KPMG

The just transition investment imperative

Mitigating social risk and seizing opportunities in today's investment landscape



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Executive summary

Impacts on people are directly linked to business resilience and value

Social impacts are increasingly shaping investment performance, project viability and the ability to deploy capital at the scale required for the global energy transition. The low-carbon transition cannot be financed at the scale required without addressing social impacts. Without addressing risks to people, project investment is constrained, and projects are more likely to face delays, disputes and cost overruns.

Across energy, infrastructure and mining transformational projects, workforce disruption, community opposition, human rights concerns and affordability pressures are emerging as material constraints on investment viability. When these impacts are poorly understood or mismanaged, they diminish value. Such social risks contribute to operational costs, litigation, reputational damage and loss of social license, undermining both climate and investment returns.

What is a just transition?

A just transition is the process of minimizing the negative impacts and maximizing the positive impacts for all people as we evolve towards a low-carbon, circular, ecologically sustainable and equitable economy. These impacts must be distributed fairly to all.

Social risk is a risk to financial institutions

Financial institutions that fail to manage social risks associated with the transition expose themselves to operational, legal and reputational risks. Those that proactively integrate social impacts into financing and investment decisions will be better positioned to overcome capital flow barriers, improve project bankability, seize emerging investment opportunities and support a more orderly transition.

As a delayed, disorderly transition becomes increasingly likely, planning for a just transition is becoming increasingly critical.

A just transition is an investment imperative for financial institutions

The transition will reshape economies, industries and communities. For financial institutions, how these social impacts are managed will affect your risk, returns and long-term value.

This report makes the case for why a just transition matters to financial institutions and the practical ways it can be embedded into investment and risk management.

We address two questions financial institutions are asking:

1. **Why does a just transition matter now?**
   Exploring the financial, regulatory and stakeholder drivers making a just transition material to financial institutions.
2. **What are leading financial institutions doing?**
   Setting out practical actions for financial institutions to manage the social risks and opportunities from global decarbonization.

> “Many project delays, cost overruns, disputes and failures can be traced back to one common factor: **insufficient consideration of impacts to people.**”
>
> **Mike Hayes**
> Global Head of Climate,Decarbonization Renewable Energy & Nature
> KPMG International

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Transition versus a just transition

Global decarbonization

The transition from a high-carbon economy to a low-carbon economy across all sectors.

Just transition

Social and economic transition impacting:

- Workforce
- Human rights
- Community

Investment outcomes

Risks:

- Legal and regulatory risks
- Operational risks
- Reputational risks

Opportunities:

- New markets & climate finance
- Commercial growth and portfolio resilience
- Strategic positioning and business resilience
- Driving transition outcomes through engagement

Financial institutions cannot afford to ignore just transition.

Financial institutions that act now can be better positioned to manage risk, unlock investment opportunities and play a leading role in delivering a secure, resilient and "net-zero future".

Access a practical agenda here



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Why does a just transition matter now?



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What is a just transition?

A just transition is the process of minimizing the negative impacts and maximizing the positive impacts for all people as we evolve towards a low-carbon, circular, ecologically sustainable and equitable economy. **These impacts must be distributed fairly to all**.

The global energy transition is accelerating. So are its impacts on people.

According to IEA estimates, record levels of investment are flowing into clean energy (about US $2.2 trillion in 2025), and critical minerals (worth US $325 billion in 2023).[1] However, the impact on people remains insufficiently considered, leading to project delays, litigation and diminishing social and financial value.

Communities continue to be concerned about the impact of renewable projects on their livelihoods. Workers are affected by industrial transformation. Indigenous peoples' rights are overlooked. Consumers are facing increasing affordability pressures. These social impacts influence whether projects secure approvals, attract investment, maintain social license and, ultimately, succeed.

The scale of finance required for the energy transition cannot be secured unless we better address the social impacts that influence value creation.

A gap remains between organizational ambition and implementation. Large emitters are making just transition commitments, but comparatively fewer have detailed just transition plans. Within transition plans, very few assess how they will support people and communities affected by their decarbonization.[2] As capital deployment accelerates, the ability to understand and manage social impacts is critical to achieving successful transition outcomes.

Transitioning 'from' a high-carbon economy…

A just transition minimizes negative impacts to people caused by the transition from a high-carbon economy that relies heavily on fossil fuels, and shares costs equally.

For example, the closure of a coal mine can contribute to unemployment, loss of livelihoods, shutdown of local businesses and the breakdown of social cohesion.

258 asset manager signatories for the **Net Zero Asset Managers Initiative** committing to support investment aligned with net zero emissions by 2050.[3]

14% of **financial institutions** engage investee companies or clients on just transition.[4]

5% of assessed companies integrate worker and community impacts into their climate transition plans. **4 percent have time bound targets to manage these transition impacts**.[5]

'To' a low-carbon economy

A just transition mitigates negative impacts to people caused by the transition to a low-carbon economy, and shares benefits equally. For example, the surging demand for renewable energy has been linked to forced labor, violation of Indigenous land rights and local community opposition.

A just transition further maximizes social opportunities. For example, the responsible mining of critical minerals can improve employment, invest in economic development and promote social inclusion and participation.

[1] World Energy Investment 2025, International Energy Agency (IEA), 2025; and Global Critical Minerals Outlook 2024, IEA, 2024
[2] 2026 Just Transition Assessment: Key facts and figures, World Benchmarking Alliance, 2026.
[3] Net Zero Asset Managers Initiatives, Signatories, Net Zero Asset Managers Initiatives, 2026.
[4] 2026 Just Transition Assessment: Key facts and figures, World Benchmarking Alliance, 2026
[5] 2026 Just Transition Assessment Factsheet, World Benchmarking Alliance, 2026

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Just transition matters to financial institutions

A just transition is not simply a social responsibility issue. **It influences long-term returns, capital deployment and stakeholder confidence**.

Fiduciary duties and long-term returns

Climate change and its impacts to people both have the potential to affect long-term economic growth and investment performance. Understanding the social impacts of the transition helps financial institutions protect beneficiary interests and manage long-term portfolio value as part of their fiduciary duties.

Capital deployment and value creation

Projects that effectively manage workforce, community and broader social impacts are more likely to secure approvals, maintain social license and attract investment. Integrating social impacts early strengthens project bankability, unlocks transition finance opportunities and supports more resilient returns.

Systemic risk management

Climate change is a well-recognized risk to the financial system. People-related impacts are also being recognized as systemic risks that can influence economic resilience, market stability and long-term returns. Failure to manage a just transition exposes financial risks and undermine the achievements of climate objectives.

Meeting stakeholder requirements

Regulators, policymakers and investors expect climate and social impacts to be addressed together. Financial institutions that proactively integrate social impacts into decision-making are likely to be better prepared for evolving disclosure, due diligence and financing requirements.

Financial institutions that understand how social impacts affect financial performance will be better positioned to overcome capital flow barriers and unlock transition finance opportunities.

> “A just transition for all towards an environmentally sustainable economy... needs to be well managed and contribute to the goals of decent work for all, social inclusion and the eradication of poverty.”
>
> **International Labour Organization**[6]

[6] Guidelines for a just transition towards environmentally sustainable economies and societies for all, International Labour Organization, 2015

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Just transition is a requirement, not just an expectation

The evolution of global frameworks demonstrates a clear shift in stakeholder expectations, which extends beyond emissions reduction to social impact including to workforce, community, human rights, social license and equitable participation. The timeline below highlights key just transition frameworks, regulations and requirements and is intended to be non-exhaustive.

2012

- International Finance Corporation (IFC) Performance Standards on Environmental and Social Sustainability updates

2013

- International Labour Organization (ILO) International Labour Conference (Green Jobs and Sustainable Development)

2015

- ILO Guidelines for a Just Transition towards Environmentally Sustainable Economies and Societies for All
- Paris Agreement recognizes the "imperatives of a just transition"[7]
- United Nations (UN) Sustainable Development Goals (SDGs) link climate action with decent work, reduced inequality and poverty and gender equality[8]

2018

- UN Principles for Responsible Investment (PRI)'s Statement of Investor Commitment to Support a Just Transition on Climate Change
- Grantham Research Institute on Climate Change and the Environment Climate Change and the Just Transition: A Guide for Investor Action

2019

- European Green Deal — Directorate-General for Employment, Social Affairs and Inclusion

2020

- European Union Just Transition Mechanism and the EU Just Transition Fund

2021

- World Benchmarking Alliance launches just transition methodology to assess company integration of social equity, inclusivity and rights of workers into transition plans[9]

2022

- UN Framework Convention on Climate Change (UNFCCC) Just Transition Work Programme
- Asia-Pacific Economic Cooperation (APEC) Just Transition Initiative
- Climate Action 100+ introduces Just Transition indicator to Net Zero Company Benchmark[10]
- Glasgow Financial Alliance for Net Zero Financial Institution Net-zero Transition Plans
- ILO Just Transition Finance Tool for banking and investing activities

2023

- International Sustainability Standards Board (ISSB) Climate Disclosure Standards (IFRS S1 and IFRS S2)
- EU Corporate Sustainability Reporting Directive (CSRD)
- ILO and UN Environment Programme Financial Initiative Just Transition Finance Pathways for Banking and Insurance
- Transition Plan Taskforce (TPT) Disclosure Framework for good practice transition plans
- Climate Investment Fund Just Transition Planning Toolbox

2024

- Corporate Sustainability Due Diligence Directive (CSDDD)
- G20 Sustainable Finance Working Group highlights advancing robust, credible and just transition plans as a priority[11]
- Investor Group on Climate Change (IGCC) Investor Expectations for Corporate Just Transition Planning

2025

- International Court of Justice advisory opinion on climate change unanimously holds that states have human rights obligations in respect to the adverse impact of climate change [12]
- COP30 launches the Just Transition Mechanism (Belém Action Mechanism) to increase international cooperation, technical assistance, capacity building and knowledge sharing enabling equitable, inclusive just transitions [13]

2026

- Taskforce on Inequality and Social-related Financial Disclosures (TISFD beta version)
- Asian Development Bank's (ADB) Environmental and Social Framework
- First International Conference on Transitioning Away from Fossil Fuels (TAFF)
- Institutional Investors Group on Climate Change (IIGCC) Supplementary Guidance on Just Transition

[7] Paris Agreement (Paris, 12 December 2015), 2015
[8] The 17 Goals, United Nations, 2026
[9] Just Transition Assessment Methodology, World Benchmarking Alliance, 2026
[10] Net Zero Company Benchmark, Climate Action 100+, 2025
[11] Presidency and Co-chairs Note on Agenda Priorities, G20 Sustainable Finance Working Group, 4 January 2024
[12] https://www.icj-cij.org/case/187
[13] https://unfccc.int/sites/default/files/resource/cma2025_19a01E.pdf#page=9

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What are leading financial institutions doing?



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A practical agenda for financial institutions

Leading financial institutions are proactively addressing just transition risks and opportunities, identifying the actions to unlock capital. In doing so, they are creating more resilient, inclusive and investable transition that can return long-term value.

		Practical actions
Risks	Legal and regulatory risks	Commitment and governance
Risks	Operational risks	Risk management and due diligence
Risks	Reputational risks	Investment stewardship and collaboration
Opportunities	New markets and climate finance	Capital allocation
Opportunities	Commercial growth and portfolio resilience	Value creation
Opportunities	Driving transition outcomes through engagement	Stakeholder engagement
Opportunities	Strategic positioning and business resilience	Impact measurement and reporting

> “The cost of ignoring social risks is clear. Without action, companies leave themselves and their investments exposed financially and competitively.
>
> Financial institutions must act now to turn just transition commitments into capital allocation, measurable impact and long-term value.”

Julie Vasadi
Global Lead, Sustainability Advisory
KPMG International
Partner
KPMG Australia

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Social risks are investment risks

When transition-related risks to people are not understood or managed, they **become operational, legal and regulatory compliance and reputational risks for financial institutions and diminish financial value**.

From transition activities to social risks

The transition from a high-carbon economy to a low-carbon economy is reshaping industries, workforces and communities, contributing to:

- **Workforce risks:** Including skills shortages, workforce transition, retraining costs, labor disputes and their economic impacts.
- **Community risks:** Such as local opposition, complaints, livelihood impact, community-driven disruption and loss of social license to operate.
- **Human rights risks:** Including modern slavery, Indigenous People's land rights violations and exacerbation of inequalities already experienced by vulnerable populations including women and young people.

Read on for real-world case studies of how unmanaged social risks negatively affect investment outcomes, and practical actions to help you manage these risks.

Investment risks linked to unmanaged social risks

For financial institutions, the critical question is not whether social risks occur, but how they influence financial performance through:



Legal and regulatory risks: Financial institutions may face increased legal and regulatory exposure where social risks are not adequately identified, managed and disclosed.



Operational risks: Unmanaged social risks can impair project and portfolio performance through delays, cost escalation, operational disruption and reduced returns.



Reputational risks: Negative social impacts can damage stakeholder relationships, weaken investor confidence and diminish access to future investment opportunities and capital.

> “A just transition must put people first — protecting rights and livelihoods, ensuring communities share equally in the benefits and that the costs are distributed fairly.”
>
> **Andy Symington**
> Co-lead, Just Transition
> KPMG Australia

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Legal and regulatory risks

The transition is occurring within an environment of rapidly evolving legal, regulatory and disclosure requirements. Financial institutions increasingly operate alongside social risk, human rights due diligence, regulatory requirements, sustainability disclosure and transition planning requirements. Regulators, investors and civil society are placing greater scrutiny on how financial institutions identify, manage and disclose social risks associated with their financing activities.

Legal challenges can arise from allegations of inadequate stakeholder engagement, human rights impacts, misleading sustainability claims, or failure to identify and manage social risks within investments. When these risks are poorly managed, they diminish financial and social value.

Case study

Just transition litigation

Financial institution, Europe: A major financial institution was the subject of legal action alleging that, by continuing to support fossil fuel expansion, it had failed to adequately manage the social and environmental risks associated with its financing activities, including impacts on communities and human rights. Although the case remains ongoing, it has prompted changes to the financial institution's financing commitments, including restrictions on financing certain new fossil fuel projects. **Financial institutions must consider not only emissions alignment but also the broader social consequences of their portfolios**.

Case study

Greenwashing

Financial institution, Australasia: A financial services firm was subject to regulatory action for misleading sustainability and ethical representations about its investment products. The regulator found that claims regarding the application of ESG criteria were not adequately supported, resulting in a financial penalty. **Greenwashing risk does not generally stem from malicious intent but rather from a lack of governance, risk identification and coordination across asset management, marketing, product development and governance teams.**

How we can help

Assessing regulatory and reputational risk

We have supported a global bank to assess climate-related risks and opportunities, including regulatory and reputational risks across upstream activities, its own operations and downstream financing over short-, medium- and long-term horizons. The specific risk considered how stakeholder expectations, greenwashing allegations, litigation or unmet climate commitments could affect its reputation and financial prospects, and how those potential risks could be mitigated through its various climate initiatives, controls and governance.

Practical action

Commitment and governance

- Establish a clear, board-approved public just transition commitment that reflects their sector, operations and geographic footprint.
- Embed just transition principles across governance, transition planning, risk management, capital allocation, stakeholder engagement, and impact measurement and reporting.

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Operational risks

Many transition projects fail not because of financial or execution challenges, but because risks to people have not been adequately considered. Social risks, such as stakeholder conflict, unequal economic benefits and community opposition, can delay approvals, increase costs, disrupt operations and reduce investment returns.

For financial institutions, the consequences extend beyond individual project viability. Operational disruptions can also constrain portfolio performance, asset values and the pace of capital deployment across transition sectors and their value chains. **These operational risks, resulting from unmanaged social risks, rarely occur in isolation and can escalate into interconnected legal and reputational exposure.**

Case study

Project failure

Renewable energy project, Australasia: A proposed US $500 million large-scale wind energy project faced strong opposition from local groups and a lack of support from key stakeholders. Project plans were amended numerous times in response to concerns regarding its potential environmental impacts, including its proximity to environmentally significant protected areas. However, these concerns remained unresolved and ultimately contributed to the project's failure.

Ineffective stakeholder engagement can result in the loss of social license to operate as well as project failure.

How we can help

Social and human rights risk identification and management

We work with renewable energy developers and investors to:

- Identify potential and actual human rights and social risks through operational and supplier assessments (including modern slavery, social license and Indigenous People's rights).
- Design and implement assessment and due diligence tools to assess social risks and opportunities across the project lifecycle.
- Develop and implement stakeholder engagement plans to facilitate identification of risks and co-design of mitigation measures.
- Develop operational and governance procedures at entity and site level to manage identified risks, incorporate risks into financing conditions, monitor and report across the portfolio.
- Build capability of personnel to manage these risks effectively through practical guidance.

Our end-to-end approach helps manage operational risks while supporting people through the transition.

Practical action

Risk management and due diligence

- Integrate just transition into investment screening and due diligence processes by assessing workforce, community, human rights and social license risks alongside traditional ESG factors.
- Engage affected stakeholders early and apply established human rights and social performance frameworks, such as those from the ILO, UN Global Compact and IFC, to strengthen risk identification and management.

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Reputational risks

Stakeholder perceptions can influence value creation as much as formal approvals. Investors, regulators, customers, communities and civil society are paying greater attention to how financial institutions manage the social impacts associated with the transition.

Where stakeholders believe they are being harmed, reputational risks can emerge quickly and extend well beyond a single project or investment. Importantly, the loss of trust can influence stakeholder support, access to capital, customer confidence, regulatory relationships and project delivery.

For financial institutions, reputation is increasingly linked to the credibility of transition strategies and the ability to demonstrate that climate objectives are being pursued in a way that appropriately considers impacts on people.

Case study

Failure to manage social impact

Solar energy project, Middle East: An International Independent Ombudsman launched a compliance investigation into a renewable energy project following complaints from local tribes relating to violations of land rights and loss of livelihoods, assets and access to natural resources, while also being excluded from project benefits. The investigation found that the project failed to adequately identify the tribe as an affected stakeholder, or consult with affected communities despite long-standing use of the affected land, consider loss of livelihood associated with land loss used for livestock, cultivation and natural resources, or collect sufficient social baseline data on affected population and their livelihood dependencies. As a result, the project was required to implement corrective action including a Management Action Plan, proper social impact assessments, and livelihood restoration plan.

Renewable energy projects can create significant social license and human rights risks when customary land users are not adequately identified, consulted, or included in benefit-sharing arrangements, even where projects contribute materially to decarbonization.

How we can help

Engaging on First Nations social impact

KPMG helped develop two First Nations-led resources for investment and stewardship: the Dhawura Ngilan Business and Investor Guide and CEC's Leading Practice Principles.

Investors can use these resources to:

- Screen investments for governance, Free Prior Informed Consent (FPIC), cultural heritage, community benefits, grievance and remedy;
- Set investee expectations and turn gaps into engagement milestones, financing conditions, voting or escalation; and
- Monitor portfolios and advocate with policymakers, regulators and industry partners for stronger standards.

Together, they provide a common stewardship reference that supports self-determination and protects living cultural heritage.

Practical action

Investment stewardship and collaboration

- Integrate just transition into stewardship activities by engaging investees and clients to strengthen transition planning, social outcomes and accountability through financing, advice and incentives.
- Collaborate with policymakers, regulators, industry partners and development finance institutions to address market barriers, align transition priorities and mobilize capital to support inclusive, place-based transition outcomes.

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Creating value through just transition

The investment case for a just transition extends beyond financial risk mitigation. Financial institutions that proactively identify, assess and manage social risks are often better positioned to access and allocate capital, improve portfolio resilience and unlock emerging transition finance opportunities.

Driving transition outcomes through engagement

Use stewardship, engagement and advisory support to strengthen client transition outcomes.

Strategic positioning and business resilience

Embed social impacts into strategy and reporting to improve readiness for just transition requirements and strengthen long-term competitiveness.



New markets and climate finance

Unlock new climate finance opportunities and improve project bankability.

Commercial growth and portfolio resilience

Understanding customer barriers creates opportunities to develop new products, expand markets and strengthen portfolio resilience.

> “The work we do requires a lot of **creativity and negotiation** to design financing strategies that blend different sources of capital to help the transition to a greener, more sustainable future.”
>
> **Cathy Chen**
> Global Climate Finance Lead
> KPMG International

Read on for real-world case studies of how managing social impacts creates investment opportunities, and practical actions to help you capitalize on these opportunities.

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New markets and climate finance

Financial institutions and investors play a critical role in financing just transition by mobilizing capital towards underfinanced climate solutions, including adaptation, resilience, and investment opportunities, particularly in emerging markets and developing economies (EMDEs).[14]

While there is a significant opportunity to meet climate finance demand, research has also identified a distinct lack of 'bankable' transition projects in EMDEs. "Emerging markets and developing economies (EMDEs) have accounted for over 95 percent of the increase in greenhouse gas emissions (GHG) in the past decade and require US$1 trillion in external finance per year by 2030 to meet climate targets" (World Economic Forum).[15] Applying a just transition lens to financing can help reduce project risks and improve bankability by strengthening project design, improving stakeholder engagement, and supporting the management of social and economic risks associated with decarbonization. This can attract investment partners and support blended finance and risk-sharing structures, helping financial institutions access new markets and deploy capital into previously constrained investment opportunities.

Case study

Blended finance structures in EMDEs

Solar program, Africa: Facing unstable electricity supply, a government launched an initiative to develop utility-scale solar capacity to reduce reliance on a single source of electricity generation and strengthen energy security. The program mobilized private investment using a blended finance structure that combined concessional financing, payment guarantees, political risk insurance, standardized project documentation and transaction support. By mitigating off-taker, investment and development risks, the program improved project bankability and attracted strong international developer interest. The initiative reached financial close within a relatively short timeframe and delivered highly competitive long-term electricity tariffs, demonstrating how risk-sharing mechanisms can lower the cost of capital and attract private investment in emerging markets.

Risk-sharing and blended finance can unlock private capital, improve project bankability and accelerate climate investment in emerging markets.

[14] Just Transition: Supplement to the Net Zero Investment Framework, Institutional Investor Group on Climate Change (IIGCC), 2026
[15] From Risk to Reward: Unlocking Private Capital for Climate and Growth, World Economic Forum (WEF), 2025

How we can help

Financing accelerated asset retirement

KPMG advised on compensation and financing arrangements for the owner of a large power-generation asset participating in a multilateral energy-transition initiative.

The work assessed how to bring forward the asset's retirement by shortening its contracted operating period, while preserving economic value for the owner and mobilizing blended public and private finance. It also considered how financing could support a credible retirement pathway and just-transition planning for affected workers and communities.

Carefully structured compensation can align owner economics with investor requirements and decarbonization objectives, helping make accelerated retirement more investable and socially responsible.

Practical action

Capital allocation

- Align portfolio construction, capital allocation and product development with just transition objectives by directing investment towards opportunities that deliver financial returns alongside positive social and environmental outcomes.
- Embed just transition priorities into financing structures through socially inclusive products, blended finance mechanisms, and lending covenants that incorporate due diligence findings, implementation requirements and measurable social performance indicators.

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Commercial growth and portfolio resilience

The transition to a low-carbon economy creates commercial growth opportunities for financial institutions by generating new demand for products, services and customer support across emerging transition markets.

When considering the social impacts of the transition, financial institutions can better identify underserved clients facing affordability, access or capability barriers, and develop tailored solutions across areas, such as retrofit finance, green lending, climate resilience products and workforce reskilling.

This can broaden financial institutions' customer base while supporting new enterprise formation, green jobs and economic activity, creating opportunities to expand lending and investment across emerging transition markets. Importantly, these growth opportunities also support risk management, as solutions that improve client resilience, asset quality and accessibility can reduce transition, credit and social risks within financial institutions' portfolios.

Case study

New customer support services

Financial institution, Europe: By offering green mortgages and renovation loans to fund sustainable upgrades, alongside renovation and modernization tools tailored to local markets, a financial institution combines financing with practical support to help customers address barriers such as high upfront costs, limited technical knowledge, and difficulties coordinating contractors or accessing reliable advice. More efficient homes can receive higher valuations and have greater resilience to tightening energy performance regulations, reducing the likelihood of becoming stranded assets while enhancing borrower affordability. With a substantial mortgage portfolio, the institution has identified green mortgages as a strategic opportunity to support the transition of its lending portfolio and respond to growing customer demand for green products. **Financial institutions can create commercial opportunities and meet growing customer demand by addressing social barriers to participation in the transition.**

How we can help

Sustainable Value Creation

KPMG's Sustainable Value Creation Framework translates sustainability-related risks and opportunities into measurable financial and business value impacts, which bridges the gap between traditional financial and social performance metrics.

For example, where social risks are ignored, or unmanaged, financial and operational risks can include workforce disruption, project delays, and supply chain disruption, which directly leads to revenue loss, higher operating costs, and reduced EBITDA.

While organizations demonstrating strong just transition performance can gain access to transition finance, sustainability-linked capital, and potential preferential procurement opportunities, directly resulting in revenue growth and reduced cost of capital.

Practical action

Value creation

- Measure just transition impacts by integrating social and environmental considerations into investment decisions, helping strengthen long-term business resilience, value creation and transition outcomes.
- Quantify the financial implications of social risks and opportunities, linking them to metrics such as EBITDA, cashflow and CAPEX to inform capital allocation, demonstrate returns on action, and highlight the cost of inaction.

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Driving transition outcomes through engagement

Financial institutions can play a critical role in supporting a credible and inclusive transition by integrating affected stakeholder perspectives, including workforce, communities, Indigenous Peoples, suppliers and vulnerable groups, into strategies and plans which inform investment stewardship, client engagement and advisory services.

Through ongoing dialogue, capability building and tailored support, investors and lenders can help investee companies strengthen transition strategies, manage climate-related risks, and address the social impacts of decarbonization.

Case study

Stakeholder engagement in just transition strategy

Energy company, Europe: An energy company incorporated a just transition strategy within its net zero plan, developed in close collaboration with investors, employees, trade unions, communities and supply chain partners. The strategy emphasized the socioeconomic impacts of the company's decarbonization efforts on workers, communities and the value chain. Stakeholder engagement played a critical role in shaping the strategy, helping the organization identify stakeholder priorities, while strengthening the strategy's credibility.

The resulting strategy was recognized as a leading practice within the sector. The organization continues to report progress, strengthen measurement approaches, and assess costs and benefits associated with the strategy.

Meaningful stakeholder engagement can help organizations develop more credible transition plans, strengthen social license and better manage workforce and community impacts of decarbonization.

How we can help

Stakeholder engagement as a central pillar to social license

Stakeholder engagement is central to building and maintaining social license across the infrastructure lifecycle.

In response to community concerns about transmission impacts on agricultural landholders, KPMG worked with Energy Charter to develop the Better Practice Social Licence Guideline. Its principles help energy businesses mitigate negative impacts, create shared value and remain accountable through biennial reviews; the 2026 review found markedly improved landholder relationships.

The Guideline was co-designed through deep engagement with agricultural, community and industry stakeholders, supported by community research. This process identified potential and actual social impacts, tested stakeholder priorities and translated them into practical mitigation and management measures for planning, delivery and operations.

Practical action

Stakeholder engagement

- Identify and engage affected stakeholders, including workers, communities, Indigenous peoples, suppliers and vulnerable groups, to understand social risks, opportunities and expectations.
- Use insights from stakeholder engagement to prioritize material issues, co-design responses, embed actions into decision-making, and monitor and report outcomes to maintain social license and strengthen transition outcomes.

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Strategic positioning and business resilience

Integration of just transition into financial institutions' own strategy and processes can support long-term resilience through more informed strategic positioning and decision-making. By embedding social impacts into governance, due diligence, stakeholder engagement and internal reporting processes, financial institutions can improve visibility of transition-related risks and opportunities and better understand potential impacts on project viability, credit quality and long-term portfolio performance.

Effective integration requires collaboration across functions including risk, strategy, sustainability and product development, helping ensure social impacts are consistently incorporated into investment, financing and risk management decisions.

Case study

Holistic ESG reporting

Financial institutions are strengthening disclosure of social risks, impacts and management practices as part of broader ESG reporting. These disclosures support alignment with emerging frameworks such as the Taskforce on Inequality and Social-related Financial Disclosures (TISFD), alongside regulatory developments including the EU Corporate Sustainability Reporting Directive (CSRD).

Financial institution, Europe: In a CSRD-aligned annual report, a financial institution applied a double materiality approach to disclose both the impacts of its activities on society as well as the financial risks and opportunities arising from environmental and social factors. This included the identification of human rights and labor conditions in its value chain as material issues, alongside climate-related exposures linked to its lending portfolio. **By moving beyond siloed reporting towards a more comprehensive view of organizational risks and impacts, companies can provide more valuable, holistic and decision-useful metrics and information for investors.**

How we can help

Embedding social impact into business resilience and responsible growth

Working with a global resources company across Asia Pacific and the Americas, we supported the integration of newly acquired operations by strengthening social performance governance systems aligned with leading international standards. Through site assessments, stakeholder engagement and social performance reviews, we identified key social risks and opportunities, developed targeted action plans, and embedded social impacts into governance, decision-making and risk management processes across the portfolio.

We also delivered participatory social impact assessments with Traditional Owners and community stakeholders to better understand local priorities, potential impacts and opportunities for shared value creation. This helped the client improve visibility of social risks and opportunities, strengthen stakeholder relationships, and build a more consistent and resilient approach to responsible resource development across diverse operating environments.

Practical action

Impact measurement and reporting

- Establish consistent just transition metrics to measure and monitor social impacts, risks and opportunities alongside climate and financial performance, enabling more informed investment and stewardship decisions.
- Embed metrics into reporting, transition plans and decision-making processes, and align disclosures with emerging frameworks to transparently demonstrate progress against social impact objectives.

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Glossary

Bankability
Extent to which a project, investment, or initiative is considered capable of attracting financing because its risks and returns are sufficiently understood and acceptable.

Blended finance
Finance that combines guarantees, concessional capital, technical assistance and partnerships with multilateral development banks and development finance institutions.

Capital allocation
Process of determining where an organization invests, lends, deploys, or commits financial resources.

Climate finance
Financing directed toward activities that support emissions reduction, climate adaptation, resilience, or other climate-related objectives.

Decarbonization
Process of reducing or eliminating greenhouse gas emissions from activities, products, operations, sectors, or economies.

Double materiality
Approach that considers both how sustainability issues affect a financial institution and how the financial institution affects people, society, and the environment.

Emerging markets and developing economies (EMDEs)
EMDEs are lower- and middle-income countries that are continuing to develop economically and are critical to global growth, development and climate transition efforts.

Fiduciary duty
Obligation of investors, trustees, directors, and financial institutions to act in the best interests of beneficiaries, clients, or stakeholders.

Financial institutions
Organizations that facilitate the flow of capital and financial services, including banks, insurers, asset owners, asset managers, development finance institutions and other financial intermediaries.

Free, Prior and Informed Consent (FPIC)
Principle that Indigenous Peoples have the right to make informed decisions about activities that may affect their lands, resources, or rights before those activities proceed.

Greenwashing
Practice of misrepresenting the environmental benefits, sustainability performance or climate credentials of a financial institution, product, investment or activity.

Human rights due diligence
Process used to identify, assess, prevent, mitigate and address negative impacts on people and human rights.

Impact measurement
Process of assessing and tracking the outcomes generated by activities, projects, investments or financial institutions.

Just transition
Process of minimizing the negative impacts and maximizing the positive impacts for all people throughout the evolution towards a low-carbon economy.

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Just transition finance
Capital allocated to support climate and transition activities while also delivering fair social impacts for affected workers, communities, and stakeholders.

Modern slavery
Severe forms of labor exploitation, including forced labor, debt bondage, human trafficking and child labor.

Orderly transition
Transition to a low-carbon economy that occurs in a planned, coordinated, and economically sustainable way, minimizing disruption to communities, businesses, and markets.

Portfolio resilience
The ability of an investment portfolio to withstand and adapt to economic, environmental, social, and market disruptions.

Social license (to operate)
Ongoing acceptance, trust, and support granted by communities and stakeholders to an organization, project, or activity.

Social impacts
Effects on people as a result of business activities, investment decisions or transition-related change. Social risks are potential negative social impacts, and social opportunities are potential positive social impacts.

Stranded asset
Asset that loses economic value prematurely due to regulatory, technological, market, environmental or social changes.

Sustainability disclosure
Reporting of environmental, social, governance, climate, or human rights information relevant to stakeholders and investors.

Transition planning
Process of defining how a financial institution will adapt its strategy, operations, investments, and business model to achieve long-term objectives.

Transition risk
Financial, operational, legal, technological, or market risks arising from the shift toward a low-carbon economy.

Workforce transition
Measures that support workers affected by industrial, technological, or economic change, including retraining, redeployment, and employment assistance.

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