Bridging the Gap: Transition Finance for a Just and Sustainable Future

Summary Report from the Masterclass on Bridging the Gap: Transition Finance for a Just and Sustainable Future, delivered on the 17th September at the 2025 LSFI Summit.

January 2026

Executive Summary

This report summarises the key takeaways of the Masterclass 'Bridging the Gap: Transition Finance for a Just and Sustainable Future' delivered on September 17, 2025, at the LSFI Summit. This masterclass brought together experts from a range of organisations to help financial professionals understand how to embed just transition into their work. It introduced the core principles of just transition, highlighted why this perspective is essential, and outlined the financing structures that can help mobilise capital towards a fair and sustainable transition.

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1. Introduction

The global economy is undergoing a major transformation due to climate change, environmental degradation, and the need for low-carbon, climate-resilient development. This transition affects workplaces, communities, and economic systems. Over 70% of the global workforce faces significant climate-related health risks, including excessive heat, UV radiation, vector-borne diseases, and air pollution. Rising temperatures reduce productivity, with each 1°C increase above 20°C associated with a 2–3% decline[1].

The low-carbon transition involves various forms, including green and low-carbon activities like renewable energy, energy efficiency, and circular economy models, as well as the greening of high-emitting sectors through the phase-down of fossil fuels and decarbonisation of transport, industry, and construction. Adaptation and resilience-building activities strengthen communities against unavoidable climate impacts. These pathways support green, transition, and adaptation finance.

Climate finance is expanding but unevenly. In 2023, mitigation finance reached USD 1,781 billion, driven mainly by private investment, with green finance dominating and transition finance growing. Adaptation finance amounted to USD 65 billion and remains primarily publicly funded[2].

These dynamics highlight that the low-carbon transition is not solely a technological or financial challenge, but also a social and economic one. Ensuring that the costs and benefits of change are distributed fairly, and that workers and communities are supported through periods of transformation, is central to sustaining momentum and social acceptance. In this context, the concept of a just transition provides a framework for inclusively managing transition-related risks and opportunities, while the finance sector plays a critical role in mobilising capital, shaping incentives, and integrating social considerations into climate-related decision-making.

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[1] *International Labour Organisation (ILO). Available at ilo.org.*
[2] *Climate Policy Initiative (CPI, 2025. CPI Global Landscape of Climate Finance. [online] Available at https://shorturl.at/FWDgi*

2. What is a Just Transition?

A just transition recognises that the shift away from emission-intensive activities is not solely a technological transformation. It reshapes markets, industries, and labour systems, with significant social and economic implications. If poorly managed, this transition risks exacerbating inequalities and leaving vulnerable workers and communities behind; if well managed, it offers opportunities for more inclusive and resilient growth. A just transition addresses these challenges by integrating social and economic considerations into climate action and ensuring that transition pathways are fair and inclusive.

In practice, the transition to renewable energy and energy efficiency creates new jobs while transforming many existing roles. At the same time, job losses may occur in polluting sectors, leading to mismatches between skills and locations that require active management.

A just transition requires, in consequence, the engagement of multiple stakeholders, including businesses, workers, consumers, and affected communities, with particular attention to vulnerable groups. It aims to maximise social and economic opportunities while managing transition-related risks through integrated action on mitigation, adaptation, and social dialogue. As contexts differ widely across sectors and regions, effective approaches must be tailored rather than based on a one-size-fits-all model.

As seen in Figure 1 below, mitigation involves reducing the greenhouse gases released into the atmosphere, while adaptation addresses the emissions that are already locked in and the unavoidable effects they bring. A just transition links these two efforts, ensuring that emission reduction goes hand in hand with building a green economy that protects workers and communities. At the same time, it helps to strengthen resilience and reduce vulnerability among those most exposed to the impacts of climate change.

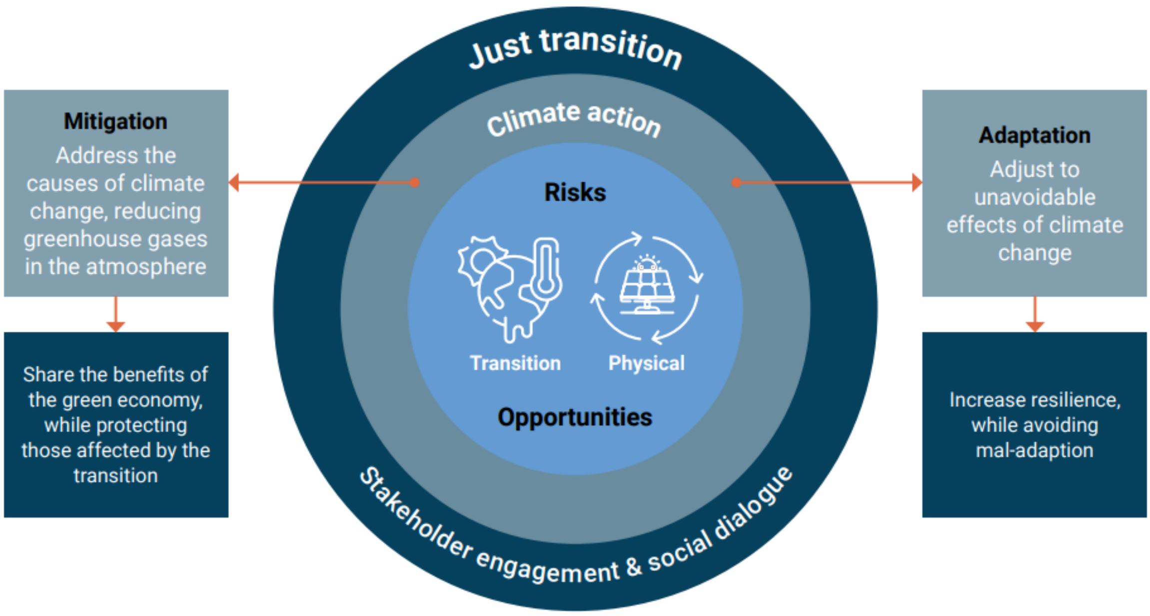

Figure 1: What is a just transition?

A just transition must also ensure that climate action does not create new harms of its own. Potential risks can arise at every stage of the transition. In green and low-carbon activities, concerns include land rights, labour rights violations in raw material supply chains, and increased pressure on water resources. In high-emitting and hard-to-abate activities, risks include job losses, lower-quality jobs, stranded communities, and the loss of cultural heritage, as well as adverse impacts on the rights of indigenous peoples and precarious working conditions in some nature-based offset schemes. Even adaptation and resilience-building activities may produce maladaptation, where efforts to increase resilience inadvertently heighten vulnerability.

3. The Role of the Financial Sector

The financial sector plays a critical role in enabling a just transition by directing capital toward climate and social goals. In 2023, climate finance reached USD 1.8 trillion for mitigation and USD 65 billion for adaptation, yet global needs are estimated at USD 8.4 trillion annually. To close this gap, the private sector is expected to provide up to 70% of the investment required to achieve net-zero targets[3]. As a result, financial institutions have significant influence over how the transition affects households, businesses, public entities, and the broader economy.

Financial institutions can promote a just transition through several mechanisms. These include allocating capital and insurance to transition-aligned activities, shaping outcomes through pricing, product design, investment conditions, and client engagement, and improving inclusion by reducing insurance gaps and expanding access to financial services for underserved or affected groups. Together, these actions strengthen society's ability to manage climate and transition-related risks while supporting a more equitable distribution of benefits.

There are also strong business incentives to support a just transition. Doing so helps mitigate risks linked to insufficient climate action, rising inequality, and social disruption, while creating new investment and growth opportunities. Aligning with regulatory requirements, investor expectations, and stakeholder demands also reduces reputational risk.

The financial materiality of social factors further reinforces the business case. Poor industrial relations, working conditions, and human rights practices can lead to strikes, accidents, legal costs, and reputational damage, negatively impacting company earnings and valuations.

Promoting a just transition as part of core financial sector activities requires a two-pillar approach, underpinned by social dialogue and stakeholder engagement as seen in Figure 2.

Figure 2: Source: ILO - UNEP FI Just Transition Finance Pathways for Banking and Insurance

The first pillar, complying with social safeguards and performance standards, ensures that financial institutions identify, avoid, and address negative impacts on workers, customers, communities, and vulnerable groups. The second pillar, enabling positive change, focuses on maximising environmental and social benefits arising from banking and insurance operations, while exploring additional social benefits for groups affected by climate mitigation and adaptation actions.

[3] *These figures are extracted from ILO Just Transition Finance Tool.*

These pillars translate into concrete action across strategy, governance, implementation, and engagement. Financial institutions can embed just transition considerations into corporate and net-zero strategies, strengthen governance, and integrate principles into products and investment processes. Strong governance is particularly crucial in this implementation, with a commitment from the board and senior leadership, clear responsibilities, and the right skills and capacity.
Financial institutions should also actively engage with investees through dialogue and voting and collaborate with wider stakeholders to support an enabling environment and system-wide innovation. Progress is tracked through metrics that assess the current state of play.

A practical pathway for adopting a just transition lens includes six key steps. Financial institutions should:

1) **Understand local transition dynamics**, **social impacts**, **risks**, and **opportunities** across their portfolios and stakeholders;
2) **Develop a holistic strategy** that leverages stakeholders' knowledge and places people at the centre;
3) **Tailor product offerings** to meet local just transition needs;
4) **Incorporate social considerations** into decision-making and risk management;
5) **Leverage stewardship and engagement** to encourage socially and environmentally sustainable corporate practices;
6) **Engage in strategic partnerships** with like-minded institutions to maximize collective impact.

Finally, a just transition is not a standalone agenda but is embedded within the existing strategies and policies of financial institutions. It sits at the intersection of climate action and social risks and opportunities, linking net-zero and Paris-aligned strategies, climate and sustainability policies, sustainable product development, and contributions to SDG 13 with human resources policies, responsible business conduct standards, CSR initiatives, and environmental, social, and human rights due diligence. By aligning with sustainability legislation and contributing to SDGs 7, 8, and 10, a just transition integrates climate objectives with social responsibility, ensuring that the shift to a low-carbon economy is fair, inclusive, and socially sustainable.

Several financial institutions are already implementing these steps, demonstrating how a just transition lens can be effectively embedded across various organisations and business models.

At **Rand Merchant Bank** (RMB), a *Transition Steering Committee* has been established to integrate transition principles across all business units. Risks and opportunities arising from the energy transition are identified, and innovative solutions are supported, with attention given to the unique social priorities of each African country in which the bank operates. Transactions are guided by a multi-disciplinary team, including experts in climate, social issues, and investment banking, to ensure that the social elements are meaningful and have an impact on clients and stakeholders.

At **PNC Bank**, a National Community Advisory Council has been formed, including members representing various segments of the community, including local executives, community leaders, and non-profit organisations. Community perspectives are brought into decision-making, and strategies are informed by the needs of the communities served. Forming an External Stakeholder Advisory Group to engage with grassroots organisations and communities that are affected by climate-related risks can help financial institutions to understand their perspectives and serve clients better.

4. Case Studies

Throughout the masterclass, case studies were presented to demonstrate how financial institutions are tackling challenges in adopting a just transition lens and how they are effectively implementing it into their existing business strategies.

Case Study 1: HSBC

HSBC is a global financial institution committed to supporting the transition to a net-zero economy while ensuring the shift is inclusive, equitable, and economically viable. The bank has set ambitious climate and sustainability targets, including becoming a net-zero bank by 2050 (including financed emissions), providing USD 1 billion in financing for climate-tech start-ups, and mobilising USD 750 billion to USD 1 trillion in sustainable finance and investment by 2030.

HSBC faces several challenges to embed just transition principles into its investment decisions. Many of the bank's clients, particularly small and medium-sized enterprises (SMEs), often lack the incentives, resources and skills needed to shift to lower carbon models[4]. This places HSBC in the position of needing to support clients through changes that affect not only technology and capital investment but also supply chains. Supply chains are a key focus for transition finance, as a large share of companies' Scope 3 emissions is embedded within them, often across complex, Asia-based networks. These supply chains are increasingly exposed to climate, regulatory, and human rights risks, prompting companies to support suppliers through soft loans and structured finance to enable decarbonisation. At the same time, suppliers that cannot meet decarbonisation requirements risk exclusion, raising important just transition challenges.

Another difficulty is the absence of a clear definition of what qualifies as transition finance. At present, there is no universally agreed definition or taxonomy for what constitutes transition finance, although guidance is expected from industry bodies such as the Loan Market Association. The absence of clear standards, combined with the risks associated with first-of-a-kind projects, contributes to the complexity of financing the transition.

HSBC is advancing a just transition by directing capital towards decarbonisation projects while ensuring economic and social benefits are preserved. Its financing of SSAB's fossil-free steel mini-mill in Sweden and Hapag-Lloyd's next-generation LNG-fuelled container vessels and ammonia-ready vessels are two examples illustrating this approach.

SSAB AB has secured a **EUR 2.7bn green financing package**, arranged by HSBC, to support a EUR 4.5bn investment in building a state-of-the-art fossil-free steel mini-mill at its existing site in Luleå, Sweden. The project will enable SSAB to shut down its blast furnace-based production, significantly reducing emissions and contributing to an estimated **7% reduction in Sweden's total CO_2 emissions**.
The new mini-mill, approved in April 2024, will have a **2.5 million tonne annual capacity**, using electric arc furnaces, advanced metallurgy, and an integrated rolling mill. It represents a major step in SSAB's transition to fossil-free steel, improving cost efficiency, flexibility, lead times, and product positioning while using fossil-free iron inputs and recycled scrap.
The financing consists of four long-term green loan facilities, supported by national and export credit agencies (including Riksgälden, SACE, Euler Hermes, and the Nordic Investment

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[4] *Delivering Net-Zero Supply Chains, The Multi-Trillion Dollar Key to Beat Climate Change, co-published by BCG-HSBC, October 2021.*

Bank), and is structured in line with **Green Loan Principles** and SSAB's sustainability framework.

Hapag-Lloyd AG signed a **USD 1.1bn, 95% Sinosure-covered green loan** in December 2024 to finance the procurement of **eight newbuild dual-fuel LNG container vessels** (2×9.2k TEU and 6×16.8k TEU), with HSBC acting in multiple lead and agency roles. The ammonia-ready vessels, to be delivered between 2027 and 2029, form part of Hapag-Lloyd's broader fleet renewal programme. Their financing is structured as Green Loans and in compliance with **EU Taxonomy and Green Loan Principles** and supports the company's target to significantly reduce fleet emissions and achieve **net-zero operations by 2045**. Additionally, the transaction was supported by export credit agencies, including Chinese state-backed institutions, highlighting the role of blended finance in facilitating transition in hard-to-abate sectors.

Overall, these examples underline that transition finance is essential but complex, requiring innovative structures, public-private collaboration, and a high tolerance for risk to enable meaningful emissions reductions in sectors that are difficult to decarbonise.

Case Study 2: Amundi

Amundi is a French asset management company and Europe's leading asset manager by assets under management, providing investment products and services to retail, institutional, and corporate clients worldwide.

Amundi positions stewardship as a core pillar of its responsible investment approach, using its role as a shareholder to improve companies' sustainability impact and better manage sustainability risks. This is delivered through proactive engagement to drive best practices and long-term value creation, and a voting policy that promotes strong governance, accountable boards, and preparedness for the transition to a sustainable, inclusive, low-carbon economy.

The asset manager faces challenges in advancing a just transition due to difficulties in translating high-level frameworks into credible, actionable company strategies, weak integration of climate and social planning, limited data and metrics, and external policy and market uncertainties.

To overcome these challenges, the organisation proactively engages in a structured, purpose-driven dialogue with companies to influence practices and outcomes, supported by extensive ESG research, dedicated tools, and firm-wide investment expertise. Its engagement priorities span five core areas—climate transition, natural capital, human capital and human rights, client protection, and governance—viewed through a double-materiality lens that considers both corporate impacts and sustainability risks. A key focus is promoting a just transition, recognising that poorly managed transitions can create significant business, social, and systemic risks; engagement therefore centres on setting clear expectations around climate intent, respect for human rights, effective social dialogue, workforce planning (including reskilling and redeployment), and robust governance. Amundi applies this approach across high-impact sectors, increasingly through collective initiatives, and has scaled its just transition engagements significantly in recent years to drive practical, place-based outcomes while maintaining accountability and traceability.

This approach has been applied by Amundi across these two projects:

- A global oil and gas company aimed to allocate half of its capital expenditure to low-carbon solutions by 2030. Amundi encouraged the development of a just transition strategy aligned with its climate plan. This included securing board accountability, conducting a robust risk assessment and establishing meaningful indicators to track progress. Amundi also worked with the company to ensure internal teams had the capabilities needed to manage social and environmental change coherently.

- A major American utility preparing for near-term coal retirements, Amundi worked with, making just transition a strategic priority and developing a public framework informed by third-party analysis and disclosure. Engagement has led to early progress, including appointing a social justice specialist, advancing human rights policies, and committing to upskilling and reskilling programmes. However, Amundi identified gaps around transparency, process metrics, customer vulnerability mapping, and governance oversight. The firm recommended improvements in areas such as redeployment disclosure, stakeholder engagement metrics, third-party dependencies and the alignment of budgets and timelines between central and local teams. Amundi also encouraged greater transparency on how social considerations influence restructuring decisions and board-level oversight of human rights and human capital.

Through its just transition engagements, Amundi has identified the need to more closely link social considerations to companies' transition plans, apply place-based analysis, address internal capability gaps, and clearly demonstrate materiality. In response, Amundi is tightening engagement selection criteria and expectations, broadening engagement with stakeholders, and better leveraging climate and nature expertise, while remaining mindful of policy environment and reporting burdens. Through these efforts, Amundi is helping companies embed just transition considerations into climate strategies, strengthen internal capacity, and develop a place-based understanding of social impacts, supporting more resilient transition pathways and effective management of social risks.

Case Study 3: ING Bank

ING is a global bank of Dutch origin with a strong European base, serving customers through both retail banking (individuals and small businesses) and wholesale banking (large corporates and institutions).

ING's strategy is focused on growing the difference by providing superior value for its customers and putting sustainability at the heart of what the bank does. The bank's climate action focuses on three areas: work with corporate clients to drive down their emissions; step up financing for technologies and solutions needed to build up a sustainable future; and including everyone in the low-carbon transition. The final area exemplifies the climate–social nexus. The bank has taken several actions across products, tooling, upskilling, and due diligence with the aim of taking a more holistic approach to sustainability.

For mortgage products, the bank introduced a new incentive by increasing the weighting of the energy label in mortgage rate calculations, in order to be able to immediately reward customers who have gone to the effort of improving their energy label, even from D to C, or C to B. This means homeowners can see an immediate benefit beyond possible savings on their energy bill, through improved interest rates on their mortgage – helping to make every step they take more worth it financially.

Retrofits for energy efficiency are challenged by financial as well as technical constraints. In several markets, ING has continued to offer digital tools that support customers to understand their renovation options. In the Netherlands, the bank has a digital tool (Upgrade Check) that gives customers easy and non-binding insight into the possibilities for sustainable renovation and a cost-benefit estimate, including subsidies.

Additionally, beyond its direct business, ING will actively point people towards a different route if that is more appropriate – for example, it may be that the National Heat Fund is the best answer for them. But the bank continues to play an active role. In relation to climate adaptation, for homeowners who cannot borrow the repair costs from their mortgage provider, the Nationaal Funderings Herstelfonds (National Foundation Repair Fund) in the Netherlands was expanded in 2025 to help existing homeowners overcome financial hurdles to repair their foundations, and thus improve climate resilience in the housing sector. The Fund is funded by the Dutch government, with banks like ING acting as guarantors.

ING has provided just transition information and training sessions to employees from various departments within the bank in both front office and risk, in an effort to upskill professionals in these areas. The bank also provided a dedicated just transition information session to the ING ESG Committee representatives, along with members of the Management Board Banking and Supervisory Board.

ING is monitoring social-related impacts and mapping risks with an aim to achieve a just transition in the bank's decision-making process. The bank has strengthened its internal ESG Risk approach by refining the social risks material to the sectors that ING finances. And for sectors that are key to the transition, such as energy, ING included social impacts arising from the transition in its ESG Risk documentation. Combined with the bank's longstanding environmental & social risk (ESR) policies and application of the Equator Principles[5], this supports a more holistic due diligence approach for those sectors, with the aim to also mitigate the potential negative impact and respect human rights.

[5]*Equator Principles, 2020. EQUATOR PRINCIPLES EP4. [online] Available at https://shorturl.at/8nzit*

Society is transitioning to a low-carbon economy. So are our clients, and so is ING. We finance a lot of sustainable activities, but we still finance more that's not. See how we're progressing on ing.com/climate.

5. Conclusion

Integrating just transition principles into financial sector practice is critical to ensuring that climate action is fair, inclusive, and economically resilient. Financial institutions have an important enabling role through the way they allocate capital, embed social safeguards into core processes, and apply tools such as product design, due diligence, stewardship, and stakeholder engagement to manage risks and support positive social outcomes. A strong understanding of local transition dynamics, tailored financial solutions, robust governance, and the alignment of climate strategies with social considerations are essential to prevent the deepening of inequalities or the creation of new vulnerabilities.

Practical experience shows that implementation is both complex and achievable, demonstrating the financial sector's capacity to integrate just transition considerations across decision-making and its pivotal role in advancing environmental ambition while safeguarding workers, communities, and long-term economic stability.

6. Appendix

Speakers

We would like to express our gratitude to the masterclass speakers for their insights and for sharing their in-depth expertise in this matter with the masterclass audience:

Alan J Duffy, Regional Head, Sustainable Finance Europe at HSBC Continental Europe

In January 2022, Alan was appointed as HSBC's first Head of Sustainable Finance for Europe Commercial Banking. Prior to this, Alan held the roles of CEO & Head of Banking at HSBC Ireland, having established HSBC's commercial banking business in Ireland in 2006. During his career, Alan has worked in a variety of international wholesale banking roles with Scotiabank and ING and has extensive experience in the North American, Nordic and European wholesale banking markets. A Business Studies graduate of Trinity College Dublin, Alan also holds an MBA from University College Dublin. He has completed Sustainability Management and Leadership training with the University of Cambridge and Imperial College Business School, London. Alan is a qualified Chartered Director with the Institute of Directors, London and a member of the Institute of Bankers. Alan is Chair and a founding member of Chapter Zero Ireland, the Irish Chapter of the Climate Governance initiative, helping boards to lead with purpose and intent on climate issues.

Ekaterina Chubarova, Sustainable Finance and Just Transition Specialist at ILO

Ekaterina is a Sustainable Finance and Just Transition Specialist at the International Labour Organisation (ILO). With a background in asset management and sustainable investing, Ekaterina works on supporting financial institutions in integrating and advancing just transition within their operations and strategies.

Luda Svystunova, Senior ESG Analyst, Head of Social Research at Amundi

Luda is currently Head of Social Research within the ESG Research, Engagement and Voting at Amundi. She was previously Acting Lead Responsible Analyst at Ardevora Asset Management. Prior to working in finance, she worked in academia and consulting. Luda is based in London and holds a PhD from the University of Bath.

Maija Ziemele, Sustainability Consultant – Human Rights and Climate at ING

Maija is a Sustainability Consultant at ING focusing on human rights and climate. She has been working on developing, scoping, and advancing the topic of just transition at ING. Her educational background is in international law and business & sustainability.

Patricia Richter, Senior Technical Specialist for Social Finance at ILO

Patricia is a development finance professional with over two decades of experience, Patricia is currently working for the International Labour Organization, Social Finance unit. She is leading the unit's work on sustainable investing and innovative finance. As part thereof, she is managing the ILO's collaborations with the Africa Agriculture and Trade Investment Fund social impact investing or with Sida on impact measurement of guarantee instruments, and overseeing work related to just transition finance. Patricia holds a PhD in economics and an M.A. in intercultural management and business administration.

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ABOUT THE LUXEMBOURG SUSTAINABLE FINANCE INITIATIVE (LSFI)

The LSFI is Luxembourg's coordinating entity on sustainable finance, driving change across the whole ecosystem as a Centre of Excellence and Knowledge Hub, supporting the financial sector to accelerate the financing of the transition, and measuring progress.

The LSFI was founded in January 2020 by the Luxembourg Ministry of Finance, the Ministry of the Environment, Climate and Biodiversity, Luxembourg for Finance, and the High Council for Sustainable Development (Conseil Supérieur pour un Développement Durable).

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Luxembourg Sustainable Finance Initiative
12, rue Erasme
L-1468 Luxembourg