green and decent job creation
	Clients/customers	3.5 Provision of resilient, affordable clean energy/green commodities
	Communities and regions	3.6 Support to affected communities and regions
Supply chain	3.7 Support to supply chains	
4 Policy advocacy		4.1 Just transition policy advocacy

The rise of other disclosure frameworks such as the Task Force on Inequality-related Financial Disclosures also provide new frameworks for companies to demonstrate efforts to remain an inclusive business.² Investors will play an integral role in shaping and harmonising these standards.

Policy maker engagement

Through engaging with governments, investors can encourage greater focus on inclusion in relation to the transition, advocate for just transition elements to be considered in national roadmaps and transition strategies at state owned enterprises, and provide a view on the shaping of inclusive transition energy policies.

Globally, state owned companies are responsible for emitting 7.49 GtCO₂e each year. They employ millions of people, and produce more emissions than any other country except China.³ These companies also control half of global power capacity.⁴ Through direct engagement with these companies and responsible government departments, investors can outline the importance of an inclusive transition, with associated risks and opportunities for these state owned companies.

The financial services industry may also engage with governments on opportunities and the structuring of finance related to a just transition, for example when issuing sovereign bonds where proceeds are directed to just transition objectives. Investors may also engage on the need to set up dedicated just transition funds, such as those developed by the EU, which provide a valuable pool of capital to SME's and local communities in their transition objectives.

1. UNPRI 2022 - <https://www.unpri.org/china-policy/investing-for-a-just-transition-proposals-for-a-just-transition-disclosure-framework-in-china/10310.article>
2. TFID 2022 - <https://www.ourenergypolicy.org/resources/greenhouse-gas-emissions-from-state-owned-enterprises-a-preliminary-inventory/>
3. Philippe et Clark 2022 - <https://www.ourenergypolicy.org/resources/greenhouse-gas-emissions-from-state-owned-enterprises-a-preliminary-inventory/>
4. Benoit 2019 - <https://www.energypolicy.columbia.edu/research/report/engaging-state-owned-enterprises-climate-action>

“ The transition to net zero is for and about people.”

Net Zero by 2050, A Roadmap for the Global Energy Sector, International Energy Agency

Climate change is a systemic issue that is interconnected to many other environmental and societal impacts.¹ Physical impacts of climate change have a multitude of knock-on second order effects, from crop failure to food price inflation. For example, in India in 2022, an unusually early heat wave resulted in declines in wheat production, dampening growth.² Uninsurable risks associated with climate change, such as increased prevalence of wildfires may also drive migration and result in certain jurisdictions or cities being stranded.³

Focusing on human impact, our identification of material and salient issues associated with climate transition is based on the “Protect, Respect and Remedy” framework of the UN Guiding Principles on Business and Human Rights (UNGPs), and the ILO’s Guidelines for a Just Transition.^{4,5} This includes the responsibility of businesses to respect human rights and address any adverse impacts that they have involvement in – including how they decarbonise and transition.

The World Benchmarking Alliance’s Just Transition Assessment 2021 provides a helpful reference to assess companies in the oil and gas, electric utilities and automotive sectors across six broad indicators.⁶ Platform on Sustainable Finance’s Final Report on Social Taxonomy also takes a stakeholder-centric approach in establishing a social taxonomy under a set of international norms and principles, within which a just transition is part of.

As a first step, companies should identify stakeholders most impacted as a result of the transition. In this section, we highlight the stakeholder groups whom we believe the climate transition to have material impacts and dependencies, including what companies can do to minimise, mitigate or remedy these impacts. For each stakeholder group, expectations on companies are identified, outlining actions that businesses can take to address these risks and opportunities.

Companies should consider these impacts within their climate and transition strategies, with clear targets, milestones, and regular communication to stakeholders. Specific examples of good practice are elaborated on for each stakeholder group.

1. Chatham House 2021 - <https://www.chathamhouse.org/sites/default/files/2021-09/2021-09-14-climate-change-risk-assessment-quiggin-et-al.pdf>
2. Mukherjee 2022 - <https://www.bloomberg.com/opinion/articles/2022-05-25/india-s-ambition-to-export-wheat-falls-victim-to-climate-change#xj4y7vzkg>
3. Pew 2019 - <https://www.pewtrusts.org/en/research-and-analysis/blogs/stateline/2019/01/03/as-wildfire-risk-increases-home-insurance-is-harder-to-find>
4. ILO 2016 - https://www.ilo.org/global/topics/green-jobs/publications/WCMS_432859/lang-en/index.htm
5. UN 2010 - <https://media.business-humanrights.org/media/documents/files/reports-and-materials/Ruggie-protect-respect-remedy-framework.pdf>
6. World Benchmarking Alliance 2021 - <https://www.worldbenchmarkingalliance.org/research/2021-just-transition-assessment/>



5.1. Workers

Carbon-intensive industries such as fossil fuel extraction and power generation face the highest pressure to decarbonise, whether through the sale of assets, downscaling, early decommissioning or non-renewal of projects, transformation of production processes (e.g. automation) or business models (e.g. shift from high emissions goods). Other impacted sectors include transport, cement, steel, agriculture, forestry, manufacturing and the automotive sector, but the list is not exhaustive. Workers in these industries will be directly and indirectly impacted by the transition and face the prospects of job displacements and redundancies to a greater extent.

On the other hand, industries engaging in climate and green technologies saw a 27 per cent increase in energy transition investment, with renewable energy, battery storage, carbon capture and storage and green hydrogen growing rapidly.¹ These industries will require new skills and qualifications, especially for the more technical roles.

According to the International Energy Agency (“IEA”)², the net zero transition is expected to create 14 million new jobs in clean energy by 2030, while also leading to 5 million job losses in oil, gas and coal fuel supply sectors. Despite the net gain, there is still a huge challenge for the transition to be just and equitable. Job gains do not always occur in the same geography, sector or timeframe as the job losses. Worker skillsets may not be transferable and their mobility across different industries may be limited. Without proper planning, stakeholder engagement and reskilling, there is a high risk that workers in select industries or particular aspects of production will be at risk of losing employment. This will not only lead to conflict among stakeholders, but affect livelihoods, communities and the inclusive development of emerging economies.

Physical climate risks are expected to exacerbate. Chronic effects such as heat waves will be detrimental to the health and safety of outdoor workers. In the United States alone, between 1992 and 2017, heat stress injuries killed 815 U.S. labourers and seriously injured more than 70,000. Losses in earnings are approximated to be \$55.4 billion per year by 2050 and minority communities are set to be impacted the most.³ This has prompted the U.S. government to assess and enforce the development of a heat standard to protect workers and communities from extreme heat.⁴ Companies may be more reluctant to operate in, or source supplies from areas that are prone to extreme weather events, resulting in losses in employment and additional investment in safeguarding and monitoring worker well-being.

1. [Bloomberg Energy Transition Investment Trends 2022 - https://assets.bbhub.io/professional/sites/24/Energy-Transition-Investment-Trends-Exec-Summary-2022.pdf](https://assets.bbhub.io/professional/sites/24/Energy-Transition-Investment-Trends-Exec-Summary-2022.pdf)
2. [IEA 2021 - https://iea.blob.core.windows.net/assets/deebef5d-0c34-4539-9d0c-10b13d840027/NetZeroby2050-ARoadmapfortheGlobalEnergySector_CORR.pdf](https://iea.blob.core.windows.net/assets/deebef5d-0c34-4539-9d0c-10b13d840027/NetZeroby2050-ARoadmapfortheGlobalEnergySector_CORR.pdf)
3. [Baker 2022 - https://time.com/6181785/outdoor-workers-heat-climate-change/](https://time.com/6181785/outdoor-workers-heat-climate-change/)
4. [White House Briefing Room 2021 - https://www.whitehouse.gov/briefing-room/statements-releases/2021/09/20/fact-sheet-biden-administration-mobilizes-to-protect-workers-and-communities-from-extreme-heat/](https://www.whitehouse.gov/briefing-room/statements-releases/2021/09/20/fact-sheet-biden-administration-mobilizes-to-protect-workers-and-communities-from-extreme-heat/)

Case study: Enel – focusing on an inclusive transition

Enel, Italy's national electric utility, was an early mover in ensuring an inclusive transition. In 2019, the company signed the UNSG Summit Pledge Letter¹, which asked companies around the world to commit to a just transition along with the creation of green and decent jobs, while investing in and retraining workers.

The Group's strategy affirms its ambition to "contribute to building a fairer and more inclusive society throughout the entire value chain, protecting the environment in which we live and creating opportunities for the future for the Company and for stakeholders, without leaving anyone behind".

To ensure inclusive perspectives through its programme, the company outlines its just transition strategy, which outlines the following commitments:

1. **Stakeholder engagement:** engaging with diverse groups of stakeholders to increase awareness, develop dialogue and commit to fairness. This includes engagement with workers and union representatives.
2. **Supplier collaboration:** Working with suppliers who respect the standards and commitments set by Enel, including those who commit to the development of communities most affected by the transition.
3. **Advocacy:** Public policy engagement to safeguard competitiveness and employment, including participation in sectoral dialogue committees.

The company is also noted for their 'Futur-e' programme which was a world first in repurposing and requalifying industrial areas based on principles of a circular economy. The company's approach is to deploy Futur-e for the other 40+ sites it will repurpose as part of its climate transition. Principles of the strategy include integrating site personnel to avoid redundancies and loss of expertise, maximising the reuse of divested structures, collaboration with local communities and in guaranteeing protection of the environment.

Enel's dedicated training programmes also focus on developing and maintaining expertise within their workforce, this includes:

- ◆ redeployment and upskilling, or reskilling of people working in coal-fired power generation plants;
- ◆ voluntary early retirement plans; and
- ◆ upskilling/reskilling programs to acquire new skills and support generational mixing and knowledge sharing.

As testament to the company's strategy, in 2021, approximately 55 per cent of people who left coal-fired plants were redeployed throughout the business. Enel provides an example of how considering just transition aspects can allow for inclusive and strategic growth as a business, and provides a guiding model for good practices for companies across Asia.

The information provided is for informational purposes only and should not be construed as a recommendation or solicitation for any security. The views expressed were held at the time of preparation and are subject to change without notice.

1. <https://d3306pr3pise04h.cloudfront.net/docs/publications%2FJust-Transition-Pledge.pdf>

The importance of proactive mediation

The just transition is likely to see increasing tension between business, labour unions and the local community. Conflict that may arise has the potential to delay or even derail aspects of the transition.

Direct engagement between stakeholders may be limited in addressing certain grievances, with stakeholders seen as being biased towards their own objectives. An impartial and effective mediation process through a third party will help to ensure that stakeholders feel heard, while allowing for prompt solutions and compensation to be determined. Mediation may also help to avoid the need for litigation and prevent further reputational risks and impacts to the company.¹

It is therefore necessary for businesses to understand and identify the opportunities for proactive mediation within their transition plans. This acts as a pre-emptive measure to reduce impacts, maintain community cohesion and prevent broader disruption at a later date.

1.

Country case study: Indonesia

As the third largest coal producer in the world behind China and India, and the largest global coal exporter, Indonesia is expected to only see a small decrease in production from 576 million tonnes (Mt)³, to 570Mt by 2024, according to the IEA. The country saw an average GDP growth rate of around five per cent between 2015-2019 and is targeting GDP growth of 5.6-6.2 per cent in 2024.

In 2021, Indonesia updated its Nationally Determined Contribution (NDC), and published its Long-Term Strategy for Low-Carbon and Climate Resilience 2050² (LTS-LCCR 2050), indicating a possible net zero target year of 2060 or sooner. Under the more ambitious low carbon scenario in this strategy, GHG emissions will peak in 2030 and coal will still contribute to 58 per cent of the country's power mix in 2030 and 38 per cent by 2050.

Against this backdrop, Indonesia acknowledges in its LTS-LCCR 2050 that "effective and inclusive transition to low greenhouse gas emission and climate resilient development requires just transition of the workforce, creation of decent work and quality jobs, address the needs of gender equality and justice, intergeneration and vulnerable groups". The country has divided its just transition plan into two phases: pre-2030 and post-2030 (covering 2030 to 2050), and has identified four key interventions for the first phase:

1. Address challenges to ensure a decent future for workers affected by the transition
2. Promote low GHG and sustainable economic activities that will create quality jobs
3. Improve workforce capacity to increase access to decent work and quality jobs, whilst accounting for gender, intergenerational, and vulnerable groups
4. Enhance participatory public dialogue

A number of challenges have been identified by the Dala Institute, an Indonesian research and consulting organisation, as part of the South to South Just Transition Initiative⁴:

- ◆ Lack of unionisation and inclusion of the ILO's just transition guidelines for informal workers, leading to insufficient and inadequate social protection
- ◆ More than 60 per cent of Indonesia's labour market comprises of informal workers, typically unregistered, undocumented and unregulated, increasing their vulnerability to exploitation
- ◆ Complex and ambiguous land ownership regulations leading to insecure tenure, conflicts and inability to access financial support for vulnerable groups, exacerbating existing socio-economic issues
- ◆ Impacted groups' lack of awareness and understanding of climate change and just transition issues, and potentially missing out on available support
- ◆ More coordination needed across sectors and across government to improve transition planning

1. [Indonesia Long-Term Strategy for Low Carbon and Climate Resilience 2050 \(2021\)](https://unfccc.int/sites/default/files/resource/Indonesia_LTS-LCCR_2021.pdf) - https://unfccc.int/sites/default/files/resource/Indonesia_LTS-LCCR_2021.pdf

2. [IEA Coal 2021](https://iea.blob.core.windows.net/assets/f1d724d4-a753-4336-9f6e-64679fa23bbf/Coal2021.pdf) - <https://iea.blob.core.windows.net/assets/f1d724d4-a753-4336-9f6e-64679fa23bbf/Coal2021.pdf>

3. [Atteridge, A. S. et al \(2022\). Exploring Just Transition in the Global South. Climate Strategies](https://climatestrategies.org/wp-content/uploads/2022/05/Exploring-Just-Transition-in-the-Global-South_FINAL.pdf) - https://climatestrategies.org/wp-content/uploads/2022/05/Exploring-Just-Transition-in-the-Global-South_FINAL.pdf

In November 2021, Indonesia's government announced that as of 2031 it will begin the decommissioning of its coal fired power plants while reducing use of diesel generation capacity. The ILO estimates that closure of all coal mines in Indonesia would result in wages dropping by US\$ 6.1 billion, with national GDP decreasing 4.5 per cent compared to a 2016 baseline.¹ With 1.4 million people employed in mining and quarrying, this will have significant spillover economic, development and social impacts if this decommissioning is without reskilling and employment in new industries.

HSBC Asset Management has been engaging with Indonesian coal miners for a number of years to identify their climate transition and coal diversification plans, which would enable us to assess our potential transition risk exposure over the medium to long term. We have been engaging them to provide greater transparency into their transition plans, and include targets and commitments where relevant. A number of these coal miners have been developing initiatives to diversify from thermal coal and reduce their operational emissions in the medium term, including diversification into renewable energy, transition minerals mining, engineering, construction, logistics and fuel storage services. In this context, we expect just transition principles to be integral as these changes in revenue streams and business models will have tangible impacts on workers and communities.

Expectations on companies

- ◆ Early engagement and communication with workers and external stakeholders such as unions, local governments and business partners on their needs and considerations in the transition, to allow time for planning. Engagements should consider the diversity and inclusivity of perspectives across gender and ethnicity.
- ◆ Consider the role of pre-emptive mediation in addressing stakeholder grievances and the need to incorporate mediation procedures within just transition plans.
- ◆ Develop and provide transparency into the company's transition strategy, roadmap and timeline, including voluntary redundancy programs.
- ◆ Identify jobs that will be lost, non-replaced or transformed. Identify skill gaps arising from the company's transition.
- ◆ Upskilling and reskilling of impacted workers to support their transition to an expanded or new position.
- ◆ Ongoing training and development for all workers to improve adaptability and employability.
- ◆ Dedicated funds or increased operational expenses where such is required, for voluntary retirement schemes and retraining of workers.
- ◆ Ensure recruitment and hiring practices are inclusive, fair and supportive of local communities and market nuances.
- ◆ Increased protections and investments (where needed) to outdoor workers who are exposed to higher risks of extreme weather and temperatures.
- ◆ Include societal impact metrics and costs in strategic decisions.

1. ILO 2022 - https://www.ilo.org/wcmsp5/groups/public/--asia/--ro-bangkok/documents/publication/wcms_845700.pdf

The information provided is for informational purposes only and should not be construed as a recommendation or solicitation for any security. The views expressed were held at the time of preparation and are subject to change without notice.



5.2. Consumers

Businesses will need to pay due consideration to the products and services that further objectives of the transition, with an aim to ensure inclusive and equitable access.

One of the biggest challenges for many economies is addressing the need for increasing energy demand in consideration of net zero commitments. According to the World Economic Forum, 759 million people around the world still lack access to electricity, with the economic toll from Covid-19 making access unaffordable to an additional 25 million people.¹

The recent Russia-Ukraine conflict has plunged a further 71 million people into poverty due to soaring energy and food costs, doubling the price of electricity in the United Kingdom and United States.² The crisis has further highlighted global vulnerabilities to fossil fuel and deepening energy inequalities.

While there has been a reliance on thermal coal to generate electricity, which is still relatively cheap for many emerging economies, achieving the objectives of the Paris Agreement will rely on sustainable and scalable clean energy solutions that remain accessible and affordable.

To support national priorities and decarbonise power grids, power companies have relied on feed-in tariffs, demand-side energy reduction measures and smart grids to achieve their objectives, while also aiming to deliver a stable and reliable power supply. Companies must be mindful of affordability, while remaining inclusive in their product strategies, acting in consideration of community and customer needs as detailed in the example below from California, which is applicable to other jurisdictions and countries as well.

A just transition must cut across income and address historical disparities

In California, high initial costs associated with retrofitting housing and installing solar panels have excluded certain communities from the significant cost savings provided by the state's feed-in tariff mechanism. This has resulted in low-income communities paying higher energy costs, while deepening inequalities – California faces one of the highest poverty rates in the United States and one of the highest wealth gaps.³ These issues have been exacerbated with electricity prices increasing 12 per cent in 2021.⁴

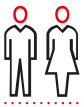
Research also shows that Black and Hispanic Americans face greater externalities from fossil fuel use, being exposed to higher levels of air pollution, regardless of income levels.⁵ This has contributed to energy equity being noted by the NAACP's Environmental and Climate Justice programme as another social justice challenges to be addressed, with the benefits of clean energy raised as providing affordability and energy equity to these communities.

Costs do not remain the only barrier to the transition. Controlling for income and even home ownership, studies have shown that Black and Hispanic populations have installed fewer solar rooftops than neighbourhoods with no clear ethnic majority, with these communities missing out on costs savings.⁶ This raises the need for corporations to address underlying disparities for a transition to be truly inclusive, whether considering the need for greater diversity in the power sector or need for proactive and inclusive marketing measures, beyond a focus on income alone.

1. Beh 2021 - <https://www.weforum.org/agenda/2021/06/covid-19-crisis-makes-electricity-too-costly-for-millions-in-africa-asia/>
2. Uddin 2022 - <https://www.aljazeera.com/news/2022/7/7/inflation-pushed-71m-people-into-poverty-since-ukraine-war-undp>, Hui 2022 - <https://apnews.com/article/inflation-boris-johnson-london-prices-261588f042ffe5cfeac3ea8e1db0f637>
3. Keith 2021 - <https://www.businessinsider.com/california-has-highest-poverty-level-in-the-us-census-bureau-2021-9>
4. Bryce 2022 - <https://www.newsweek.com/california-impooverishing-its-low-income-residents-electricity-prices-opinion-1703954>
5. Hsu 2019 - <https://www.scientificamerican.com/article/solar-powers-benefits-dont-shine-equally-on-everyone/>
6. Sunter et al 2019 - <https://www.nature.com/articles/s41893-018-0204-z>

Expectations on companies

- ◆ Conduct educational sessions with customers to raise awareness of climate change and just transition issues, with the aim to improve buy-in, and incentivise behavioural change to align with net zero transition initiatives.
- ◆ Consider the importance of diversity within the business and the need for bespoke and inclusive products, services and marketing strategies in relation to the company's transition initiatives.
- ◆ Ensure early and transparent communication to consumers on potential impacts of the transition, and benefits and cost savings from related programmes or products on offer.
- ◆ Engage with policymakers and regulators to establish measures on energy access and affordability, prioritising the most vulnerable groups.



5.3. Communities and rights holders

“ Just transition will only be achieved by engaging with affected communities and setting up meaningful dialogues that lead to consensus.”

Elise Groulx Diggs, international human rights lawyer and mediator

Local communities that are dependent on carbon-intensive industries, such as coal mining, oil and gas extraction, or power generation, will be impacted by significant job losses when these mines or plants are decommissioned. This could affect livelihoods, increase poverty, affect the viability of local communities and have knock on impacts on other parts of the local economy. This may drive emigration and place stress on public budgets. This will be of particular concern to communities that have been singularly reliant on such carbon intensive industries and may not have taken sufficient action to diversify and grow other economic sectors.

Communities located near mineral resources that have high demands from the energy transition stand to benefit from more job opportunities, investment in local infrastructure and increased flow of socio-economic benefits. Companies should, however, also be mindful of any negative impacts, for example the destruction of cultural heritage sites or environments that local people depend upon for agriculture and tourism.¹

Indigenous communities will be more vulnerable to the effects of the just transition. In Canada for example, indigenous people make up 3.3 per cent of total Canadian employment, but represent up to 7.4 per cent of the workforce in the energy sector, twice the national average.² In 2019 alone, the oil sands industry spent CA\$ 2.4 billion procuring from indigenous businesses.³ These communities risk being stranded as a result of the transition, exacerbated by historic inequalities. For a transition to be inclusive, the needs of these communities must be considered with proactive engagement by both government and the private sector.

1. NRDC 2022 - <https://www.nrdc.org/stories/lithium-mining-leaving-chiles-indigenous-communities-high-and-dry-literally>, Reuters 2022 - <https://www.reuters.com/world/americas/chiles-atacama-lithium-mining-stirs-fight-over-flamingos-2022-05-19/>
 2. CAPP 2021 - <https://www.capp.ca/news-releases/canadas-oil-and-natural-gas-industry-plays-key-role-in-indigenous-prosperity/>
 3. CAPP 2022 - <https://www.capp.ca/explore/indigenous-relations/>

Case study: impact of lithium mining on communities in South America¹

Chile is the world's second largest lithium producer, with reserves concentrated in the salt flats.² Here, lithium is mainly extracted by evaporating brine pumped from saline aquifers below the surface. Studies estimate 2,200 litres of water is lost per kilogram of lithium, but this estimate can be as high as 2 million litres.

As the demand for electrification grows as part of the transition, this will have trickle-down impacts through the value chain.

As a key component in battery production, global lithium demand is estimated to increase six-fold between 2019 and 2030, with 80 per cent of this demand to come from electric vehicles. This raises concerns of egregious impact on the local environment and for indigenous communities such as:

1. Concerns that the depletion of brine will draw fresh water into brine aquifers, reducing freshwater availability for human consumption, agriculture and pastoral practices. Whilst current hydrological research and models remain inconclusive (in part due to insufficient transparency from mining companies' own research), this is a growing concern amongst indigenous communities.
2. Tourism is one of the highest sources of income and employment in the Atacama region. Research has shown negative impacts of lithium mining on local wildlife such as flamingo populations, upon which tourism in the region heavily depends.³

With over 30 per cent of the Chilean indigenous community living in poverty, compared to a national average of 20 per cent, any expansion of extraction and infrastructure projects have the potential to further displace and impact the territorial rights of this community.

Across South East Asia, as demand for biofuel grows, expansion of palm oil has also impacted the lives of indigenous peoples, while large-scale renewable energy projects, such as hydropower have displaced communities. The 9th Southeast Asia Conference on Business and Human Rights called for greater indigenous collaboration for just and inclusive development of renewables. They also called for the engagement of indigenous and ethnic women in such projects for greater buy-in and sustainability of these initiatives.⁴ With indigenous communities comprising 15 per cent of the world's extreme poor, business engagement with these communities will be crucial in fostering inclusive and sustainable growth in harmony with community empowerment.⁵

1. NDRC 2022 - <https://www.nrdc.org/sites/default/files/exhausted-lithium-mining-south-america-report.pdf>
 2. Forbes 2020 - <https://www.forbes.com/sites/rpapier/2020/12/13/the-worlds-top-lithium-producers/?sh=3aa169145bc6>
 3. Gutierrez et al 2022 - <https://royalsocietypublishing.org/doi/10.1098/rspb.2021.2388>
 4. Aung 2020 - <https://www.sei.org/perspectives/a-just-transition-to-renewables-must-recognize-the-rights-of-indigenous-peoples/>
 5. Hall Et Gandolfo 20106 - <https://blogs.worldbank.org/voices/poverty-and-exclusion-among-indigenous-peoples-global-evidence>

The phenomenon of stranded cities

The transition poses significant risks to the economic and social viability of many cities whose economies have been centred on extraction or power generation.

Reported in Caixin¹, Hegang in China, boomed during 2003 to 2012, with coal mining dominating its economy. In 2008, the industry contributed 65 per cent to the city's fiscal revenue. However, the industry entered a downturn in 2012 with GDP falling by 9.5 per cent.

There is a pressing need for such cities whose economies are resource-dependant to diversify, with long term and systemic consequences to those that fail to do so. Hegang city has since been forced to impose large cuts in public spending, with its fiscal situation reaching crisis levels. This has been exacerbated by migration of its workforce and an ageing population, with census data showing the working age population dropping from 74.6 per cent to 67 per cent, while the proportion of those aged 60 increasing by two thirds to 24 per cent. This has placed additional burden on the city's pension and social welfare programmes.

There are 69 other cities in China facing the same crisis, where 70 per cent of reserves have been extracted or which will be exhausted in five years. The National Development and Reform Commission (NDRC) has urged provincial governments to formulate plans to diversify and transform their local economies, of which aspects of the transition should remain core.

Stranded cities will introduce new complexity and pose challenges that businesses will need to navigate. Addressing these issues starts with assessing exposure to these cities, identifying opportunities for reskilling employees, diversification of operations and support for local governments in their ambitions.

1. Cheng et Zang 2022 - <https://asia.nikkei.com/Spotlight/Caixin/In-depth-Coal-once-a-boon-turns-Chinese-rustbelt-city-into-a-bust>



Expectations on companies

- ◆ Proactive engagement with community organisations and local businesses to build resilience and identify opportunities for diversification.
- ◆ Use of local and indigenous suppliers wherever possible to support local economies. Greater engagement with these communities, including providing new employment opportunities and skills development.
- ◆ Consider direct investments in local community and education initiatives.
- ◆ Assess the need for pre-emptive mediation and impartial conflict resolution to promote community cohesion.
- ◆ Build early engagement with local authorities and governments on community well-being, raising issues of concern.
- ◆ Outline and communicate benefits to local communities as a result of the company's transition plan, including detailing local community investment and skills development strategies.
- ◆ Understand and assess operational or business exposure to communities that are singularly reliant on a carbon intensive sector or input.
- ◆ Obtain and respect free, prior and informed consent from indigenous communities for potentially intrusive activities (e.g. mining). Consult and incorporate indigenous knowledge. Maintain an open channel to share information.
- ◆ Appoint independent consultants to conduct thorough social impact assessments (e.g. of mining activities) on indigenous and local communities.
- ◆ Ongoing engagement and establish a reliable, accessible and transparent grievance mechanism available in local languages.



5.4. Women and girls

Gender equality should be central to the transition. Women are disproportionately affected by climate change as a result of socio-economic structures and societal norms, being more likely to die in a climate disaster or be displaced.¹ The UN Environment Programme estimates that 80 per cent of those displaced from climate change are women.²

The transition will also impact women in many indirect manners. For example, when men lose employment in high paid mining jobs, women are faced with increased domestic responsibilities, intra household tension, and the need to find additional work to supplement loss of income.³

Women are also over-represented in the lowest paid and informal jobs which are at greater risk from climate variability and climate shocks. Over 60 per cent of all working women in South East Asia and Sub-Saharan Africa are employed in agricultural sectors and are more exposed to the loss of livelihoods and income deterioration as a result of climate change.⁴ A lack of access to clean energy also results in communities resorting to traditional biofuels for cooking and heating that disproportionately expose women to pollutants and the risk of pneumonia and certain cancers.⁵

1. [UNDP 2016 - https://www.undp.org/sites/g/files/zskgke326/files/publications/Gender_Climate_Change_Training%20Module%202%20Adaptation%20DRR.pdf](https://www.undp.org/sites/g/files/zskgke326/files/publications/Gender_Climate_Change_Training%20Module%202%20Adaptation%20DRR.pdf)

2. [UN 2018 - https://news.un.org/en/story/2022/03/1115272](https://news.un.org/en/story/2022/03/1115272)

3. [Cunningham and Schmillen 2021 - https://openknowledge.worldbank.org/handle/10986/35617](https://openknowledge.worldbank.org/handle/10986/35617)

4. [ILO 2019 - https://www.ilo.org/wcmsp5/groups/public/---ed_dialogue/---sector/documents/publication/wcms_601071.pdf](https://www.ilo.org/wcmsp5/groups/public/---ed_dialogue/---sector/documents/publication/wcms_601071.pdf)

5. [Gordon et Bruce 2014 - https://www.researchgate.net/publication/265296175_Respiratory_risks_from_household_air_pollution_in_low_and_middle_income_countries](https://www.researchgate.net/publication/265296175_Respiratory_risks_from_household_air_pollution_in_low_and_middle_income_countries)

The energy transition provides an opportunity to address these historic and cultural barriers. While women comprise 22 per cent of jobs in the energy sector, within renewable energy companies this is higher at 32 per cent and as high as 40 per cent when considering millennial representation.¹ Companies actively considering gender dimensions in their transition initiatives will see greater equity within their operations, while contributing to the development of talent and skillsets locally.

Research also continues to show that gender inclusive companies are more resilient and outperform in times of crisis.²

Women, under-represented in mining and extraction sectors may also be excluded from remediation and reskilling initiatives. An example featured by the World Bank refers to mine closures in Poland, where social welfare packages were initially offered to underground workers who were only men, negating women who were surface workers who had also lost their jobs.³ Following stakeholder engagement, the package was extended to women. Climate strategies must therefore consider perspectives and viewpoints across gender in their development, so as to consider the unique needs or issues of all stakeholders.

Expectations on companies

- ◆ In stakeholder engagements, proactively ensure the consideration of diverse perspectives, including across gender, in the creation of any ESG climate strategies. This will allow for a better understanding of unique stakeholder challenges and concerns so that they may be addressed accordingly.
- ◆ Consider opportunities for inclusion across gender and ethnicity in the issuance of any green or sustainable financing in relation to the company's sustainability or climate strategy. Refer to guidance such as that developed by the ASEAN Low Carbon Energy Programme and Gender Smart's "Integrating Gender Considerations into Sustainable Bonds"⁴.



5.5. Supply chains and business partners

As carbon intensive industries diminish over time in the transition, the impact on workers and communities as highlighted above will also be felt throughout supply chains. Diversified suppliers, or those with a global footprint or are significant in size and scale, are more likely to be able to weather the transition. On the other hand, small and medium sized enterprises (SMEs) are less likely to be diversified, have less access to finance, are usually less well-resourced, and more likely to see margin shrinkage as high-carbon customers cut costs. As such, SMEs that depend on a carbon intensive industry, whether as an upstream supplier or a local business partner, are particularly exposed to transition impacts. Further, despite collectively making up more than 96 per cent of all Asian businesses, individual SMEs have far less leverage and influence over structural changes, and more likely to be left behind. A successful transition must also account for this important group.⁵

1. IEA 2022 - <https://www.iea.org/commentaries/gender-diversity-in-energy-what-we-know-and-what-we-dont-know>
 2. Jamie et Al 2022 - <https://hbr.org/2022/07/we-cant-fight-climate-change-without-fighting-for-gender-equity>
 3. ILO 2022 - https://www.ilo.org/wcmsp5/groups/public/---asia/---ro-bangkok/documents/publication/wcms_845700.pdf
 4. IISD 2021 - <https://www.iisd.org/system/files/2021-10/gender-considerations-green-bonds.pdf>
 5. ADB 2018 - <https://www.adb.org/publications/role-smes-asia-and-their-difficulties-accessing-finance>

The role of supply chain and trade finance to support SMEs¹

Research conducted by HSBC and BCG estimates that SMEs will need between US\$ 25 to 50 trillion of investments between 2020 and 2050 to achieve net zero across global supply chains. Yet they also found that the “vast majority of SMEs surveyed did not have a plan to transition to net zero, and less than one-sixth had a defined carbon reduction target for their businesses”. Being smaller and carrying higher credit risk, SMEs do not enjoy the same access to cheaper capital as large corporates do. The high degree of fragmentation of SMEs also makes it more challenging to achieve net zero rapidly and consistently.

This is where banks can get involved to support SMEs, including facilitating syndicated lending, providing transition-focused funds, and partnering with corporates to develop sustainable supply chain finance programmes. For example, as part of Walmart’s Project Gigaton to reduce or avoid one gigaton of GHG emissions from its global supply chain by 2030, the company has set sustainability targets for its suppliers and partnered with HSBC to link these to the suppliers’ financing rates. In Hong Kong, HSBC has provided working capital and trade financing to a garment and apparel company with “pricing tied to its performance in greenhouse gas emissions intensity” amongst other sustainability metrics.²

But it is not only financial investments that SMEs need. A survey conducted by HSBC and BCG found that knowledge and resource gaps, lack of incentives, complex and ambiguous market requirements, and executive mind set shifts are cited as some of the key challenges for SMEs in the net zero transition. Rather than simply setting targets and demanding change, or simply passing the buck of the transition to suppliers, large corporates will need to collaborate with their suppliers. In order to improve their supply chain resilience and reduce value chain emissions, they will need to share know-how, proactively engage, and help to build capabilities such as training workshops in SMEs.

Sustainable supply chain finance is still a rapidly evolving area. Common definitions and robust data are the vital backbone for these innovative initiatives to minimise actual or perceived greenwashing risks.

At the other end of the transition, as demand for green energy increases exponentially, so does demand for transition minerals and materials such as lithium, nickel, cobalt, graphite and polysilicon. Apart from managing just transition risks that they are directly exposed to, companies also need to consider potential negative impacts on people in their supply chains. For example, labour controversies in many of these supply chains are not new – forced labour and child labour in artisanal cobalt mines in the Democratic Republic of Congo (DRC) remain an issue. Growing demand for cobalt may only exacerbate these conditions, particularly where there is limited human rights due diligence and supply chain engagement. It is estimated that out of the 250,000 Congolese mining for cobalt, 40,000 are children.³ Companies will need to ensure that rapid growth is not met at the expense of basic and universal human rights.

Companies are already facing increasing regulatory requirements to conduct human rights due diligence in their supply chains. Examples include the proposed Corporate Sustainability Due Diligence Directive in the EU and the Uyghur Forced Labour Prevention Act in the U.S. These regulatory requirements are expected to increase going forward. Multi-stakeholder platforms such as Fair Cobalt Alliance aim to spur collective action to address some of these systemic issues.

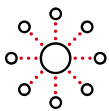
1. HSBC 2021 - <https://www.hsbc.com/insight/topics/seven-steps-to-tackle-a-usd50-trillion-challenge>

2. HSBC 2022 - <https://www.gbm.hsbc.com/en-gb/feed/sustainability/supporting-asia-pacific-corporates-in-the-quest-for-sustainable-supply-chains>

3. Melville 2020 - <https://bylinetimes.com/2020/06/19/from-stone-to-phone-modern-day-cobalt-slavery-in-congo/>

Expectations on companies

- ◆ Assess social impacts posed across the company's value chain as a result of the transition. Engage with these entities on strategies to address issues of concern.
- ◆ Work with SMEs, share know-how and help to build capabilities.
- ◆ Identify risks from disruption arising from the transition to the company's raw materials and resource inputs.
- ◆ Commit to enhanced human rights due diligence and engagement in high risk supply chains, including means of remediation. Conduct periodic supplier due diligence assessments and audits using recognised frameworks (e.g. OECD Due Diligence Guidance¹).
- ◆ Consider collective action and engagement to improve supply chain management, particularly where the company relies on resources from high risk sectors or geographies.
- ◆ Establish director duties and accountabilities to oversee the integration of supply chain due diligence.



5.6. Migrants and refugees

Climate projections forecast unliveable regions of the world to increase from approximately one per cent of the world currently, to approximately 19 per cent by 2070, affecting billions of people currently living in these areas across sub-Saharan Africa, South and Southeast Asia.²

Reasons for migration relate to food security, reduced agricultural productivity affecting livelihoods, and displacement from rising sea levels. The World Bank projects that South Asia will have the highest prevalence of food insecurity, with GDP falling between 2.6 and 8.9 per cent across the region by mid-century compared to 2015 as a result. Cereal yields are projected to decrease as much as 16.4 per cent and 10.7 per cent in Bangladesh and Pakistan.³

The displacement associated with climate change is current. According to the Internal Displacement Monitoring Centre; in 2021, 23.7 million people (almost 60 per cent of all displaced persons) were displaced as a result of weather-related challenges stemming from extreme temperatures, floods and storms.⁴

As countries in the Global North face demographic challenges such as ageing populations, migration poses new opportunities that may fuel growth, but they also face the possibility of anti-immigrant sentiment, populist movements and the election of nationalist governments. This will have implications for the transition.

Businesses will also be exposed to new challenges and opportunities as a result of demographic changes and migration. Such challenges may affect demands for goods and services, cause a shift in the availability of skillsets and size of the labour pool, and increase pressure on companies to respond to rapidly evolving consumer segments. In extreme cases, it may involve assessing the continuity of operations in a city that is in economic decline due to migration of working age populations, which in turn place stress on public finance and pensions.

Migration will impact all sectors, affecting businesses to varying degrees, but we expect labour-intensive sectors such as agriculture, construction and manufacturing to be affected the most.

1. OECD - <http://mneguidelines.oecd.org/mining.htm>

2. Fleming 2019 - <https://www.weforum.org/agenda/2020/05/temperature-climate-change-greenhouse-gas-niche-emissions-hot/>

3. Yen et Alvi 2022 - <https://www.emerald.com/insight/content/doi/10.1108/IJCCSM-10-2021-0113/full/html>

4. Internal Displacement Monitoring Centre 2022 - https://www.internal-displacement.org/sites/default/files/publications/documents/IDMC_GRID_2022_LR.pdf

Case study: Corporate refugee integration programme

Europe continues to face low birth rates and an ageing population, with working age demographics in Germany set to drop by as much 30 per cent by 2060.¹ This poses a risk to economic growth and productivity while stressing social welfare and pension schemes.

Migration provides an opportunity for businesses to address labour shortages. Support may extend to sponsorship of language and skills programmes and costs associated with any skills certification. These initiatives will facilitate employment, either directly within the company or its broader value chain. Companies who are at the forefront of providing such opportunities will have a critical role in facilitating direct integration, providing opportunities for employment through traditional channels instead of specialised government programmes.

The Tent Partnership for Refugees was formed in 2016 to involve the business community in refugee engagement and inclusion. As of 2020, Tent's members had pledged to hire approximately 40,000 refugees and support 5,000 entrepreneurs.² This includes a notable commitment from Starbucks to hire 10,000 refugees across its operations, globally. While the company faced some backlash for this commitment when announced, in 2021 the company had hired approximately 3,000 people who self-identified as refugees.

In addition to Starbucks, other examples from Daimler and the Hilton group demonstrate how, through greater engagement and in identifying new employment opportunities across its operations or value chain, a company may address labour shortages, building brand equity and its social license to operate. Integration and hiring objectives must also consider local community needs or this poses additional reputational risks to the company.

Expectations on companies

- ◆ Assess risk and opportunities to the business from migration, considering risk to operations, lines of business, value chain or even continuity of the company's business model in extreme cases.
- ◆ Identify the human capital requirements and needs within the organisation and assess similar needs among major partners within its value chain.
- ◆ Identify new opportunities to reskill and incorporate migrants within the business and among value chain partners.
- ◆ Consider (where there is the need for government assistance) the need for dedicated funds and programmes for integration. This may be for specific qualifications or in relation to language.
- ◆ Identify opportunities to engage with government and other stakeholders on challenges and opportunities posed by migration.

1. Eurostat 2020 - https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Ageing_Europe_-_statistics_on_population_developments#:~:text=The%20population%20of%20older%20people,reach%20129.8%20million%20by%202050.

2. Deman & Brandenburg 2022 - <https://apcoworldwide.com/blog/impact-multiplying-partnership-spotlight-tent/>



5.7. The future generation

An inclusive climate transition is fundamental to ensuring that our future generations survive and thrive in harmony with the limited resources of this planet. It is imperative that we do not avoid or delay decarbonisation because the negative impacts on our communities will affect development and prosperity for years to come. As highlighted by the Stockholm Environment Institute, delaying decarbonisation is fundamentally unjust.¹

The core tenet of sustainable development is to ensure that future generations can meet their own needs, a concept that became popularised by the Brundtland Report in 1987.² When all UN member states adopted the 2030 Agenda for Sustainable Development in 2015, people and planet were two of the key pillars of a global action plan represented by the UN Sustainable Development Goals (SDGs)³:



People

To ensure that all human beings can fulfil their potential in dignity, equality and in a healthy environment.



Planet

To protect the planet from degradation, including through sustainable consumption and production, sustainably managing its natural resources and taking urgent action on climate change, so that it can support the needs of the present and future generations.

We believe that the climate transition, if done in a way that protects and improves the wellbeing of people and the environment, presents significant opportunities to contribute to the SDGs and their underlying targets. For example, by 2030, SDG 7.1 aims for universal access to affordable, reliable and modern energy services; SDG 8.5 aims to achieve full and productive employment and decent work for all women and men; SDG 8.8 aims to protect labour rights and promote safe and secure working environments for all workers.

Future generations can often be forgotten when companies hold short-termist worldviews and make decisions based on this. To be inclusive of future generations in corporate strategies, investment planning and decision making, companies need to be disciplined and make conscious efforts to take a holistic and systemic approach. In this respect, the UN SDGs provide a targeted and consistent framework for companies to contribute to sustainable development as they embark on a just transition.

1. [Stockholm Environment Institute \(2020\)](https://www.sei.org/publications/seven-principles-to-realize-a-just-transition-to-a-low-carbon-economy/) - <https://www.sei.org/publications/seven-principles-to-realize-a-just-transition-to-a-low-carbon-economy/>
 2. [Brundtland 1987](https://sustainabledevelopment.un.org/content/documents/5987our-common-future.pdf) - <https://sustainabledevelopment.un.org/content/documents/5987our-common-future.pdf>
 3. <https://sdgs.un.org/2030agenda> - <https://sdgs.un.org/2030agenda>







Just transition and the SDGs

The UN has convened Technical Working Groups (TWGs) to accelerate the energy transition, one of which has been focusing on how a just transition can support and enable the SDGs. The TWG published eight recommendations in 2021 for companies to consider when developing just transition strategies¹: Integrate achievement of the SDGs as a guiding framework into the planning and implementation of their own transition pathways towards clean and sustainable energy.

1. Implement a sustainable energy transition strategy with social equity and inclusiveness at its centre to enable the SDGs.
2. Integrate access to affordable, reliable, sustainable, and modern energy, including access to electricity and clean cooking, as the central pillar of inclusive, just, energy-transition strategies.
3. Accelerate the integration of gender equity into energy transition pathways.
4. Enable transformational change by promoting systemic approaches in the energy transition to achieving the SDGs and the climate goals, while ensuring energy security.
5. Track progress and integrate an Energy for SDG Impact Framework into energy transition strategies.
6. Strengthen multi-stakeholder partnerships to leverage the transformational potential of energy for enabling the SDGs.
7. Ensure that the energy transition pathways are sustainably designed and implemented to enhance synergies and reduce trade-offs with other SDGs.

The UN report has also proposed examples of indicators for each of the 17 SDGs relevant to a just transition, as shown in Figure 2 below. As companies implement and report on their just transition, we also encourage them to conduct their own identification and evaluation against the relevant SDG targets and indicators.

Figure 2 - Examples of SDG indicators of a just transition

SDG	Indicators	SDG	Indicators
	<ul style="list-style-type: none"> Percentage of low-income households spending more than or equal to five per cent of their household expenditure to meet all of their energy demands (by region, gender of head of household, and indigenous populations) Percentage increase in income of marginalised communities due to access to electricity for productive uses (including rural farmers, artisans) 		<ul style="list-style-type: none"> Percentage in increase in productivity from improvements in energy efficiency Amount (US\$) spent on R&DD programmes for rural/ urban infrastructure and agriculture, based on international collaboration
	<ul style="list-style-type: none"> Share (%) of women employed in the energy value chain for technical jobs related to renewable energy, energy efficiency, and energy access Share (%) of women in senior positions in relevant ministries, national energy agencies, and programmes 		<ul style="list-style-type: none"> Percentage of people with disabilities employed by the energy industry in vocational or technical roles Increase in funding (%) to support sustainable energy deployment in small island developing states, least-developed countries, and Indigenous people's needs
	<ul style="list-style-type: none"> Percentage of fossil fuel-sector employees reskilled for employment in sustainable energy (disaggregated by gender) Increase (%) in finance available for women-led energy businesses, disaggregated by geographic area, educational level 		<ul style="list-style-type: none"> Percentage of displaced people and affected communities with access to sustainable energy (disaggregated by energy end-use, gender, geographic location) Number of countries using environmental impact assessment and a participatory process in land use planning related to the production and distribution of energy, involving indigenous populations and other affected communities (disaggregated by geographic location, wealth quintile)

1. Theme Report On Enabling SDGs Through Inclusive, Just Energy Transitions - https://www.un.org/sites/un2.un.org/files/2021-twg_3-b-062321.pdf

6. Concluding comments

A fair transition for all

For the climate transition to succeed, it must leave no one behind. Through engagement, investors will play a critical role in realising a just transition.

A holistic engagement strategy is one that reaches all stakeholders involved in the transition, including corporates, multilateral institutions, regulators and policymakers. This will allow for the creation of new opportunities, including directing capital to businesses that will be at the forefront of an inclusive transition. Investors will also play a key role in encouraging governments to consider the importance of an inclusive transition and aiding the management of positive transitional outcomes and externalities.

The stakeholders most affected as a result of the transition must be at the forefront for companies in their climate and transition strategies, with clear targets, milestones, and transparency in communication to stakeholders. From workers and consumers to SMEs and the future generation, it is important for companies to act pre-emptively for these groups to minimise, mitigate or remedy the impacts of the climate transition.



Authors



Mark de Silva

Senior ESG Engagement Analyst
HSBC Asset Management



William T K NG

Senior ESG Engagement Analyst
HSBC Asset Management

We would like to express our sincere gratitude and acknowledge contributions from the following reviewers, quote providers and experts for their input (in alphabetical order)

- ◆ Elise Groulx Diggs, International Human Rights Lawyer and Mediator
- ◆ Prof. Christine Loh, Chief Development Strategist, Institute for the Environment, Hong Kong University of Science and Technology
- ◆ Dr. Ebele Onyeabo, Associate Director, Climate & Sustainability, KPMG
- ◆ Prof. Nick Robins, Grantham Research Institute, LSE
- ◆ Prashant Vaze, Interim Head of Climate Change, London Councils
- ◆ Sean Kidney, CEO, Climate Bonds Initiative
- ◆ Dr. Shouqing Zhu, World Economic Forum
- ◆ From HSBC Holdings Plc:
 - ◆ Xavier Baraton, Global Chief Investment Officer
 - ◆ Cecilia Chan, Regional Chief Investment Officer, Asia Pacific
 - ◆ Christine Chow, Global Head of Stewardship
 - ◆ Fatima Hadj, Climate Investment Strategist
 - ◆ Stewart James, Chief Of Staff Sustainability Policy And Regulation
 - ◆ Erin Leonard, Global Head of Sustainability
 - ◆ Dupe Olawande, Manager, Research and Insights
 - ◆ Pritya Pravina, Senior Sustainable Finance Manager
 - ◆ Sabrin Rahman, EMEA Head of Corporate Sustainability
 - ◆ Wai Shin Chan, Global Head of Climate Change, HSBC Global Research
 - ◆ Michaela Wright, Head of Corporate Sustainability

For Professional Clients and intermediaries within countries and territories set out below; and for Institutional Investors and Financial Advisors in Canada and the US. This document should not be distributed to or relied upon by Retail clients/investors.

The value of investments and the income from them can go down as well as up and investors may not get back the amount originally invested. The capital invested in the fund can increase or decrease and is not guaranteed. The performance figures contained in this document relate to past performance, which should not be seen as an indication of future returns. Future returns will depend, inter alia, on market conditions, fund manager's skill, fund risk level and fees. Where overseas investments are held the rate of currency exchange may cause the value of such investments to go down as well as up. Investments in emerging markets are by their nature higher risk and potentially more volatile than those inherent in some established markets. Economies in Emerging Markets generally are heavily dependent upon international trade and, accordingly, have been and may continue to be affected adversely by trade barriers, exchange controls, managed adjustments in relative currency values and other protectionist measures imposed or negotiated by the countries and territories with which they trade. These economies also have been and may continue to be affected adversely by economic conditions in the countries and territories in which they trade. Mutual fund investments are subject to market risks, read all scheme related documents carefully.

The contents of this document may not be reproduced or further distributed to any person or entity, whether in whole or in part, for any purpose. All non-authorized reproduction or use of this document will be the responsibility of the user and may lead to legal proceedings. The material contained in this document is for general information purposes only and does not constitute advice or a recommendation to buy or sell investments. Some of the statements contained in this document may be considered forward looking statements which provide current expectations or forecasts of future events. Such forward looking statements are not guarantees of future performance or events and involve risks and uncertainties. Actual results may differ materially from those described in such forward-looking statements as a result of various factors. We do not undertake any obligation to update the forward-looking statements contained herein, or to update the reasons why actual results could differ from those projected in the forward-looking statements. This document has no contractual value and is not by any means intended as a solicitation, nor a recommendation for the purchase or sale of any financial instrument in any jurisdiction in which such an offer is not lawful. The views and opinions expressed herein are those of HSBC Asset Management at the time of preparation, and are subject to change at any time. These views may not necessarily indicate current portfolios' composition. Individual portfolios managed by HSBC Asset Management primarily reflect individual clients' objectives, risk preferences, time horizon, and market liquidity. Foreign and emerging markets. Investments in foreign markets involve risks such as currency rate fluctuations, potential differences in accounting and taxation policies, as well as possible political, economic, and market risks. These risks are heightened for investments in emerging markets which are also subject to greater illiquidity and volatility than developed foreign markets. This commentary is for information purposes only. It is a marketing communication and does not constitute investment advice or a recommendation to any reader of this content to buy or sell investments nor should it be regarded as investment research. It has not been prepared in accordance with legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of its dissemination. This document is not contractually binding nor are we required to provide this to you by any legislative provision.

All data from HSBC Asset Management unless otherwise specified. Any third party information has been obtained from sources we believe to be reliable, but which we have not independently verified.

HSBC Asset Management is the brand name for the asset management business of HSBC Group, which includes the investment activities provided through our local regulated entities. HSBC Asset Management is a group of companies in many countries and territories throughout the world that are engaged in investment advisory and fund management activities, which are ultimately owned by HSBC Holdings Plc. (HSBC Group). The above communication is distributed by the following entities:

- In **Argentina** by HSBC Global Asset Management Argentina S.A., Sociedad Gerente de Fondos Comunes de Inversión, Agente de administración de productos de inversión colectiva de FCI N°1;
- In **Australia**, this document is issued by HSBC Bank Australia Limited ABN 48 006 434 162, AFSL 232595, for HSBC Global Asset Management (Hong Kong) Limited ARBN 132 834 149 and HSBC Global Asset Management (UK) Limited ARBN 633 929 718. This document is for institutional investors only, and is not available for distribution to retail clients (as defined under the Corporations Act). HSBC Global Asset Management (Hong Kong) Limited and HSBC Global Asset Management (UK) Limited are exempt from the requirement to hold an Australian financial services license under the Corporations Act in respect of the financial services they provide. HSBC Global Asset Management (Hong Kong) Limited is regulated by the Securities and Futures Commission of Hong Kong under the Hong Kong laws, which differ from Australian laws. HSBC Global Asset Management (UK) Limited is regulated by the Financial Conduct Authority of the United Kingdom and, for the avoidance of doubt, includes the Financial Services Authority of the United Kingdom as it was previously known before 1 April 2013, under the laws of the United Kingdom, which differ from Australian laws;
- In **Bermuda** by HSBC Global Asset Management (Bermuda) Limited, of 37 Front Street, Hamilton, Bermuda which is licensed to conduct investment business by the Bermuda Monetary Authority;
- In **Canada** by HSBC Global Asset Management (Canada) Limited which provides its services as a dealer in all provinces of Canada except Prince Edward Island and also provides services in Northwest Territories. HSBC Global Asset Management (Canada) Limited provides its services as an advisor in all provinces of Canada except Prince Edward Island;

- In **Chile**: Operations by HSBC's headquarters or other offices of this bank located abroad are not subject to Chilean inspections or regulations and are not covered by warranty of the Chilean state. Further information may be obtained about the state guarantee to deposits at your bank or on www.sbif.cl;
- In **Colombia**: HSBC Bank USA NA has an authorized representative by the Superintendencia Financiera de Colombia (SFC) whereby its activities conform to the General Legal Financial System. SFC has not reviewed the information provided to the investor. This document is for the exclusive use of institutional investors in Colombia and is not for public distribution;
- In **Finland, Norway, Denmark and Sweden** by HSBC Global Asset Management (France), a Portfolio Management Company authorised by the French regulatory authority AMF (no. GP99026) and through the Stockholm branch of HSBC Global Asset Management (France), regulated by the Swedish Financial Supervisory Authority (Finansinspektionen);
- In **France, Belgium, Netherlands, Luxembourg, Portugal, Greece** by HSBC Global Asset Management (France), a Portfolio Management Company authorised by the French regulatory authority AMF (no. GP99026);
- In **Germany** by HSBC Global Asset Management (Deutschland) GmbH which is regulated by BaFin (German clients) respective by the Austrian Financial Market Supervision FMA (Austrian clients);
- In **Hong Kong** by HSBC Global Asset Management (Hong Kong) Limited, which is regulated by the Securities and Futures Commission;
- In **India** by HSBC Asset Management (India) Pvt Ltd. which is regulated by the Securities and Exchange Board of India;
- In **Israel**, HSBC Bank plc (Israel Branch) is regulated by the Bank of Israel. This document is only directed in Israel to qualified investors (under the Investment advice, Investment marketing and Investment portfolio management law-1995) of the Israeli Branch of HBEU for their own use only and is not intended for distribution;
- In **Italy and Spain** by HSBC Global Asset Management (France), a Portfolio Management Company authorised by the French regulatory authority AMF (no. GP99026) and through the Italian and Spanish branches of HSBC Global Asset Management (France), regulated respectively by Banca d'Italia and Commissione Nazionale per le Società e la Borsa (Consob) in Italy, and the Comisión Nacional del Mercado de Valores (CNMV) in Spain;
- In **Mexico** by HSBC Global Asset Management (Mexico), SA de CV, Sociedad Operadora de Fondos de Inversión, Grupo Financiero HSBC which is regulated by Comisión Nacional Bancaria y de Valores;
- In the **United Arab Emirates, Qatar, Bahrain & Kuwait** by HSBC Bank Middle East Limited which are regulated by relevant local Central Banks for the purpose of this promotion and lead regulated by the Dubai Financial Services Authority.
- In **Oman** by HSBC Bank Oman S.A.O.G regulated by Central Bank of Oman and Capital Market Authority of Oman;
- In **Peru**: HSBC Bank USA NA has an authorized representative by the Superintendencia de Banca y Seguros in Perú whereby its activities conform to the General Legal Financial System - Law No. 26702. Funds have not been registered before the Superintendencia del Mercado de Valores (SMV) and are being placed by means of a private offer. SMV has not reviewed the information provided to the investor. This document is for the exclusive use of institutional investors in Perú and is not for public distribution;
- In **Singapore** by HSBC Global Asset Management (Singapore) Limited, which is regulated by the Monetary Authority of Singapore;
- In **Switzerland** by HSBC Global Asset Management (Switzerland) AG whose activities are regulated in Switzerland and which activities are, where applicable, duly authorised by the Swiss Financial Market Supervisory Authority. Intended exclusively towards qualified investors in the meaning of Art. 10 para 3, 3bis and 3ter of the Federal Collective Investment Schemes Act (CISA);
- In **Taiwan** by HSBC Global Asset Management (Taiwan) Limited which is regulated by the Financial Supervisory Commission R.O.C. (Taiwan);
- In the **UK** by HSBC Global Asset Management (UK) Limited, which is authorised and regulated by the Financial Conduct Authority;
- And in the **US** by HSBC Global Asset Management (USA) Inc. which is an investment adviser registered with the US Securities and Exchange Commission.

NOT FDIC INSURED ◆ NO BANK GUARANTEE ◆ MAY LOSE VALUE

Copyright © HSBC Global Asset Management Limited 2022. All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, on any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of HSBC Global Asset Management Limited.

XB 2244 - EXP 10/2023

