Did COP26 lay the groundwork for a just transition to net zero?

Recently, when COP26 President Alok Sharma called on all countries to achieve net zero emissions by 2050, 24 countries including Bolivia, India, Egypt, and Vietnam released a joint statement in opposition. They said the goal, which asks developed, developing, and emerging economies to meet the same net zero target, was "anti-equity and against climate justice."

The statement was a stark reminder that global climate efforts cannot succeed without addressing the fundamental inequity at the heart of the climate crisis. The most prosperous nations—and the most prosperous communities within these nations—have been the biggest drivers of carbon pollution. Yet climate change hits vulnerable communities and developing and emerging economies the hardest. Concern for vulnerable workers whose livelihoods are threatened by the transition from carbon-intensive industries has stalled necessary changes. And internationally, the notion that some countries are expected to shoulder an unfair portion of the burden is a major barrier to global alignment on climate action.

Many national and subnational policies, corporate commitments and global pacts have failed to address such inequities, undermining climate action. If the situation persists, the world could be headed for a future in which both climate change and inequality worsen in concert—threatening social stability and calling into question businesses' and governments' social license to operate. This future, however, is not inevitable. Leaders across government, business, and civil society must be committed to making the difficult choices of giving up unsustainable path dependencies and adopting paradigm-shifting approaches —toward a more sustainable future for the planet and the people living on it.

Toward a just transition

A just transition would position the wellbeing of all people as the central goal of climate action and seek to equitably distribute its costs and benefits. This type of framework bridges the gap between the environmental priorities of the UN Paris Agreement and the socio-economic and development priorities of the UN's Sustainable Development Goals.

But to make this a reality, government and business must take their cues from civil society and affected communities, and then work together—with policymakers enabling and incentivizing a sustainable path forward to shift industry behaviors. Leadership from business is crucial as 79% of the top 200 economic entities (by revenue) are corporations rather than governments. With extensive human and ecological footprints, international supply chains, and far-reaching brand influence, corporations are uniquely positioned to bring climate equity to scale and drive the global response.

As communities, consumers and investors increasingly demand that business establish a new status quo, the expectation is that just transition is not merely a philanthropic endeavor, but a fundamental shift in business models and strategic decision-making that creates systems change for a newer low carbon future. Rising to this challenge will be critical to achieving climate goals. This requires action on three key fronts: supporting workforce transitions, finding pathways to sustainable development, and leveraging core operations to build resilience in vulnerable communities.

1. Supporting workforce transitions

For vulnerable communities that have long relied on high-emitting industries for work and to maintain local economies, net zero isn't a hopeful benchmark—it signals uncertainty and a potential loss of livelihood. The transition away from a fossil fuels based-economy could result in the loss of 6 million gross jobs globally by 2030. But with a just transition, these losses could be far outweighed by enormous gains. According to the International Labour Organization, the industry and system transformations required to keep global warming below 2 degrees Celsius could create 18 million net jobs worldwide. Governments, businesses, and impacted groups working together to train and employ displaced workers can pave the way for sustainable industries while reducing long-term risk to local economies and workforce as seen for example in Germany's Ruhr region, once a thriving coal-centered economy.

Today, some countries are at the forefront of just transition processes. Nearly 50 countries support the UN Climate Action for Jobs initiative, which endorsed a 10-year strategy to put people's jobs and well-being at the center of the transition to carbon-neutral and climate-resilient economies. At COP26, South Africa made an important commitment to move away from coal and matched it with a commitment to protect the workforce. As South African Environment Minister Barbara Creecy said, "The wellbeing of workers and communities in the transition is an absolute non-negotiable. Vulnerable workers and communities... who bear no responsibility for the historical accumulation of carbon emissions, must be protected." In response the US, UK, France, Germany, and EU committed to helping fund South Africa's coal phaseout.

2. Building sustainable paths to development

Just as building a net zero economy doesn't have to destroy people's livelihoods, it also doesn't have to prevent countries and communities from developing their economies. Through new technologies, business models, and targeted investment and engagement, leaders in business and government can help forge new, more sustainable paths to development.

For instance, central banks and multilateral development banks can enter public-private partnerships to mobilize funding to mitigate economic losses. They can also accelerate communities' ability to take full advantage of the subsequent gains. By backing small-to-medium sized enterprises and supporting local transition and empowerment efforts, these collaborations can fortify local employers and markets and make them more resilient against climate disaster. In 2020, multinational development banks' climate finance to low- and middle-income economies reached US$38 billion dollars, which is a step, but not nearly enough. The shift within the institutional investment landscape, however, can also help to accelerate sustainable development. As Environmental, Social and Governance (ESG)-related investment funds become increasingly prioritized, institutional investors will have a large role in directing new sources of capital and creating the conditions necessary for sustainable development.

But for this investment to be successful, it will need two things. First, consistent engagement among governments, workers, employers, civil society, and communities. Encouraging robust community dialogue and participation at every step of decision-making will help ensure adaptation and mitigation efforts truly benefit these populations.

And second, data. Leaders can leverage data sets like the Social Progress Imperative's Social Progress Index (SPI) to inform strategic investment and policy decisions to help ensure a just transition. With 107,000 data points and 53 social and environmental outcome indicators, the 2021 Social Progress Index specifically tracks sustainability performance alongside social progress helping policy makers and business leaders to understand how countries and societies are progressing in the face of challenges like climate change. Findings show that sustainability does not have to come at the cost of social progress and supports leaders and investors to distribute resources more effectively to the communities who need them most.

Government and business should not only use such data, but also align on "social metrics" to reach consensus on the desired outcomes in consultation with local communities. Only with clear goals will government and business move beyond making incremental improvements and drive change at scale.

3. Racing to resilience

As communities across the world prepare to adapt, leaders in business and government should invest in making them more resilient—not only investing in specific climate adaptation projects, but also ensuring that communities have a strong foundation of shared prosperity and empowerment. Earlier this year, businesses, investors, cities and civil society joined a Race to Resilience Campaign to strengthen the resilience of 4 billion people in vulnerable communities by 2030.

Governments and businesses can start by evaluating their core operations. Already, policymakers in the UK are calling on their public sectors to leverage their purchasing power to stimulate social progress and sustainability.

Business has much to gain by doing the same. The keys to a successful enterprise are the people and natural resources across its supply chain. Companies will need to prioritize the resilience of their supply chain by embedding sustainable sourcing practices and protecting workers at each stage. ESG reporting can reflect whether companies are making these essential investments and delivering results. Companies are recognizing this reality. For instance, at COP26, ten leading agricultural commodities companies committed to work across their supply chains to end deforestation, halt biodiversity loss, and provide sustainable livelihoods for farmers.

Governments can spur more of this kind of action by holding business accountable. Numerous governments—Germany, Switzerland, Denmark, Canada, Norway, Finland, Austria, and South Africa, to name a few—are already considering enforceable compliance mechanisms for preventing and mitigating these harms and incentivizing companies to ensure social and ecological considerations are reflected at every step in their value chains.

Conclusion: What does this mean for business?

Ultimately, businesses cannot succeed if societies fail. As climate risks and inequities rise, business success will require a more active role in creating and nurturing these societies.

Identifying and working toward a purpose that goes beyond profit will be essential. Operational performance will be inextricably linked to long-term value creation and the collective wellbeing. Going forward, investors will evaluate business' climate risk and resilience, as well as how they are addressing workforce challenges and inequalities across their value chains.

As the world takes on twin environmental and social crises, businesses working alongside government have an opportunity to help ensure that the prosperity they create is sustainably generated, broadly shared, and translated into real and meaningful improvements in people's lives.

Find out more:

- Deloitte COP26 Climate Exchange
- Leading in a Low Carbon Future
- Will COP26 incentivize the scale of investment needed and deliver an equitable transition?
- Did COP26 discussions deliver on incentivizing sustainable investment?

- Did COP26 lay the groundwork for a just transition to net zero?
- COP26 has wrapped. What's next for finance and climate equity?

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