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The Business Case for Just Transition

An Overview of the Economic Benefits of the Transition to a Sustainable Economy

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Bureau for Employers Activities (ACT/EMP)
International Labour Organization

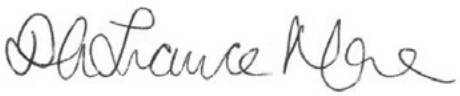
Foreword

The transition to a resilient, low-carbon economy represents a transformative opportunity for businesses around the world. Business leaders today face the challenge of balancing economic, social and environmental goals in their strategies to drive business growth, create value and decent jobs, while protecting the environment and remaining or becoming competitive. This report, *The Business Case for Just Transition*, aims to provide a roadmap for enterprises that want to pursue these goals in a balanced, strategic way and reap the benefits of sustainable practices. By adopting innovative approaches to resource efficiency, stakeholder alliances and inclusive workplace practices, companies of all sizes can harness just transition to achieve greater resilience and profitability. With sound policies and an enabling business environment, companies and employer and business membership organisations (EBMOs) can be powerful agents of change in achieving sustainable development.

At the International Labour Organization (ILO), we recognise the importance of creating an enabling environment for enterprises to lead this transition to sustainability. EBMOs have a crucial role to play in advocating for the appropriate policy, legal, institutional and regulatory conditions for a just, viable and achievable transition. This report highlights the critical role of EBMOs in guiding their members towards sustainable business practices that generate economic value and support the goals of micro, small and medium-sized enterprise development, decent work and environmental protection. Through diverse case studies and a comprehensive examination of challenges and solutions, we hope this document will provide valuable insights for business leaders and policymakers alike as they chart a sustainable path forward.

This publication is the result of a team effort characterised by dedication and expertise. We would like to express our gratitude to José Luis Viveros Añorve, ACT/EMP specialist, who designed and coordinated the research project, shaped the content and co-authored this report. We are also indebted to Jorge Ramirez Mata, ITC-ILO ACT/EMP specialist and co-author, who conducted an in-depth literature review and drafted the first iteration of the report, providing a solid research base. Our sincere thanks go to Alsacia San Martin for her unwavering support throughout the research and drafting process, which enriched this work.

In presenting *The Business Case for Just Transition*, we hope it will serve as a key resource for business leaders, policymakers, EBMOs and stakeholders committed to building resilient, productive and sustainable economies. This report is intended not only as a framework, but also as an invitation for continued dialogue and partnership with and among our constituents. We stand ready to deepen this analysis and provide further guidance in the common pursuit of sustainable enterprises that create decent jobs and inclusive and sustainable economic growth.



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Executive Summary

A just transition means greening the economy in a way that is as fair and inclusive as possible, creating decent work opportunities and leaving no one behind (ILO, 2023). It aims to foster practices that ensure sustainable economies and societies. This aim requires consideration of the three dimensions of sustainability: social, environmental, and economic (ILO, 2015).[1]

It is important to understand the origin of the Just Transition concept. It emerged from concerns about communities facing job losses as a result of environmental policies (Just Transition Centre, 2017). The growing pressure on fossil fuel industries to shift to cleaner energy has highlighted potential negative impacts on economic activity, labour markets, and land regeneration in affected communities (World Bank, 2018b). Communities dependent on coal mines serve as an example, where mine closures benefit the environment but negatively affect community income and employment, requiring support measures for affected households.

> As governments and international organizations develop just transition strategies, the question arises: how can companies adopt this framework without compromising profitability?

As governments and international organizations develop just transition strategies, the question arises: how can companies adopt this framework without compromising profitability? This report highlights how joining the just transition can promote sustainability across sectors, with examples from successful enterprises of all sizes. It explores business models that reduce negative environmental impacts while increasing a company's profitability. This document also discusses the importance of an enabling business environment to encourage a just transition. Furthermore, the last section presents multiple services implemented by EBMOs around the world in relation to the just transition.

Economic Benefits

This section delves into the economic benefits for companies joining the just transition. The literature and case studies revised during this research show tangible business-opportunities for firms, regardless of their size, in different areas of the path towards sustainability. For instance, new markets are emerging due to the shift in consumers' preferences and investors around the world are increasingly betting on green investments, leading to more financial opportunities related to green projects. Furthermore, firms boosting inclusion practices that increase workers' satisfaction have experienced positive effects on their productivity levels. In the same line, improving the company's resources-efficiency can reduce its CO2 emissions level, but it can also reduce the firm's operation costs significantly. Companies enhancing their alliances with other stakeholders can reduce reputation risks and increase acceptance rates of their projects within the community. Finally, firms around the world are now leveraging on the existing fiscal incentives for green investment, raising the companies' profitability while benefiting the environment.

The waste management sector illustrates the economic benefits the just transition can provide to companies. This economic activity represents tangible opportunities for private firms offering innovative

1 In this document we refer to sustainable practices encompassing the three dimensions, and we refer to green practices as the ones particularly benefiting the environment.

waste management services that align with circular economy business models (Business and Sustainable Development Commission, 2017). In the same logic, the shifting preferences of consumers towards products with higher sustainability standards have created new market opportunities. Companies can capitalize on these trends by developing and offering sustainable products that align with such consumer preferences, thereby tapping into profitable opportunities (UN Foundation, 2017).

Financial institutions are increasingly participating in the just transition by providing new financial instruments specifically designed for sustainable projects. Examples include technical and advisory services offered by commercial banks to help companies structure financing plans for sustainable projects (Clifford Chance, 2021). Another example of financial tools is the issuance of green bonds by companies to raise capital and fund green projects. Green bonds are traded in the debt capital market to investors for a fixed-income, and companies use them to finance green projects, assets, or business (OECD, 2016).

Incorporating a Human-Centred Business Model (HCBM) approach can improve the company's capacity to attract and retain talent. The HCBM is proposed as a viable option for companies attempting to create a positive corporate culture. It provides a framework for enterprises to manage the human capital in a way that strengthens the tights with communities. Numerous companies have already implemented the HCBM on their process, for instance is in the reallocation of human capital, effectively minimizing reputational risks (Moody's, 2021).

Diversity and inclusion (D&I) practices offer each individual equal opportunities to advance professionally, enabling workers to reach their full potential. Currently, there is an increasing trend in the labour force to demand D&I policies (Deloitte, 2017), meaning that this can be a differencing factor for enterprises competing for human talent. A company's D&I strategy includes addressing wage gaps across groups, which can enhance overall productivity. According to a study conducted by McKinsey & Company (2015), closing the gender wage gap would represent a 26% increase in the world's GDP in the period from 2014 to the year 2025.

Another key component of the just transition is increasing resources-efficiency, meaning producing more with less and reintegrate any waste into the production processes. These characteristics are in line with the circular economy business model that the Ellen MacArthur Foundation defines as an "industrial system that is restorative or regenerative by intention and design". The system represents an opportunity to reduce operation costs, and to diversify services and products that companies provide. In the EU, the adoption of circular economy business models can represent savings up to US$ 630 billion per year in the enterprises' costs (Ellen MacArthur Foundation, 2015).

To achieve a sustainable economy where everyone can transition and benefit from this process, stakeholder collaboration is essential to create an enabling business environment for a just transition. Companies can significantly benefit from the alignment of objectives with other stakeholders. For instance, enterprises working closely with communities have a better chance to rely on their support in the implementation of just transition strategies (UN Global Compact, 2022). Communication between stakeholders is vital for the just transition and for companies' operations. Enterprises can approach the relationships with customers through the implementation of a transparency policy to improve the brand recognition and reputation. Furthermore, companies can increase the productivity of their employees through the exchange of ideas on how to improve working conditions (UN Global Compact, 2022).

Regulatory or tax incentives to companies adopting sustainable strategies can boost the just transition, while providing attractive economic opportunities for private companies. Enterprises around the world are already being benefited by green fiscal policies, such is the case for businesses in Brazil where according to a survey, 81% of companies that had implemented decarbonization projects considered tax incentives in their decision processes (PWC, 2022).

Tax credits are fiscal incentives that can shift consumption towards greener products and services. For instance, the U.S. government allowed consumers buying electric vehicles (EV) to claim a reduction of 7,000 USD in their tax payments (WEF, 2023b). Loans or subsidies provided by governments to specific industries that are oriented towards sustainability can also be beneficial for companies operating in these sectors. In this regard, PWC (2023) publish the current green taxes and incentives for companies on 88 different economies.

The Enabling Environment

This section emphasizes the critical need for policy improvements to level the playing field and provide support to all companies striving to remain competitive in the just transition. The approach embraced by policymakers to encourage sustainable practices in the private sector must be comprehensive and multidimensional. Recognizing the disparities among enterprises globally, policy agendas should carefully examine and develop suitable incentives that enable every participant to thrive during the just transition.

Several policy aspects are discussed in this section to address various challenges. Firstly, there is a focus on enhancing information availability, ensuring that companies and consumers have access to reliable and comprehensive data on sustainable markets and investment opportunities. There is a global trend of business leaders increasingly pursuing net-zero strategies, primarily through greenhouse gas (GHG) reduction technologies (South Pole, 2022). However, it is worth noting that micro, small, and medium-sized enterprises (MSMEs) often remain uninformed about the cost-saving benefits that arise from implementing sustainable practices. In this context, it is crucial to close information gaps among enterprises to foster enhanced productivity across industrial sectors (OECD, 2021).

It is important to address the differences in sizes of sustainable markets in developed and developing countries. Whereas consumers in medium and high-income countries are demanding more products that are produced in sustainable ways (ING, 2019), consumers in low-income countries may not be willing to pay a premium for such products. Public policy agendas in this last group of countries need to consider that its population may face more urgent challenges regarding climate change risks, a long-term approach where demand for green products is progressively created can be an alternative (World Bank, 2019).

The divide between developed and developing countries is examined, encompassing deficiencies in enabling infrastructure. According to a report by the IMF (2017) low income developing countries have the lower perception of infrastructure quality, lower access to improved sanitation and lower electricity production compared to advanced and emerging market economies. This is an opportunity for policymakers to invest in infrastructure as it has been identified as a key factor in boosting long-term productivity (EPI, 2017).

Enabling companies' access to technology is key for a just transiting and productivity growth. Large enterprises are adopting net-zero strategies because customers are looking to buy low- or zero-carbon products. When such companies were asked about was their key component to achieve their net-zero goals, they responded that technology was essential (BCG, 2022). Technology can also connect stakeholders; an example is the sharing economy platform called "Biscate", created in Mozambique with the purpose of providing information on job opportunities for low-skilled workers. Accessing the platform had no cost and required no internet connectivity (World Bank, 2021). This allowed low-skilled workers to find a job or to start their small business.

Selecting the right policies and regulations to mitigate CO2 emissions is complex since either choice entails specific impacts on stakeholders. For instance, higher fuel prices may reduce emissions but harm consumers. Likewise, higher energy-efficiency standards may also reduce emissions but affect SMEs. According to UNDP (2022), the just transition angle should not be dissociated from the Nationally Determined Contributions (NDCs). This can be done by involving all the relevant stakeholders to discuss how to achieve the NDCs, such as: workers, communities, and vulnerable groups.

Governments are currently facing a dual challenge, to incentivize the transition away from the informal sector, while encouraging the transition towards a sustainable economy. Countries with large informal sectors are commonly linked to lower productivity levels (IMF, 2021). Policymakers face a trade-off between addressing informality and promoting sustainable practices. However, there are policy opportunity areas to track both concerns simultaneously. For instance, through the implementation of public capacity-building programs. These programs can facilitate the formalization of enterprises while providing training in sustainable practices (ILO, 2022a).

Given the expected future jobs' destruction and creation, the re-skilling and development of skills in workers is identified as a crucial aspect in the just transition. To address the skills-gap that might arise in labour markets, the ILO provides information discussing the factors that can create skills shortages. Such

as the lack of advanced education in the labour force and basic skills, the insufficiency of training systems to respond to market needs, shortage of specialist that teach green practices, underestimation of growing sustainable markets, and the failure to retain talent within companies and countries (ILO, 2014).

The OECD (2022) estimated that the investment gap to achieve the Sustainable Development Goals is 70%, which means that the access to financing is a key area that needs to be addressed in the transition towards a sustainable economy. Furthermore, governments can close this gap, specifically the low investment in decarbonization, by attracting a higher level foreign direct investment (FDI). There is evidence that supports a positive correlation between FDI and the productive capacities of enterprises in green markets (OECD, 2021).

The growth of green financial markets demonstrates numerous enterprises' inclination towards increasing their environmental performance, (Bloomberg, 2022). However, financial instruments predominantly benefit large enterprises. Thus, policymakers face the challenge to ensure equitable financial opportunities for MSMEs. Governments can offer low interest loans or implement public programmes to foster the development of MSMEs in green markets. For instance, the EU granted targeted financial support to MSMEs operating in the energy-efficiency industry (UNECE, 2022).

Policy improvements are needed to support business in achieving a just transition and maintaining competitiveness. Policy makers should adopt a comprehensive approach to promoting sustainable practices in the private sector. This includes improving the availability of information to ensure that all businesses, especially MSMEs, are aware of the cost-saving benefits of sustainability. Policymakers should also address the disparity in the size of sustainable markets between developed and developing countries to create long-term demand for green products. Access to technology and infrastructure, especially for MSMEs, should be improved to facilitate the adoption of net-zero strategies and increase productivity. Policymakers need to strike a balance between tackling informality and promoting sustainability, and capacity-building programmes can support both objectives. Reskilling and skills development are essential to mitigate employment risks during the transition, and policies should address the financing gap by attracting foreign direct investment and providing equitable financing opportunities for MSMEs.

The role of EMBOs

Employer and Business-Membership Organizations (EMBOs) can assist their members in the just transition, considering the social, economic, and environmental dimensions. EMBOs play a crucial role by providing services, participating in policy discussions, and fostering collaboration with other organizations.

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There are many examples of EMBOs offering services that support companies to achieve sustainability in their processes. Organizations around the world are providing information and consultancy services on how to enhance business performance through the implementation of inclusion practices, Corporate Social Responsibility (CSR), adoption of business models that improve resource-efficiency and by contributing to reduce the skills gap. EMBOs that encourage the adoption of environmentally and socially responsible practices among members help them adhere to official regulations. Also, the active participation of EMBOs in public policy debates is key to represent the interests of the private sector in the transition towards a sustainable economy. Collaborations between EMBOs and other organizations permit the creation of strong partnerships that support companies seeking to reduce their environmental footprints.

Various EBMOs are supporting enterprises in the implementation of Diversity and Inclusion (D&I) practices such as the campaign created by the Confederation of British Industry (CBI) in UK. This organization states that companies with policies that secure the D&I performed better compared to companies that show no concern for inclusion in the workplace. CBI offers technical advice to its members on recruitment processes and closing gender and ethnicity gaps with the purpose of encouraging enterprises to enjoy the economic benefits resulting from D&I policies (CBI, 2023).

CSR is another aspect that EMBOs around the world are addressing by providing different services. It is important for enterprises as it can have a positive impact on the company's profits due to the strengthening of brand recognition among workers that can lead to an increase in their productivity. The Federation of Egyptian Industries (FEI) is an EMBO advocating for the development of the private sector. FEI organizes annual workshops so members can discuss the CSR practices in their companies, and it provides advice on CSR for specific industries (FEI, 2023).

The Confederation of Danish Industry (DI) is another EMBO that offers advisory consultancy on topics related to CSR. The organization has created a self-assessment tool for companies evaluating CSR practices. Also, it offers legal advice on Occupational Safety and Health (OSH) regulations and training opportunities for workers and employers in this subject (DI, 2023). This organization has published documents where it constructed the business case for investing in sustainable development. The documents provide information on different Danish companies that have adopted sustainable business models and explains why they can be profitable (DI, 2016).

EMBOs around the world are increasingly recognising the importance of resource-efficient production processes. These models can benefit businesses and reduce environmental impacts. A notable example is GREPALMA in Guatemala, an EMBO comprising palm oil producers in the country. This EMBO has developed a digital tool that enables members to monitor their plantations' emissions in real-time, providing accurate measurements and allowing producers to assess the impact of process changes (GREPALMA, 2022).

Skills development is a key area of focus for EMBOs, particularly when it comes to supporting MSMEs. The Confederation of Indian Industry (CII) has established a centre of excellence dedicated to enhancing operations within MSMEs in India. This centre offers two distinct programs to address this objective. The first program focuses on capacity-building training and skill development for electric motor repairs, enabling MSMEs to enhance their technical expertise in this area. The second program provides energy audit services for various industries, along with training opportunities in energy conservation. Through these initiatives, the CII empowers MSMEs to improve their operational efficiency and sustainability (CII, 2023a).

EMBOs around the world are active participants in public policy debates. This involvement is important to shed light on the challenges faced the private sector, the knowledge can foster an enabling environment for the just transition. In this regard, Keidanren, the Japanese EMBO, has taken a stand in the green transformation of the country. The organization published an extensive proposal for a policy package that supports enterprises in the adoption of green technologies and production processes. They constructed a framework where they commented eight aspects of policy packages such as the innovation in technology, sustainable financing, economic strategies, and the achievement of a carbon neutral economy by 2050 (Keidanren, 2022).

Key partnerships have been established between EMBOs and a diverse range of public and private entities. Recognizing the significance of collaborative efforts in facilitating the just transition, EMBOs have embraced this concept. Notably, the National Association of Employers (ANDI) in Colombia has forged alliances with various organizations to create innovative programs aimed at supporting companies in adopting sustainable practices. A noteworthy example is the 30/30 Initiative, which strives to enhance waste management within the private sector through the implementation of tracking systems for every container and package throughout the country (ANDI, 2023a).

Introduction

A just transition means greening the economy in a way that is as fair and inclusive as possible, creating decent work opportunities and leaving no one behind (ILO, 2023). The ILO's guidelines (2015) state that the overarching goal is sustainable development in its three dimensions: environmental, social, and economic. The concept of just transition arises from the urgent need to establish a policy framework that facilitates the shift towards a sustainable economy that benefits all (Just Transition Centre, 2017).

In terms of the environmental component, 196 economies signed the Paris Agreement and committed their Nationally Determined Contributions (NDCs) for 2030, meaning their expected targets to reduce greenhouse gas emissions. In this regard, Suttie et al. (2017) argue that the low-carbon economy (one that causes low levels of GHG emissions compared with today's carbon-intensive economy) has emerged to address climate change and it is only one step in the process towards a net-zero carbon economy.

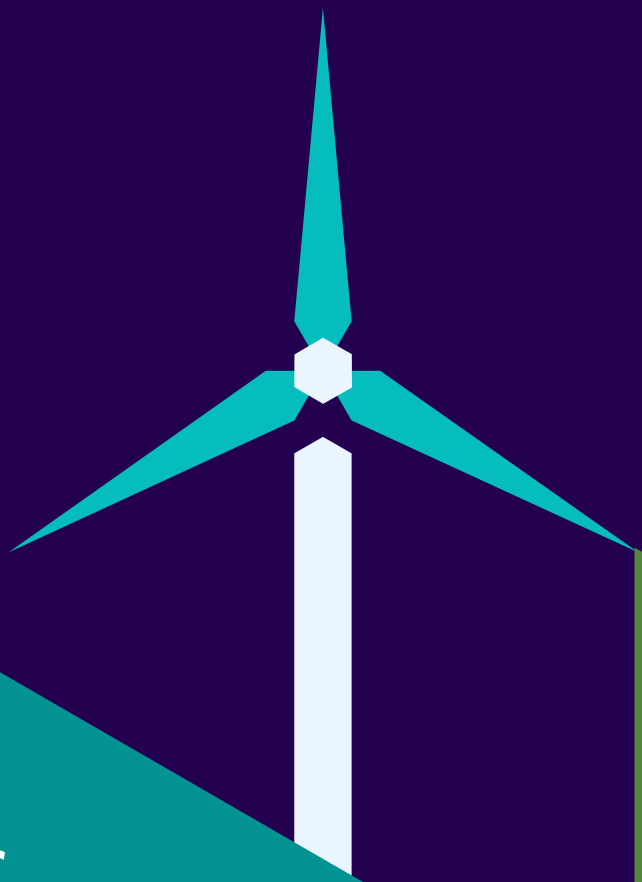
According to the United Nations, net-zero entails cutting greenhouse gas emissions to as close to zero as possible, with any remaining emissions re-absorbed from the atmosphere, by oceans and forests, for instance. To keep global warming to no more than 1.5°C, as stated in the Paris Agreement, emissions need to reach net-zero by 2050 (UN, 2023). The long-term environmental goal is to reach net-zero. However, sustainable development aims to balance environmental protection, social progress, and economic development. Thus, the social and economic dimensions also need consideration in the just transition.

This report analyses the business case for a just transition. Chapter 1 examines how a just transition impacts enterprises, highlighting relevant areas such as new markets, financing opportunities, human-centred business models, inclusion practices, resource efficiency, alliances with stakeholders, as well as regulations and fiscal incentives towards sustainable development. According to this research, there are multiple economic opportunities for companies joining the just transition. For instance, consumers' demand for sustainable products is progressively increasing, and numerous financial instruments are being created to fund sustainable projects.

Enterprises are evolving from linear to circular production models to enhance resource efficiency. This shift not only minimizes operational costs by conserving energy and other inputs but also strengthens ties between businesses and their communities. Such connections can diminish reputational risks and bolster brand recognition for companies. Additionally, by tapping into fiscal incentives designed for sustainable initiatives, enterprises can positively impact their revenue streams.

Chapter 2 highlights the need for an enabling environment for just transition. This section looks at the factors that influence the adoption of just transition practices by enterprises. In this regard, the chapter explains that there is a need for a business environment that provides adequate access to information, market demand, access to technology, improved regulation, transition to formality, physical and digital infrastructure, skills development and access to finance. Consequently, policy agendas would need to be multidimensional and address the needs of enterprises during the just transition.

Chapter 3 explores the crucial role of Employers and Business-Membership Organizations (EMBOs) in just transition. The section explores how EMBOs can support their member companies with relevant services in the areas of inclusion practices, Corporate Social Responsibility (CSR), resource efficiency and skills development. These services enable the compliance of official regulations regarding environmental and social matters among their members. Additionally, the chapter provides details on how EBMOs can embark in public policy dialogues related to just transition, vocalizing the needs of the private sector. Finally, this section explores the opportunities for EMBOs to make alliances with other relevant stakeholders to tackle down the most important challenges of the just transition, for their member companies. In Chapter 4, conclusions and recommendations are presented.



Chapter 1

1. The Business Case for Just Transition

This section explores the key mechanisms through which just transition is currently impacting enterprises, as well as the potential economic benefits that companies can experience. Based on a comprehensive literature review, this section focuses on seven relevant areas: new markets, financing opportunities, human-centred business models, inclusion practices, production processes and resource efficiency, alliances with key stakeholders, and taxes, subsidies and regulations. Each of these categories is analysed in a separate subsection. To offer practical and tangible content, each subsection includes at least one relevant case study featuring a micro, small, or medium-sized enterprise, as well as another case study featuring a multinational enterprise.

▶ 1.1 New Markets

Each year, the number of sustainability-oriented companies grows. According to a report by a major financial services provider (FTSE Russell, 2021), the green economy holds the fifth largest share of market capitalization across industries, surpassing the retail industry. This market capitalization has rapidly increased its value over time. In 2009, the value was US$ 2 trillion, whereas by 2021 it increased exponentially to US$ 7 trillion. While large enterprises account for the majority of market capitalization, small and medium-sized enterprises (SMEs) make up 79% of all companies in the green economy sector (FTSE Russell, 2021). Investing in the green economy is now a growing trend among companies.

The opportunities arising in sustainability markets include these four categories: food and agriculture, cities, energy and materials, and health. They can all be regarded as market opportunities that will become even more profitable in the future. For instance, reducing food waste in the value chain is expected to be worth as much as US$ 405 billion by 2030, the construction of energy efficient buildings is expected to be worth US$ 770 billion approximately. The adoption of circular economy models in the appliances and machinery sectors represents another profitable business opportunity. Refurbishing these products is projected to reach a market value of approximately US$ 525 billion, in addition to the positive externalities on the environment (UN Foundation, 2017).

Green economy markets have proven resilient to environmental and health crises. During the COVID-19 pandemic, supply chains around the world faced significant challenges as widespread lockdowns were implemented. Industries around the world reduced production capacity in response to government-imposed lockdowns. However, renewable energy capacity additions increased by 6% in 2021.

Solar PV, by contrast, leads the growth in renewable capacity additions as fossil fuel prices continue to rise at higher rates (IEA, 2022a). The supply risks posed by the global

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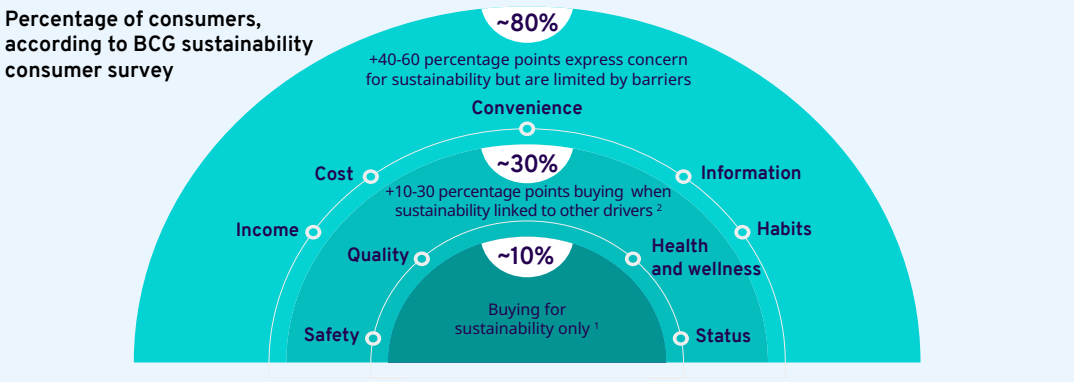
economy's reliance on fossil fuels have led to technological innovation in renewable energy, reducing barriers for companies looking to adopt sustainable technologies, for example by making the price of solar panels more competitive and accessible to everyone (Roser, 2020).

This growth tendency observed in the green economy is also responding to an evolution in consumers' preferences. Currently, the number of people demanding to buy sustainable products at affordable prices is increasing. For instance, consumers may purchase a certain product due to its impact on their health and the environment. In this regard, a recent market analysis showed that plant-based beverages are a growing trend due to their health benefits and the opportunity for consumers to reduce their carbon footprints as animal-based products are regarded as an industry with high emissions. This global market was worth US$ 24.42 billion in 2021 and has an expected compound annual growth rate of 12.7% from 2022 to 2030 (Grand View Research, 2022).

Furthermore, consumers may also choose a product due to its longer durability. According to a study conducted by the company Avery Dennison, consumers around the world have reported that this characteristic is an important consideration when buying a product. This is an opportunity for companies to invest in the durability and circularity of their products. Also, transparency in some industry sectors is prioritized by consumers. This is the case for consumers buying clothes. According to the same study, almost two out of five respondents registered a preference for traceability in the supply chain (SB, 2022).

Businesses around the world have an opportunity to invest in products that comply with sustainability standards. Figure 1.1 shows the responses of a survey applied to 19,000 consumers across eight countries, regarding their preferences and their willingness to pay a green premium for sustainable products. According to the results, 10% of consumers decided to buy green products because they wanted to make a positive impact on the environment. However, when these products and services were associated with higher quality or the chance to improve consumers' health, the percentage of consumers willing to pay the green premium increased up to three times (WEF, 2023a).

▶ Figure 1.1. Responses to the BCG Sustainability Consumers Survey 2022



Notes: 1 Includes shoppers often/very often purchasing sustainably and considering themselves as sustainable; 2 Includes shoppers that sometimes buy sustainably; 3 Includes non-buyers that would be willing to pay a more than 5% premium at parity of other benefits. **Sources:** BCG sustainability consumer survey, 2022; BCG analysis.

Source: WEF (2023a) with data from the BCG Sustainability Consumers Survey 2022.

There are several factors driving the sustainable consumer's behaviour. However, in some sustainable products, a significant intention-action gap is observed (WEF, 2022b). Companies aiming to boost consumption on sustainable products can consider certain strategic approaches. For instance, targeting social norms. Studies have shown that people are more inclined to sustainability when their neighbours have already embraced sustainable practices. Furthermore, studies have proved that hope and pride are useful emotions when communicating the appeal of buying sustainable products, (Harvard BR, 2019).

Nevertheless, consumers in the poorest economies may behave differently due to their lower income and access to green products. A recent study showed that one-third of consumers that had bought a

green product during the month before the survey, reported that they had paid significantly more for the non-sustainable alternative. According to Deloitte (2022b), the percentage of high-income households purchasing sustainable products in certain economies is two times larger than the percentage of low-income households doing it. The high poverty rate in certain developing countries is certainly a challenge to expand green markets. However, it is also an opportunity to innovate in products for undersupplied industries. According to the Business and Sustainable Development Commission, half of the total business opportunities emerging from the necessity to achieve the SDGs are in developing economies (UN Foundation, 2017). The slow development of green markets in low- and middle-income regions is a challenge, but businesses willing to adapt to their limitations will have the competitive advantage while these economies continue their development.

According to the World Economic Forum (WEF, 2022a), there are some barriers to sustainable investments for low-income countries. They are in the form of constraints in the fiscal budgets that fail to close the investment gap, the economic reliance on non-sustainable products such as hydrocarbons, and the lack of clear reporting framework for ESG. Emerging markets and developing economies (EMDEs), which have higher economic development and industrialization growth rates than low-income countries, face similar challenges. The International Monetary Fund (IMF, 2022) explains that EMDEs lack effective carbon pricing policies, and their climate investments are limited by long timeframes, high initial investment, transaction costs and project risks.

▶ Table 1.1. Examples of circular economy benefits for MSMEs and MNEs

Multinational Enterprises (MNEs)	Micro, small and medium-sized enterprises (MSMEs)
Consumers around the world are becoming more aware of the environmental implications derived from the goods and services they purchase. The demand for green products is rising, resulting in new market opportunities. A major multinational company offers new products aimed at consumers interested in paper-based detergent bottles. The head of the R&D company's office stated that this innovation in packaging their products is key to the company's commitment to reduce the use of virgin plastic materials by 2025 (Unilever, 2021), while increasing competitiveness, since consumers are now demanding products made with sustainable resources (Ghauri, 2022). Follow the hyperlinks to know more about this case: Ghauri, P. (2022) The Role of Multinational Enterprises in Achieving Sustainable Development Goals. AIB Insights. Unilever (2021) Unilever reveals world-first paper-based laundry detergent bottle. Unilever News.	SUEMA (*Sustentabilidad en Medio Ambiente*) is a medium-sized company in Mexico that generates clean energy. The company uses the organic waste produced at local food markets in Mexico to generate biogas. Then, the generated biogas is used to produce electricity for households in the surrounding area. With this technology, fewer fossil fuels are burned to generate electricity, and more formal jobs are created around the local food market. The company is an example of an enterprise that has implemented a sustainable business model to grow its profits, create jobs and mitigate CO2 emissions (SEMARNAT et. al, 2018). Follow the hyperlink to know more about this case: SEMARNAT (2018) Proyectos de Aprovechamiento Energético a partir de Residuos Urbanos en México.

▶ 1.2 Financing Opportunities

The ILO's guidelines (2015) for a just transition explain that economies should move towards sustainability for all. In this regard, financial institutions have continued to innovate in new instruments to finance a just transition where no one is left behind. Opportunities for companies across the globe are rising as private-funds and governments are paying special attention to socially and environmentally sustainable initiatives. Companies taking advantage of these opportunities can increase their resilience to sudden changes in environmental regulations and natural disasters (OECD, 2021).

Investors around the world are realising that ESG investments have high and strong returns. For instance, a study showed that, between 2012 and 2016, portfolios that focused on low-carbon investments had higher revenues than high-carbon oriented portfolios (OECD, 2021). According to GSID, two out of every

three investment institutions address sustainability issues (UN, 2019). Businesses looking to adopt projects of this nature are now finding more financing opportunities. At the same time, more than half of the companies' investments in green initiatives were found to have a payback period of less than three years (ILO, 2018). The financial instruments and programs that are the best fit for companies vary across economies and sectors.

Information on the characteristics of some financing products and services is required to understand how companies can benefit from them. Some of these opportunities are offered by commercial banks. For instance, certain private banks are granting technical and advisory services that support clients executing just transition plans, businesses then access professional advice on how to finance and implement projects that have a social impact. This service provides companies with the assistance of experts on structuring sustainability-linked loans and bonds and delivers information on the funding mechanisms granted by private or public institutions that best suit the client's characteristics (Clifford Chance, 2021).

Government authorities have been increasing the regulation on green investment' financing instruments, reducing the uncertainty and risks associated with their use. The green and sustainability-linked loans have been the focus of official regulations. Green loans are granted to finance projects that meet certain predetermined green or sustainable criteria. Whereas sustainability-linked loans procure funding for companies that have projects to improve their sustainability profile prior to the loan application (PWC, 2020).

Companies can opt to issue green bonds to meet low-carbon production development. According to the OECD (2016), they have the potential to provide debt-capital at low-cost. In 2013, the issuance value was US$ 11 billion, whereas in 2015 the value was US$ 40 billion. However, it was estimated that to achieve the low carbon commitments by 2030 the issuance needs to be US$ 2.26 trillion (OECD, 2016). Overall, there are several financing opportunities for enterprises looking to adopt sustainable processes for any part of the business. Commercial banks, private funds and governments are finding new ways to finance green initiatives that are committed to ensure a sustainable future where everyone receives the benefits of mitigating risks from climate change.

▶ Table 1.2. Examples of financial incentives and cost savings for MSMEs and MNEs

Multinational Enterprises (MNEs)	Micro, small and medium-sized enterprises (MSMEs)
Green bonds are financial instruments that companies use to raise capital, they have the same financial characteristics of regular bonds, but they are auto designated as green due to the company's intention to finance green projects. Companies that are looking to adopt projects with benefits for the environment can find an opportunity in green bonds to finance their projects with a small risk to their financial stability (OECD, 2016). Apple has issued three green bonds to finance the company's transition to carbon neutrality. The first green bond was issued in 2016 with a value of $1.5 billion, a year later another one was issued for $1 billion, and in 2019 the third one was issued for $2.2 billion (Apple Newsroom, 2021). Examples of investment in sustainable projects are the partnership with Canadian government to produce low-carbon aluminium, securing a power purchase agreement with wind project in Denmark, creating a fund in China with the purpose of financing clean energy solutions for suppliers whose transition to clean energy is not cost-effective, among other projects (Apple, 2021). Follow the hyperlinks to know more about this case: Apple Newsroom (2021) Apple (2021) Annual Green Bond Impact Report OECD (2016) Green bonds	International institutions are committed to guarantee financing opportunities for a just transition where the majority is benefited. There are several programs that are created with a specific target for MSMEs as they have the highest risk of being isolated from the transition due to the lack of information or access to technology (Lessidrenska & Boyer, 2020). Eskom Just Energy Transition Project in South Africa was created by the World Bank. One of the objectives is to create opportunities for medium-sized enterprises in the community through a seed financing facility, incubation services, capacity development activities and business development activities. Estimated see fund per grantee is 25,000 USD. Follow the hyperlinks to know more about this case: Lessidrenska & Boyer (2020) Human Centred Business Model Social and Environmental principles. Law, Justice and Development World Bank (2022a) Project Information Document. Eskom Just Energy Transition Project

▶ 1.3 Human-Centred Business Model

Companies can increase profits by implementing strategic Corporate Social Responsibility (CSR) strategies. Barnett (2007) mentions that CSR allows companies to achieve a competitive advantage in the market through the engagement with stakeholders. This leads to lower transaction and operational costs, product differentiation, high loyalty levels from employees that are more reluctant to leave for other jobs, among other benefits derived from responsible practices. The competition to adopt the best CSR policies has pushed companies to innovate in their models and commit to more socially and environmentally sustainable processes.

> The Human-Centred Business Model (HCBM), one that prioritizes the needs, experiences, and well-being of its employees and customers in all aspects of its operations, emerges as an alternative model that encourages companies to put social commitments and profits at the same level in their priority scale (OECD Development Centre, 2019).

Furthermore, methodologies that accurately measure the return of CSR investments allow companies to protect their financial stability while maintaining their competitive advantage granted by CSR strategies. With this in mind, "The 5 R framework" was created to help enterprises measure CSR return on investment. The framework entails five areas that can be impacted by CSR policies: Revenue, Reputation, Recruitment, Retention, and Relationships (Emick, 2016). For instance, the impact on revenue can be measured by the number of customers attracted by certain CSR practices. Furthermore, one proxy to measure the impact on reputation can be social media engagement from consumers derived from a CSR campaign.

The Human-Centred Business Model (HCBM), one that prioritizes the needs, experiences, and well-being of its employees and customers in all aspects of its operations, emerges as an alternative model that encourages companies to put social commitments and profits at the same level in their priority scale (OECD Development Centre, 2019). By adopting an HCBM, companies signal their responsibility for environmental and quality-of-life impacts on people. Workers or community members can be directly or indirectly affected by the business operations. This model alters the status quo in the private sector, with businesses becoming leaders in social and environmental sustainability. Due to the lack of a fit-for-all strategy, each enterprise is responsible for listening and adapting its policies to the needs of the individuals involved.

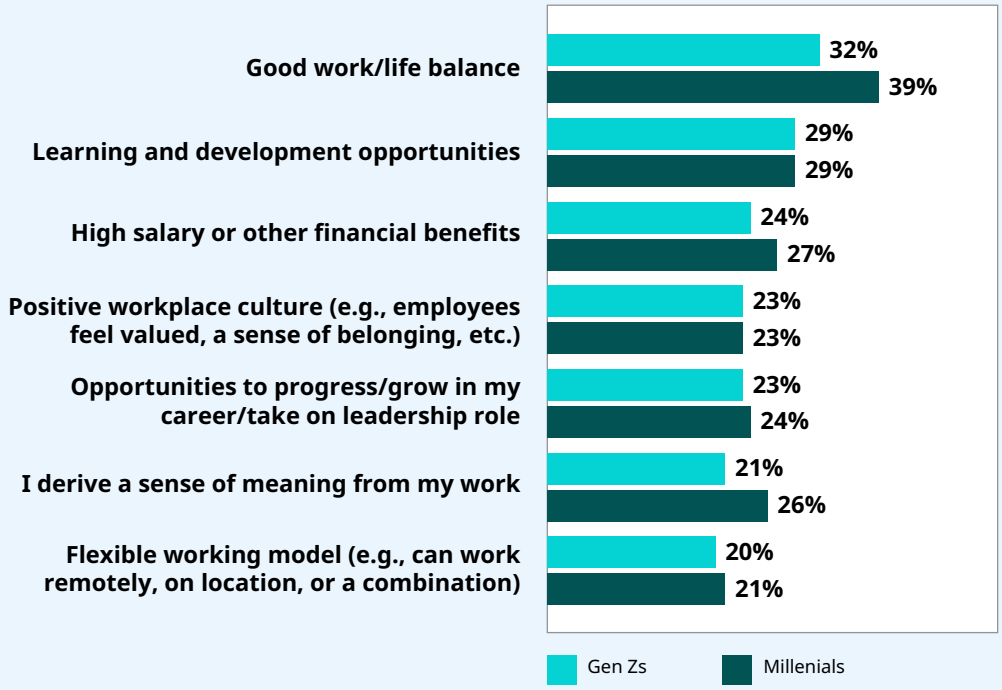
Nevertheless, there are some guiding principles that will be discussed in the light of potential positive impacts for companies adopting the HCBM. The first principle requires the company to enforce a policy that discloses any information on the potential impacts they may have on human rights. The UN guidelines for human rights and businesses (2015) explain that enterprises expressing concerns for human rights can reduce their risks to a negative reputation, increase business opportunities, strengthen ties with the community, rely on public understanding when social crises cannot be avoided, call for the attention of the youth, among other benefits.

Another principle of the HCBM, is the determination of adequate wages that are among the main social contributions of enterprises (Lessidrenska & Boyer, 2020). While in certain cases, raising wages can allow companies to retain talent and reduce rotation. According to a 2022 survey with millennials and Generation Z employees, across 46 economies, individuals from both age groups selected the cost of living as their main concern (housing, transport, etc.). Around half of Gen Zs and millennials live "paycheck to paycheck". Thus, 4 out of every 10 Generation Z's employees took a 2nd job to be able to cover their

financial needs, which can diminish the workers' productivity in their main jobs. Additionally, respondents reported that pay was the primary reason why they had left previous jobs (Deloitte, 2022a).

On the other side of the equation, certain companies may not be able to pay sufficiently high wages to be able to retain and attract productive workers. In such scenario, the survey' results show that work/life balance policies and learning programs can be highly effective strategies to attract talent to the organization, within millennials and the Generation Z. Trainings to develop employees' skills that secure their employability are one of the principles of HCBM, an individual's employability refers to his or her capacity to attain decent work (Lessidrenska & Boyer, 2020).

▶ Figure 1.2. Top reasons respondents chose to work for their current organization



Source: Deloitte (2022a).

The Social and Sustainability principles of the HCBM require a comprehensive Human-Capital strategy, including respect to human rights, safe and secure working environments, a non-discriminatory working environment, equal pay for equal work, prohibition to child labour, training opportunities, etc. (Lessidrenska & Boyer, 2019). Human capital strategies must consider the full worker's lifetime in the organization. In this regard, to avoid reputational risks, the way companies manage the human capital layoffs is fundamental. Reducing this risk will depend on the level of transparency companies have when they close an office or downsize. Reallocation processes and the workforce reskilling are fundamental for the company's reputation among the community (Moody's, 2021).

Human capital strategies must consider the full worker's lifetime in the organization. In this regard, to avoid reputational risks, the way companies manage the human capital layoffs is fundamental.

▶ Table 1.3. Examples of economic benefits for MSMEs and MNEs

Multinational Enterprises (MNEs)	Micro, small and medium-sized enterprises (MSMEs)
When multinational enterprises commit to sustainable practices they can be recognized by customers as global leaders and earn their loyalty increasing the company's market share and value. A well-known company in the outdoor industry sells a range of gear and equipment. The company has a sustainable brand reputation due to its involvement in environmental activism. The company invites consumers to "start small, go big, give back". In 2011, they started a campaign to transform consumer's behaviour to reduce the number of products they bought with the argument that consumerism has a negative impact on the availability of natural resources. It partnered with a popular online marketplace to provide customers with an opportunity to sell back and purchase second-hand products (Harvard BR, 2011). The company's commitment to the environment has significantly enhanced its international reputation. Follow the hyperlinks to know more about this case: Harvard BR (2011) Patagonia's "Buy Less" Campaign May Lead to More Revenue WEF (2022c) Company given away to support the fight in saving our planet and tackle the climate crisis. World Economic Forum	Brand reputation is an attribute that can represent an opportunity for companies to increase their competitive advantage in the labour market. When employers recognize themselves with the company's values, it is less likely that they decide to leave for another company. MELBUD is a construction company in Poland that introduced a workforce-oriented Corporate Social Responsibility approach which has led to more stability in workers' rotation as they identify themselves with the company's policies. The company focuses in developing their human capital by providing numerous training workshops and investing in new technology that improves the capabilities of the company and the employees, (Lessidrenska & Boyer, 2020). Follow the hyperlink to know more about this case: Lessidrenska & Boyer (2020) Human Centred Business Model Social and Environmental principles. Law, Justice and Development

▶ 1.4 Inclusion Practices

The ILO Guidelines for a Just Transition states that inclusive societies are key as they secure social justice and equal opportunities for decent work (ILO, 2015). Inclusion practices within enterprises contribute to the transition towards social sustainability. They can guarantee the participation of vulnerable groups in the labour markets and provide equal opportunities across workers to improve their skills. Likewise, the ILO's Guidelines mention that workers along with employers and government are agents of change who work together to develop strategies that ensure environmental sustainability (ILO, 2015). Pushing diversity agendas in enterprises ensures the equal representation of everyone's interests and ideas.

Inclusion practices in companies are spreading throughout industries just as studies are revealing that inclusion is an important factor for the performance of businesses. According to the ILO (2022b), workers that feel included have a higher level of commitment, are more productive, their well-being level is positively impacted, and innovation is fostered through collaboration. A survey conducted by Deloitte (2017) showed that 80% of the respondents answered that inclusion practices by potential employers influence their decision to accept the job and 72% said that they would leave the organisation if another one offered them working in a more inclusive culture. Responses shed light on the issue of

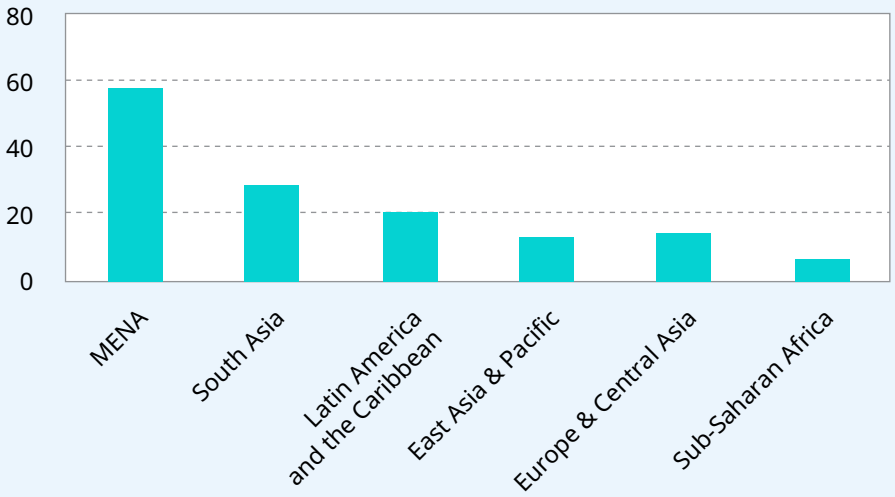
The ILO Guidelines for a Just Transition states that inclusive societies are key as they secure social justice and equal opportunities for decent work (ILO, 2015). Inclusion practices within enterprises contribute to the transition towards social sustainability.

workforce rotation due to exclusion practices in the organisation, which contributes to higher costs for companies that need to rehire someone for the job left behind. Inclusion has become a factor that impacts the competitive capacities of a given company when it is confronted by the business models of other companies that are more appealing for jobseekers.

Inclusion practices represent an opportunity for companies to increase their productivity. In the overall economy, vulnerable groups affected by a system that marginalises them are less likely to enter the formal sector creating a gap between the potential and the actual productivity of the workforce. For instance, women in the world earn less money than men for doing the same job and have less opportunities to access management positions, eliminating gender gaps observed in labour markets would mean an increase of 26% in the world's GDP from 2014 to the year 2025 compared to the estimated output for economies if such differences between genders persist. The same study stated that companies that have more women in managerial positions registered better productivity outcomes than the companies with less women in these positions (McKinsey & Company, 2015). A similar study by Orlando et al. (2020) was conducted for racial inclusion where they found a positive correlation between racial diversity in upper management and company's performance.

In Figure 1.3, the output loss resulting from gender discrimination practices is observed for some countries in North Africa and the Middle East. The average output loss as a percentage of total output for MENA countries is almost 60%, this result is relevant for businesses as gender inclusion represents economic benefits for the overall economic performance (IMF, 2021).

▶ Figure 1.3. Output Losses from Gender Discrimination (% of GDP)



Source: IMF (2021).

Inclusion practices represent an opportunity for businesses that are looking to improve their overall business performance. The ILO found that when employees identify inclusion commitments by the company, they are 15% more likely to speak up about new or better ways of doing things (ILO, 2022b). Diversity in workers fosters innovation and creative problem-solving in companies. Teams with cognitive diversity are better equipped to propose solutions to a range of challenges. While cognitive characteristics are not easily spotted on the recruitment process, companies that implement a framework of cultural diversity in their hiring policies have higher probabilities to have a cognitive diverse workforce (Harvard Business Review, 2017).

▶ **Table 1.4. Examples of inclusive business practices and employee productivity gains**

Multinational Enterprises (MNEs)	Micro, small and medium-sized enterprises (MSMEs)
Inclusion practices are linked to employee productivity and performance. According to the ILO (2022), workers who feel included and represented in management positions are more satisfied with their work environment. Ford General Motors improved its HR policies, aiming to attract more women to its workforce. In this regard, the company extended the paid maternity leave (Lessidrenska & Boyer, 2020). The low share of women workers in automobile industry compared to men (ILO, 2021) motivated this company to attract more women to its workforce, especially considering that women influence most of the car buying decisions (CDK GLOBAL, 2019). With this policy, the company aims to improve its product's design, demand and profits. Follow the hyperlinks to know more about this case: CDK GLOBAL (2019) A Customer Experience Solution For Female Car-Buying And Selling ILO (2021) The future of work in the automotive industry: The need to invest in people's capabilities and decent and sustainable work. ILO (2022b) Transforming enterprises through diversity and inclusion Lessidrenska & Boyer (2020) Human Centred Business Model Social and Environmental principles. Law, Justice and Development	Inclusion practices contribute to the level of commitment workers show to their jobs. Companies can retain their human-capital talent by implementing policies that promote inclusion. Stormberg wholesaler in Norway is committed with the Global Compact. They have decided to maintain 25% of their workforce constituted by people who have had trouble to enter the labour markets, such as ex-prisoners and ex drug abusers. The company believes that having an inclusive workforce improves their competitive advantage as they enrich the company's processes with different perspectives. Also, by cooperating with other institutions that train people that face barriers to incorporate themselves back into society, they are rewarded with trained and loyal employees (Lessidrenska & Boyer, 2020). Follow the hyperlink to know more about this case: Lessidrenska & Boyer (2020) Human Centred Business Model Social and Environmental principles. Law, Justice and Development

▶ 1.5 Production Process and Resources Efficiency

In 2016, the Carbon Disclosure Project (CPD) surveyed 760 companies and asked if they could identify at least one climate-related opportunity and risk. The results show that the vast majority of companies surveyed identify risks and opportunities arising from physical climate parameters, regulatory changes and other climate-related developments (ILO, 2018). Furthermore, the ILO (2022c) found that the main challenge enterprises face in greening their operations within a just transition framework is limited access to finance and green technologies, especially for MSMEs, which face regulatory complexity and skills shortages. However, a significant opportunity lies in the potential for increased resilience and market competitiveness, as adopting sustainable practices can reduce operating costs, attract environmentally conscious consumers and position companies to benefit from emerging green markets and ESG-focused investments. In this context, a growing number of companies are adapting their business models to restructure their production processes to make them economically, socially and environmentally sustainable.

> Increasing resources-efficiency in production is a mean to increase environmental performance and profits that can be adopted by different types of businesses.

Increasing resources-efficiency in production is a mean to increase environmental performance and profits that can be adopted by different types of businesses. The Ellen MacArthur Foundation published a report where it estimated that the adoption of circular models in the mobility, food and physical infrastructure sectors would represent

a €0.9 trillion reduction in costs. Another source calculated that the potential material and energy cost saving for relevant manufactured products in the EU would be US$ 340 to US$ 630 billion per year if they adopted circular systems. The benefits arising from this business model are not limited to material savings. Furthermore, products' components can be reintegrated to future production processes. This characteristic of circular economies creates a demand for disposal services that can be offered by the same companies that sell those products, generating another source of revenue (Ellen MacArthur Foundation, 2013).

More multinational enterprises (MNEs) are committing to the circular economy business model, increasing the lifecycle of its products by offering maintenance service to all consumers. For instance, Hewlett-Packard (HP), which is a company that develops hardware and software for computers, has published in its Sustainable Impact Report (2021), that the company is investing in new technologies to comply with zero emissions objectives and guarantee that they are resource efficient in their production processes. Achieving energy efficiency is one of the targets they are committed to. The Environmental Protection Agency (EPA) in the US explains that investing in energy efficiency can lower the cost of utilities and decrease the risk of disruptions in business operations caused by a hike in oil prices (EPA, 2022).

Recent data reveals that the share of companies implementing circular-economy strategies in the United States is expected to grow in the near future, in the case of high-income economies such as the United States. A survey with US companies found that only 16% of companies have adopted a circular economy model, but more than half were planning to do it (ING, 2020). In this regard, one third of the companies that have adopted the circular model reported that their sales increased since the implementation of circular practices. These companies found the transformation of their business models led to an increase of 50% in loyalty from consumers (Kerney, 2021).

▶ Table 1.5. Examples of resource efficiency and economic gains for MSMEs and MNEs

Multinational Enterprises (MNEs)	Micro, small and medium-sized enterprises (MSMEs)
A luxury car manufacturer, in partnership with South Pole, has taken steps to achieve net-zero plastic to nature. The company has implemented a strategy to reduce its internal use of plastic. For the first part of the strategy, they have made a careful assessment of what the plastic is used for and how much of that plastic is essential for production, eliminating any waste (South Pole, 2022). According to a company press release, the carmaker now has the South Pole accreditation for net-zero plastic to nature, which is internationally recognised and attracts like-minded investors and suppliers, (Bentley, 2022). Follow the hyperlinks to know more about this case: Bentley (2022) Bentley Motors first to receive South Pole's Net Zero Plastic to Nature Status South Pole (2022) Bentley Motors Case Study	MSMEs can raise their profits by increasing resource-efficiency. In this regard, Energy Star is a government program created by the US that provides information to small businesses on what are the best strategies they can adopt to reduce the use of energy and improve their financial situation. One example of a small business that benefited from the insights of this program was Vic's IGA Market. It is a grocery store in Sacramento that has improved its energy efficiency by replacing inadequate freezers for closed ones. They increased the comfort of customers and saved US$ 48,000 approximately in energy. (ENERGYSTAR, n.m.). Follow the hyperlink to know more about this case: ENERGYSTAR (n.m.) Small Businesses: An Overview of Energy Use and Energy Efficiency Opportunities

▶ 1.6 Alliances with Key Stakeholders

Companies are now seeking innovative business approaches to increase resilience to climate change-related risks. At the same time, the framework for a just transition has united stakeholders' interests in the sense that enterprises, communities, consumers, workers, and governments share the common purpose of transitioning to a low-carbon economy in a fair way (UN Global Compact, 2022). Social dialogue among stakeholders has proved to be effective in reducing risks and challenges arising from the transition to a greener economy by the exchange of information and points of view between people involved (TUDCN, 2019). According to the Global Compact Report (2022), businesses can profit from implementing the following stakeholder-focused practices in a just transition:

▶ Table 1.6. Stakeholder-focused practices proposed by the Global Compact

Stakeholder	Impacts for the business
Communities	An open dialogue with communities increases the chances for just transition strategies to be accepted and supported. Also, companies can gain valuable information regarding general risks that could represent an obstacle to their business models.
Agents in the supply chains	Companies engaging with supply chains can have access to information on possible climate, political or social threats to their processes. Another benefit is the identification and procurement of green technologies and skills that are necessary for a just transition.
Governments	Having communication with public authorities reduces regulatory and legal risks.
Customers	Transparency in the transition to sustainable processes to deliver green products is relevant for increasing loyalty among customers and improving brand recognition. This gives companies a competitive advantage in the net-zero economy.
Workers	Employers that engage with workers foster innovation and have a better chance to improve working conditions leading to increases in their productivity.

Source: Own elaboration with information from the UN Global Compact Report: Introduction to Just Transition, Business Brief, 2022.

Alignment with communities can be beneficial for companies in two aspects: new business opportunities and securing the success of sustainable projects. Enterprises depend on the natural resources of a given community to guarantee their production processes. When firms increase their understanding about the limitations and challenges that the community faces, companies can innovate in products and services that meet their needs. Furthermore, socio-cultural barriers are a challenge for the introduction of new products or the implementation of transition strategies. Business plans that propose an open dialogue with communities have a better chance at succeeding as they earn the support of social agents and benefit from practical insights (UN Global Compact, 2015).

Multinationals and large enterprises face climate change and regulatory risks throughout their supply chains. Tackling these challenges through collaboration can benefit all suppliers involved, while securing the processes of the leading companies. For instance, the ILO launched a tool for these companies called SCORE training with a cost that is recovered in the first months, it aims at improving production capacities and productivity through a training program for small and medium-sized suppliers. This program helps SMEs achieve sustainable practices that reduce their costs and improve their working conditions including the adoption of systematic practices that makes them more competitive. Half of the companies that offered this program for their supply chains increased their productivity, 91% found reduction in costs, 44% saved more in energy, 48% reduced their waste, among other positive outcomes (ILO SCORE, 2020).

It is evident that governments and social partners are playing a crucial role in the just transition. In this regard, the role of employers and business-membership organizations (EBMOs) is more important than ever. EBMOs can convey the needs and challenges that companies are facing to these crucial stakeholders, while advocating for the most suitable regulatory and policy improvements. For instance, in Denmark, employers' and workers' organisations collaborated with the government to design a new industrial policy and climate regulation. The industrial policy resulted in the emergence of a strong and competitive wind industry with companies that became global leaders in providing technology for wind energy generation (Just Transition Centre, 2018).

▶ **Table 1.7. Examples of economic benefits of stakeholder engagement for MSMEs and MNEs**

Multinational Enterprises (MNEs)	Micro, small and medium-sized enterprises (MSMEs)
When multinational corporations do not have an open communication with stakeholders, the risk of facing opposition for their projects increases (World Benchmarking Alliance, 2021). RWE, a large energy company, is committed to have open communication among stakeholders through its just transition planning, they explain that dialogue with communities and authorities is key for the local acceptance of renewable energy projects such as onshore wind projects. Follow the hyperlink to know more about this case: World Benchmarking Alliance (2021) Just Transition Assessment 2021	LR Gebäudereinigung, a medium-sized cleaning company in Germany, offers language classes for migrant workers and environmental workshops organized by trainees. This last task gives young employees an opportunity to create their own concepts of environmental measures in the workplace. Then, managers can adopt them as company's policies. Trainees are regularly interested in supporting the environmental workshops, given their own interest on the topic. This policy can improve the relationship between the private sector, young employees, and their communities. Follow the hyperlink to know more about this case: Lessidrenska & Boyer (2020) Human Centred Business Model Social and Environmental principles. Law, Justice and Development

▶ 1.7 Taxes, Subsidies, and Regulations

While large companies around the world are setting ambitious net zero objectives, governments are also speeding up the just transition by providing fiscal and regulatory incentives. One fiscal instrument that influences business practices is the implementation of green taxes which price companies' emissions, pollution, and other negative impacts on the environment. According to a survey conducted in Brazil, 81% of companies consider tax incentives when forming their decarbonization strategies. Sometimes, companies taking advantage of these tax policies will find that green investments can score higher in a cost-benefit analysis than other projects without low emission targets (PWC, 2022).

While large companies around the world are setting ambitious net zero objectives, governments are also speeding up the just transition by providing fiscal and regulatory incentives.

The green incentives tracker developed by PWC provides information on what are the fiscal incentives for initiatives managing sustainable transitions around the world. This tracker shows that there are 324 of green incentives across 20 countries, they can be cash grants, soft loans, or taxes (PWC, 2023). The Inflation Reduction Act in the US and the Green Investment Plan in the EU have committed to invest US$ 400 billion and €250 billion, respectively, in the form of green subsidies. The former budget is distributed in different programs enforced by several public agencies, such as granting a tax credit of US$ 7500 to electric car buyers or granting loans to rural small businesses that require funding to adopt renewable energy systems (WEF, 2023b; The White House, 2022). Incentives for buying green products will benefit the performance of companies operating in that market. Moreover, SMEs receiving funding for the adoption of renewable energy will become more competitive and resilient to any climate change risk.

Green incentives are not only observed on the high-income economies. The developing countries are also implementing strong incentives. For instance, Brazil has 9 different green tax-incentives, including federal- and state-level VAT incentives to encourage the use of renewable energy in 2018. India has 8 types of green-taxes, including a forest-development tax. South Africa introduced a Climate Change Bill,

intended to impose mandatory carbon budgets on taxpayers. Meanwhile, China's nationwide Emissions Trading System market was launched in July 2021 with the goal of achieving net-zero emissions by 2030 (PWC, 2030)

According to Harvard Business Review, a company's early sustainability investments can facilitate its compliance with future changes on the environmental regulation (HBR, 2015). Adopting sustainable business models can have benefits that are not observable in the present time as there is uncertainty regarding future government regulations. It is not always clear in which area governments are going to tighten restrictions or create new policies that benefit some industries while having negative implications for others. Still, the competitive advantage for companies getting ahead in the sustainability transition can be secured when they reduce their emissions before official regulations force them to change their processes.

▶ Table 1.8. Examples of fiscal incentives and market expansion opportunities for green products

Multinational Enterprises (MNEs)	Micro, small and medium-sized enterprises (MSMEs)
The US government offers a tax credit for consumers buying electrical cars or solar electric systems. This kind of fiscal incentive has a positive economic impact on companies that sell such products, its consumers, and the environment. A leading electric vehicle company has information on its website where it informs potential consumers about the tax benefits of buying electric cars (Tesla, 2023). The subsidies have made their products more accessible, increasing the company's expected sales. Another fiscal benefit that affects the electric car manufacturer's revenue is the issuance of carbon credits, which the company sells to other companies that need them (Naughton & Rogers, 2021). Follow the hyperlinks to know more about this case: Naughton & Rogers (2021) How Tax Credits and Government Subsidies Have Aided the Electric-Vehicle Market Tesla (2023) Electric Vehicle & Solar Incentives	The Philippine Environment Partnership Program supports SMEs that want to improve their environmental performance and comply with environmental official regulations. The program offers help to attain waste reduction targets, adopt cleaner production, elaborate environmental performance reports and implement environmental management plans. This partnership benefits companies that are leaders in sustainable innovation, by giving them official recognition that can be used to attract investors and customers. Furthermore, the partnership also supports companies that do not fully comply with environmental regulations, by providing technical assistance to improve production processes, making companies sustainable in the long-term (ILO, 2022). Follow the hyperlink to know more about this case: ILO (2022) Just Transition. Policy Brief. How MSEs can contribute to and benefit from a Just Transition


Chapter
2

2. The Enabling Business Environment for a Just Transition

> The analysis shows that creating a conducive environment for just transition cannot be achieved by emphasising one factor in isolation.

The aim of this chapter is to analyse the main factors that contribute to an enabling business environment for a just transition. Based on a comprehensive literature review, this section highlights eight key areas: accessible information, market demand, access to technology, regulatory improvements, formalisation, infrastructure, skills development, and financing. Each of these categories is analysed in a separate subsection, with relevant examples from different economies.

The analysis shows that creating a conducive environment for just transition cannot be achieved by emphasising one factor in isolation. For instance, while providing adequate access to information can serve as an initial step for companies to become aware of the potential benefits of a just transition, they may also require other essential factors, such as access to credit, to effectively participate in the just transition. Therefore, an enabling environment is one that considers these factors collectively.

▶ 2.1 Information Accessibility

The availability of information can significantly influence firms' behaviour, especially when they have unequal access to information. In the context of the just transition, information asymmetry is often negatively impacting the productive development of MSMEs. Employers and employees in these companies are often unaware of the potential cost savings from environmental investments. Meanwhile, on the other side of the spectrum, large companies are already using technical systems to decrease their emissions. According to a survey with 1,200 business-leaders, around 7 out of every 10 large companies with net-zero strategies already have science-based methodologies backing up such aspirations (South Pole, 2022).

Boosting the environmental performance of MSMEs can also substantially increase their financial performance and competitiveness. In this regard, one of the main challenges is to convince the MSMEs about these potential economic benefits, challenging the common belief that environmental investments would not produce sufficient financial returns for the smaller companies. In this regard, the public sector has an important role to play in conveying such information to MSMEs (OECD, 2021). The OECD emphasises that governments should communicate the various types of cost savings SMEs can gain from environmental improvements.

▶ Table 2.1. Economic benefits derived from MSMEs' environmental investments

Environmental Area	Cost-Saving Impact for an MSME
Process efficiency	Minimizes the MSME's expenditure on raw materials, energy, and water.
Product design	Reduces the resources contained on each product, decreasing unitary costs
Waste Disposal	It is often possible to reuse waste or transfer it other to companies, thus avoiding the costs of its disposal.
Source of raw materials	Switching to recycled materials can reduce costs, while maintaining quality. And, if communicated properly to consumers, demand for the product can also increase
Infrastructure	MSMEs could reduce their energy-bill by installing energy-efficient lighting or insulating buildings.
Packaging and transport	Reducing packaging volume and finding local suppliers can minimize the unitary transportation costs.

Source: Made with information presented on OECD, 2021.

There is abundant empirical evidence about the benefits that MSMEs can obtain due to increasing their environmental performance. For instance, the Scottish Environment Protection Agency conducted a survey with around 1,000 SMEs in Scotland and Northern Ireland to measure the financial return on their environmental investments. The five most cited benefits of environmental improvements were reducing the firms' operating cost (53% of companies), decreasing the risk of prosecution or fines (47% of companies), improving relationships with customers (35% of companies), motivating their workforce (33% of companies), as well as increasing their sales and profitability (23% of companies), (CEPA, 2019).

According to the *Guidelines for a Just Transition towards Environmentally Sustainable Economies and Societies for All* (ILO, 2015), governments should facilitate regulatory compliance by providing tailored information and guidance for different groups, including MSMEs. However, according to UNESCO (2019), less than 50% of the governments proactively provide information about their public policies. In the context of the just transition, the effectiveness of the governments' programmes oriented towards sustainable development could significantly decrease due to the lack of public information.

There is still significant room for improvement in the way that governments disseminate public information. In the context of the just transition, access to information remains a challenge for multiple economies. Sustainable Development Goal (SDG) indicator 16.10.2 tracks global progress on access to information by measuring how countries implement constitutional, statutory, or policy guarantees for public access. According to the latest information provided by UNESCO, around 33% of the countries do not have constitutional guarantees related to Access to Information, and around 40% of the countries still do not have secondary rules on Access to Information (UNESCO, 2019).

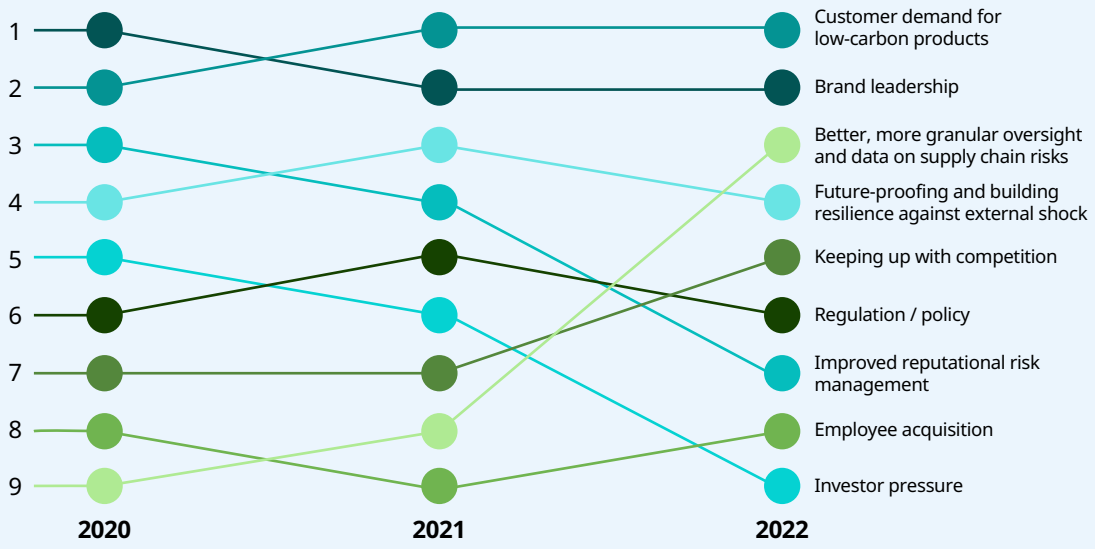
▶ 2.2 Market Demand

Companies are currently experiencing pressure from customers to act on climate change. According to the 2021 and 2022 global surveys implemented by South Pole; this is driving large companies to set ambitious climate targets. In this regard, companies are also seeing this shift in consumers' preferences as a need to show the company's environmental leadership and build their brand around an eco-friendly value for consumers.

The most recent South Pole global survey (2022) found that almost half of the executives from large companies with net zero targets said they were doing it because customers are looking to buy low- or zero-carbon products. Meanwhile, almost as many executives expressed that they saw it as an opportunity to show they're committed about climate action and want to be seen as leaders in the field

(South Pole, 2022). Either way, the global results show that the market demand is currently the most important driver pushing large companies to increase their environmental focus.

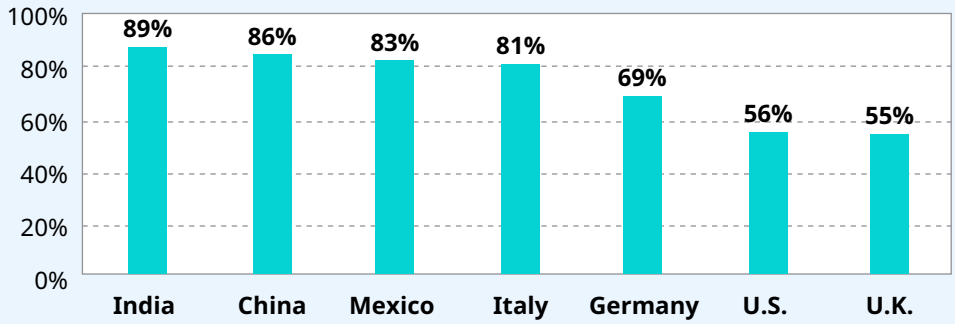
▶ Figure 2.1. What factors are driving companies to invest in net-zero strategies? (Ranking)



Source: South Pole's 2020, 2021, and 2022 global net-zero surveys.

The case of the textile industry is a good example on how consumers are encouraging companies to have greater support for the environment. In 2017, the majority (56%) of the American consumers considered sustainability as being a "very important" or "somehow important" factor influencing their purchase of clothes, while around half of the Italian consumers rated sustainability as a somewhat important factor to consider when buying clothes (O'Connell, 2019). The following graph shows interesting results for developing economies such as India or Mexico, where a relatively large percentage of consumers is now considering sustainability when buying clothing.

▶ Figure 2.2. Percentage of consumers considering sustainability as a "very important" or "somehow important" factor when buying clothes (selected economies, 2017)



Source: Elaborated with data from O'Connell (2019).

Clothing brands associated with a higher environmental premium can potentially charge a higher price for their products, raising the final firm's profits. The bio-textile products made from certified wood fibres are a good example to show the positive return of investment from a sustainable production process on the textile industry. Notaro et al. (2021) estimated the Italian consumers' willingness to pay for

three bio-textile products made from certified wood: socks, T-shirts, and shirts. According to this study, Italian consumers are willing to pay between a 64% to 128% premium on the price, and respondents with a higher environmental concern are more willing to pay for bio-textile products. An increased market of bio-textile products can contribute to reduce the fossil fuel dependency of the European Union economy, while raising profits for such firms.

This trend can be observed in multiple economies. In the case of the United States, according to a survey made with 15,000 consumers in 2019, around 83% of consumers believe that their behaviour and consumer choices can have a positive impact on addressing global environmental challenges. Furthermore, 59% of consumers are becoming more influenced by a products' environmental impact when they make purchasing decisions (ING, 2019).

While the previous results may be encouraging for the case of middle, upper and high-income economies, it is important to recognize that the low-income economies (countries with GDP per capita lower than $1,085 USD per year) may still have insufficient market demand to attract investment in green products and services, such as the case of sustainable textiles with a price premium.

According to the World Bank, there is not a magic bullet to speed-up the just transition on the poorest economies. Most of them face geographical challenges to trade with other economies and currently depend on their own agriculture sector, making them more vulnerable to climate change and extreme weather events (World Bank, 2019). For the case of these economies, only a coordinated and longer-term policy effort can address their urgent challenges, while progressively creating sufficient market demand for green products and services.

▶ 2.3 Technology Access

Access to technology is key to achieving the near-term goal of a low-carbon economy and the medium-term goal of a net-zero economy. According to a global BCG study based on interviews with 1,600 large companies representing 40% of global emissions, technology is the fast track to net-zero. In this regard, most companies agreed that investments in reducing their CO2 emissions have both improved their reputation and reduced their operating costs (BCG, 2022). In the context of the just transition, the challenge remains to provide smaller companies with the right technologies to accelerate their decarbonisation and competitiveness. However, MSMEs in developing countries face multiple barriers to accessing clean technologies.

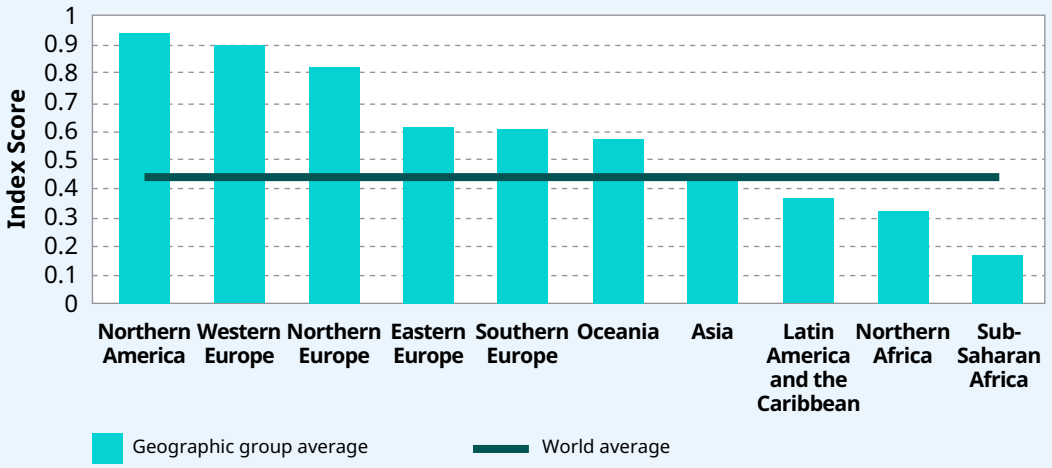
Technology adoption and innovation can enable enterprises to reduce the cost of entry to build domestic capacity and improve their position in the green innovation ladder (UNCTAD, 2022). It can also facilitate companies seeking to increase the efficiency of their production methods, thereby reducing their environmental impact while increasing their productivity. The United Nations Conference on Trade and Development (UNCTAD) highlights 5 critical categories for an economy's technology and innovation readiness: 1) ICT use, 2) skills, 3) R&D activity, 4) industrial activity, and 5) access to finance. At an aggregate level, lack of access to technological developments can prevent the poorest economies from adequately meeting their CO2 emission reduction targets (UNCTAD, 2021a).

> In the context of the just transition, the challenge remains to provide smaller companies with the right technologies to accelerate their decarbonisation and competitiveness.

The UNCTAD 2021 Technology and Innovation Readiness Index shows the progress of each country on the 5 types of components mentioned above. The global results show that high-income economies such as the United States and Switzerland have a significantly higher capacity to adopt the latest

technological developments. However, there is a significant gap with the global average, and an even greater gap with regions such as Africa and Latin America, which are at the bottom of the list in terms of their capacity to adopt technological developments (UNCTAD, 2021b). The challenges are very different for each economy. China, for example, is ranked first in the world for research and development and 96th for skills. Other economies, such as Ireland, have relatively high levels of human capital skills but low levels of technology financing capacity.

▶ Figure 2.3. Technology and Innovation Readiness Index



Source: UNCTAD (2021).

Technology also has the capacity to increase employment opportunities for the poorest. According to Rodrick (2018), for technology to make a real and sustainable contribution to development, it must lead to a higher number of better-paid jobs, and without such productive jobs, workers in developing countries are bound to lag behind. In this regard, the "good news" is that there is empirical evidence on how technology can support labour productivity growth among the least skilled workers in the poorest economies.

According to a World Bank paper using detailed productivity data from informal workers in Mozambique, a novel sharing economy platform enabled low-skilled individuals to connect with job opportunities, increasing their average earnings by 74% over a six-month period (World Bank, 2021). The technology was free to workers and accessible without the need for an internet connection. The system allowed workers to search for part-time work opportunities on their mobile phones using a simple text messaging system. In Mozambique, a country where 90% of the population works in the informal sector, this technology was a helpful tool to assist the poorest workers in their search for better paid job opportunities.

▶ 2.4 Regulatory Improvement

The Nationally determined contributions (NDCs) are each economy's long-term goals to reduce emissions and adapt to the impacts of climate change, in accordance with the Paris Agreement. Currently, countries are selecting the most appropriate regulations and policies to achieve their NDCs. There is a wide array of policies and regulations to select: energy-efficiency regulations, carbon taxes, fuel taxes, emissions trading programmes, green subsidies, etc. According to Brookings (2022), the extent of future climate change is a policy choice, and countries can link the implementation of different policy choices with their

effect on the price of CO2 and global temperatures. Selecting the best policy and regulatory mix will not be a straightforward decision.

The Paris Agreement was adopted by 196 economies, every party has disclosed their NDCs with specific country-level considerations and public policy strategies. Multiple governments are now aiming to promote the Paris Agreement agenda without compromising businesses performance. For instance, the United States' government communicated that policy frameworks need to be strong and predictable to promote private investment in developing carbon pollution-free technology and infrastructure. In this regard, the United States' government agencies reached out to multiple stakeholders such as scientists, government leaders including tribal leaders, businesses, and education institutions to create a consensus around the NDCs (NDC, 2021a). In the case of South Africa, the aim is to mitigate emissions by implementing several policies and programmes, as well as the supply of information to facilitate clarity, transparency and understanding. The ICTU methodology[2] makes NDC more traceable for stakeholders and reduces the uncertainty surrounding NDCs (NDC, 2021b).

The challenge to meet the NDCs for each economy is even more complex when considering the potential negative impact on certain stakeholders, such as consumers affected by higher fuel prices or companies negatively impacted by higher energy-efficiency standards. According to UNDP (2022), the just transition angle should not be dissociated from the NDCs. This can be done by involving all the relevant stakeholders to discuss how to achieve the NDCs, such as: employers, workers, communities, and vulnerable groups. This process should also consider the social and economic impacts of climate policies on these groups. The UNDP's framework of support on just transition recommends to following 5 key building blocks to implement the NDCs across a just transition for all the stakeholders involved:

- Impact Assessment: assessing and modelling transition (calculating costs and benefits)
- Engagement: social dialogues and stakeholder participation (broad-based stakeholder participation to build consensus for a sustainable future)
- Institutional and policy frameworks (including capacity building and south-south learning)
- Reflect recovery, crisis, and conflict-affected contexts.
- Financing a just transition (investments in vulnerable people and regions)

The shift to a low-carbon economy in the short-term is already modifying the employment configuration on multiple sectors. One can consider the case of the energy transition as an example. This sector employs around 65 million people worldwide. This number is higher than the current population in Italy (59.1 million people). Given the rapid growth of renewables and transition a way from fossil-fuels, there will be a reconfiguration on the national levels of employment, restricting the number of jobs related to fossil-fuel electricity generation and affecting the communities relying on the income derived from such jobs. This brings the attention to the need of reskilling the population left out without a job and providing new economic opportunities to such individuals based on the right skills (IEA, 2021).

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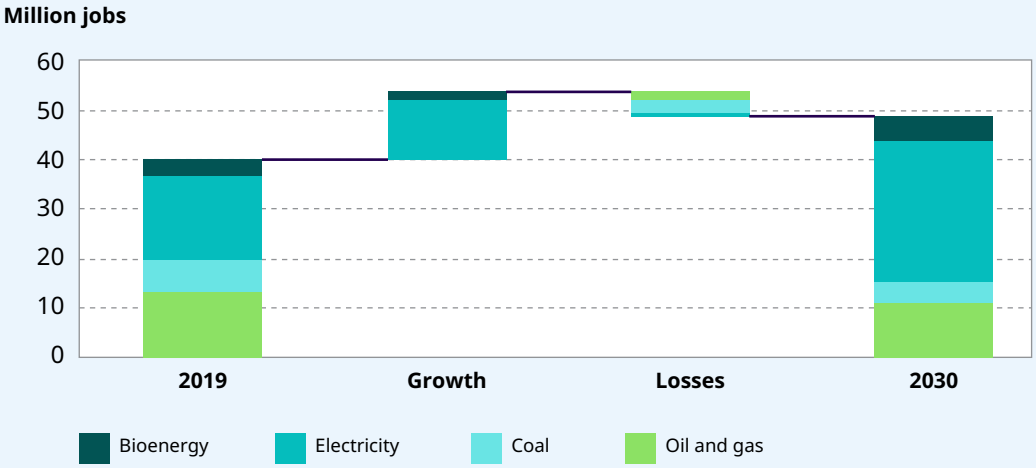
2 In the context of Nationally Determined Contributions (NDCs), the ICTU methodology stands for "Information to facilitate Clarity, Transparency and Understanding". Established as part of the Katowice Climate Package in 2018, the ICTU provides guidelines for NDC submissions under the Paris Agreement. The methodology specifies that countries should include quantifiable details such as baseline years, target indicators, timeframes, and sectors covered to ensure transparency and comparability of climate commitments.

Phasing out coal is also looking increasingly feasible and economically affordable in large parts of the world, since renewable energy sources, such wind and solar photovoltaics (PV), are constantly improving in terms of cost competitiveness with coal (Galgóczi, 2019). Thus, significant job-losses are expected to be seen on the coal sector. According to the latest IEA estimation, between 2019 and 2050, the coal sector will lose 39% of its jobs, leaving around 2.5 million people without a job. Furthermore, the oil and gas sector is also expected to shrink in terms of its employment level, with an estimated drop in employment of 1.8 million people by 2050 (IEA, 2021). This will negatively impact the workers' communities, requiring careful policy attention to mitigate the negative shock on the localities. Additionally, job losses can cause migration in these communities which will entail a reduction of population density. This is frequently associated with a decrease in the entry of new businesses and skilled workers, which can negatively affect enterprises in these communities by shrinking their revenues and lowering the access to skilled workers (Wong et. al, 2022).

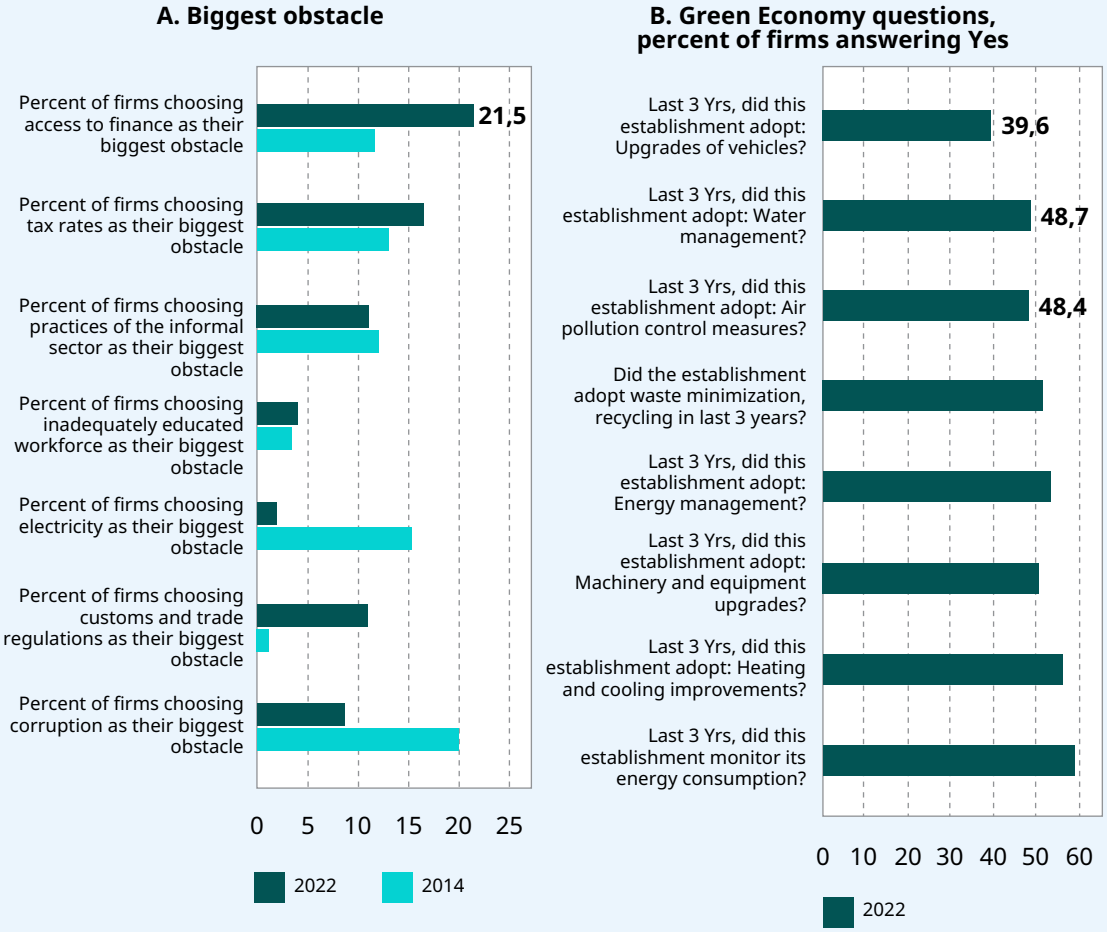
▶ Figure 2.4. Global employment in energy supply in a net zero scenario, 2019-2030



Source: IEA (2021).

Regulatory improvements that secure an enabling business environment can promote the transition towards a sustainable economy. For this purpose, policy-design and implementation should be based on evidence. One can consider the case of India, a country with high-emissions and comprehensive firm-level data. According to the Global Carbon Project, in 2021, this economy accounted for 7.3% of the world's annual total production-based emissions of carbon dioxide (excluding changes in land-use and other emissions from traded goods that did not occur in national land), while the complete region of South America accounted for 2.9% (Ritchie H. et al., 2021). The 2022 World Bank Enterprise Survey for India shed light on green practices that firms had implemented, and obstacles businesses may face when managing operations. Figure 2.5 shows the responses of firms to questions related to business environment obstacles and green economy. It can be observed that access to finance is the obstacle chose more frequently by firms, in 2022 it almost doubled its value from the previous survey in 2014, registering values of 21.5% and 11.7% respectively. Public policies can address this issue while incentivizing green practices in firms. The graph on the right shows that less than half of firms reported that they had adopted upgrades of vehicles, water management policies and measures to control air pollution.

▶ Figure 2.5. Firms' responses in India to the Enterprise Survey: sections on business environment and green economy

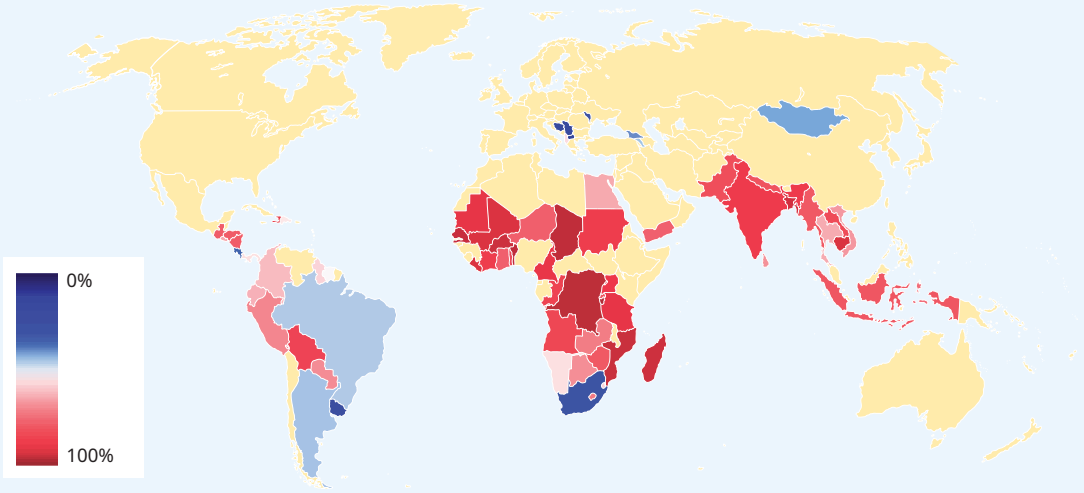


Source: World Bank, Enterprise Survey.

▶ 2.5 Transition to Formality

The informal economy currently employs the majority of the world's adult labour force in developing economies. According to the most recent ILOSTAT statistics, this problematic is observed worldwide, from Central America to South-East Asia. This challenge is highly relevant in the context of the just transition, since workers on the informal economy tend to have significantly lower labour-productivity and wages, compared to the ones working in the formal sector. Furthermore, according to the IMF, informality is also critically related to how fast economies grow, poverty levels and inequality, including gender inequality (IMF, 2021).

▶ Figure 2.6. Shares of informality in developing countries (% of informal employment by country, latest year available)



Source: ILOSTAT Webpage, latest update in 2019.

Informality is high in economic sectors that are essential to achieving low-carbon development such as waste management and recycling; negatively impacting the growth of the promising circular economy. Furthermore, informality is also significantly high in sectors that are being hard hit by climate change (agriculture, fisheries, forestry, and tourism) increasing the firms' and workers' vulnerability to climate events (UNFCC, 2020).

In this regard, governments need to provide the right incentives to individuals and firms to transition to the formal sector (IMF, 2021). Currently, the smaller enterprises are finding harder to transition away from the informal sector, given the high fiscal, regulatory and transaction costs. According to ILO (2020), governments should ease the enterprises' path towards formalisation by increasing their potential benefits of doing so.

Governments can support MSMEs with business development training services. Capacity-building programmes can help companies to formalize and increase their access to market opportunities. One example is the case of Tanzania, where the ILO supported MSMEs' green business development. A year after the training was completed, all the supported companies experienced business growth and were either in the process of formalization or fully formalized. Also, most of them increased full-time employees of between 1.5 and 4 times (ILO, 2022). Such results are in line with the broader empirical evidence. Martins (2021) studied the effects of large training grants programme supported by the European Social Fund, over several years. He found that additional training led to increased sales, value added, employment, productivity, and exports.

In the context of the just transition, governments will need to implement policies to address a dual challenge, to incentivize the MSMEs' transition away from the low-productive informal sector, while encouraging the transition towards a low-carbon economy in the short-term. In this regard, policies and regulations may come with significant trade-offs, that would need to be addressed and balanced by policymakers.

For instance, carbon pricing, as part of a coherent strategy, can help tackle informality while mitigating CO2 emissions. According to the OECD (2021a), carbon pricing could allow governments to reduce the tax burden that is only focalized in the formal sector, extending it across consumers. This could reduce the incentives for informality by lowering the relative tax burden of the formal sector. Meanwhile, raising taxes and prices of fossil-fuels can decrease their consumption and CO2 emissions. However, there are downsides to carbon pricing policies that can disincentivize their adoption by governments. Taxing carbon emissions can disrupt businesses in the short-term due to their difficulty to adapt to cleaner energy sources, and there is a risk of stranded assets. Frequently, carbon taxes consider

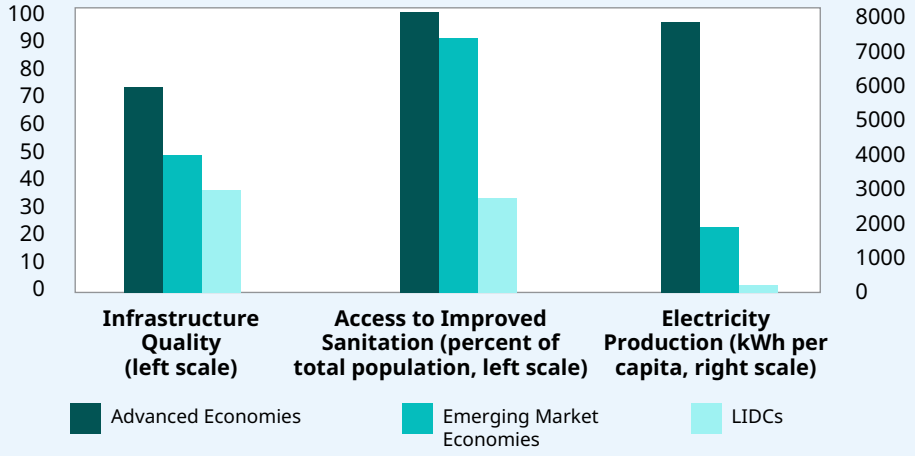
carbon dioxide emissions from fossil fuels as they are easier to measure disregarding emissions from agriculture and other sectors (World Bank, 2022b). Carbon pricing policies should be complemented by other programmes and information campaigns that foster the transition of businesses towards lower emissions without compromising the formal employment.

▶ 2.6 Physical and Digital Infrastructure

Building infrastructure and utilizing infrastructure represent 70% of the total Green House Gas (GHG) emissions in the world (World Bank, 2018a). Thus, the way that countries design and utilize their infrastructure is crucial for low-carbon development. This is not only relevant for the environment, but also in terms of human health. According to the World Bank, the number of people that die from GHG emissions is expected to rise from 150,000 to 250,000 by 2030 (World Bank, 2018a). Furthermore, policymakers cannot obviate the challenges that climate-change adaptation demands in terms of future infrastructure, which should contribute to building more resilient communities where climate change risks are minimized.

In the following graph, the reader can observe the perception of infrastructure quality, the access to improved sanitation and the electricity production for Advanced Economies (red bars), Emerging Economies (blue bars) and Low-Income Developing Countries (LIDCs, represented with green bars) (IMF, 2017). The significant infrastructure gap between the LIDCs and the rest of the economies is clear. This calls for an urgent need to invest and improve infrastructure on LIDCs. According to the Economic Policy Institute (EPI), public investments in infrastructure boost the long-run productivity. On average, for every 100 USD spent on infrastructure, the private-sector output is boosted by $17 USD in the long-run (EPI, 2017).

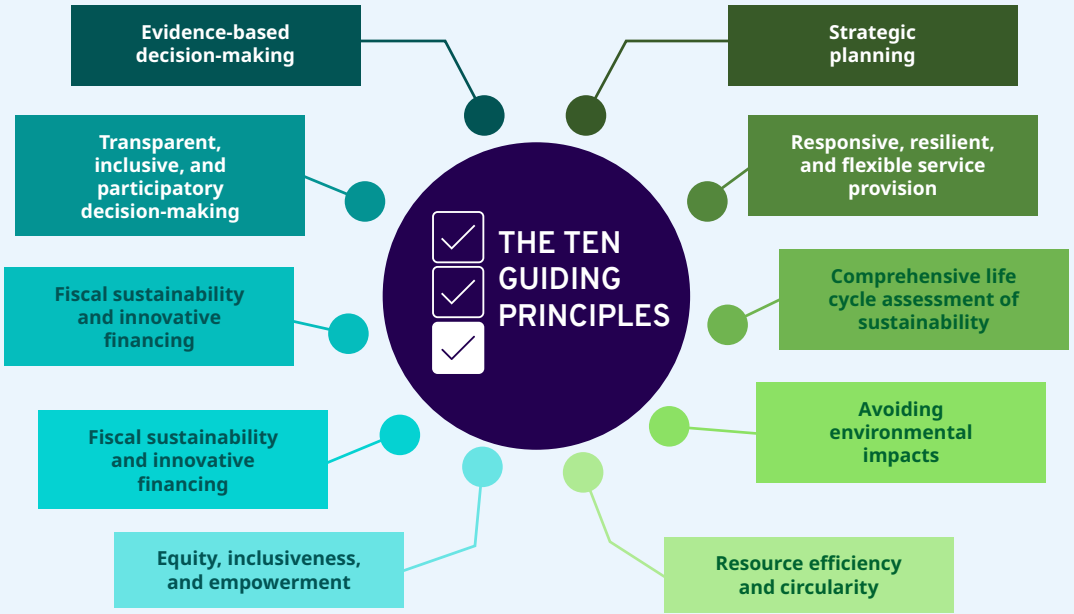
▶ Figure 2.7. Selected Infrastructure Indicators for the years 2013 - 2015



Note: Infrastructure Quality is presented on a scale from 0 to 100, (left y-axis). Access to Improved Sanitation is the percentage of the population that has access to improved sanitation (left y-axis). Electricity Production is calculated as the kWh per capita; (right y-axis). **Source:** IMF (2017).

According to the United Nations Environment Programme (UNEP), sustainable infrastructure systems are "planned, designed, constructed, operated and decommissioned in a manner that ensures economic and financial, social, environmental, and institutional sustainability over the entire infrastructure life cycle" (UNEP, 2022). Planning sustainable physical infrastructure investments require certain principles that policymakers should consider. Figure 2.8 presents 10 guiding principles that aim to guide sustainable infrastructure systems.

▶ Figure 2.8. Guiding principles for designing Sustainable Infrastructure Systems



Source: Own elaboration from UNEP (2022).

Implementing infrastructure projects can also be an opportunity to address other relevant social and economic issues for a just transition. Governments can use labour intensive programmes to create employment opportunities for individuals living in poverty while improving their community's infrastructure (UNEP, 2022). For example, the World Bank Labour-Intensive Public Work Programmes (LIPW) in fragile states have provided employment opportunities to the poorest individuals while upgrading infrastructure in their communities. The empirical results derived from the implementation of LIPW programmes in Tunisia, Egypt, and Ivory Coast; show that providing such job opportunities to the poorest individuals can improve their long-term labour productivity by around 11% (World Bank, 2018c).

In the context of the just transition, infrastructure design will need to be inclusive, considering the needs of all the population. Infrastructure systems should address the level of connectivity between SMEs and larger enterprises. This linkage between both groups can facilitate the exchange of information closing the technological and skills development gap (UNEP, 2022). While the Covid-19 crisis has accelerated digital capacity-building, only the enterprises with sufficient internet access and skills can benefit from such low-cost training options (Actis, 2022). The OECD proposes a framework for the integration of the digital transition that policy makers can use as guidance. Policies and regulations should aim to reduce the barriers that prevent small businesses from participating in digital markets. In Portugal and South Korea, the government provides grants for SMEs looking to adopt digital technologies (OECD, 2020).

▶ 2.7 Skills Development

The ILO recommendation number 195 highlights skills development and lifelong learning as crucial for both workers' employability and enterprises' competitiveness, which are particularly relevant for a just transition. In developing economies, the rising population requires education and training programmes,

to be able to increase their productivity and access formal jobs. Meanwhile, in virtually every economy, a high share of jobs will be substituted due to automatization and changes in the production processes. For instance, the fossil fuels related jobs are progressively decreasing, while the employment level related to renewable energy increases. Individuals who are left without a job due to this job substitution can be supported with capacity-building. This can help them gain novel skills to find a new job.

> The ILO recommendation number 195 highlights skills development and lifelong learning as crucial for both workers' employability and enterprises' competitiveness, which are particularly relevant for a just transition.

According to the United Nations Framework Convention on Climate Change (UNFCCC, 2020), training can support workers to develop the skills to work with new materials, processes, and technologies. Furthermore, training can also support MSMEs' employees and owners to build skills related to the transition toward more sustainable practices. In this regard, implementing the right capacity building programmes will require that the education sector attends the most urgent needs of both workers and employers, to close the crucial skills gap. For this purpose, the public sector needs to work in different fronts. According to ILO (2014), there are at least 8 factors that cause skills shortages in the least developed economies.

▶ Table 2.2. Factors that cause skills shortages in the least developed economies

i.	**Unbalanced skills. Insufficient university graduates and skilled manual workers.**
ii.	**Lack of basic STEM skills. Science, technology, engineering, and mathematics.**
iii.	**Training system is not sufficiently responsive to market needs and changes in the economy.**
iv.	**Shortage of qualified teachers and trainers specialised in green industries.**
v.	**Underestimation of growth in certain sectors, such as waste management.**
vi.	**Failure to attract the available skilled workers due to poor working conditions.**
vii.	**Loss of skilled workers and teachers to other economies.**
viii.	**Lack of good labour market information on future skills demand and/or institutional frameworks conducive to effective dialogue on relevant training.**

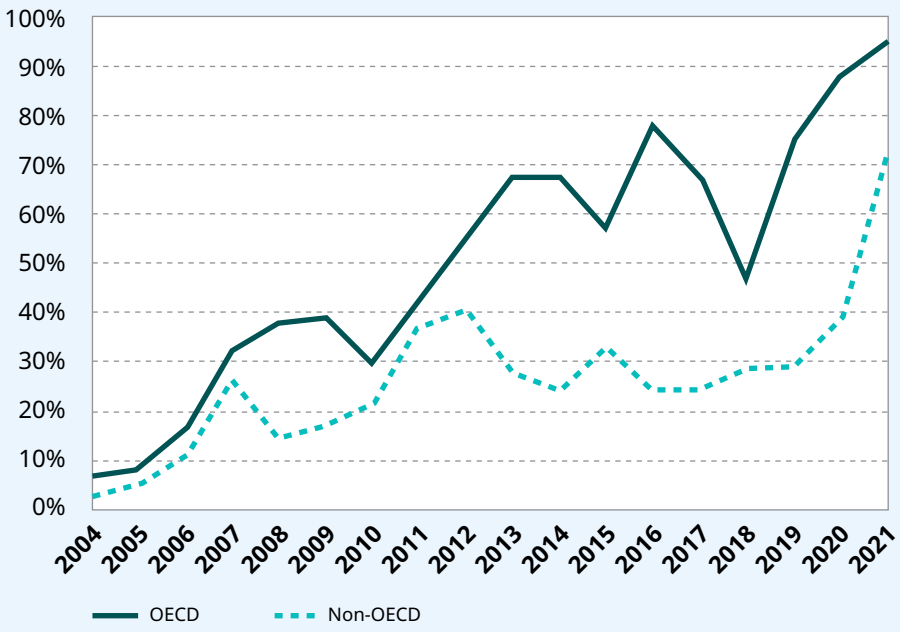
Source: Own elaboration with information from ILO (2014).

Numerous governments around the world are already supporting workers and employers' organizations to assess and mitigate the skills-gap. In Scotland, the Government implemented a Low Carbon Skills Fund that gives direct financial support to MSMEs (under 100 employees) to cover 50% of the training costs, for up to GBP 1,000 per employee in areas such as energy efficiency and waste management (OECD, 2018). Another relevant international experience can be found in France, where the government stablished a *National Observatory for Green Economy Jobs and Skills*. This institution has the goal of identifying skills required by the labour market, as well as analysing the employment-training relationship in the context of a green economy. To do so, the Observatory articulates the work of multiples ministries such as the Ministry of Environment, the National Institute of Statistics and Economic Studies and the General Delegation for Employment and Vocational Training (Onemev, 2022).

▶ 2.8 Access to Financing

Investing in low-carbon development can yield high rates of return in the long-run, however, governments are not currently providing adequate financing opportunities and investments for this purpose. Kompas et al. (2018) constructed a model to understand the economic impact of climate change for 139 countries. They found that complying with the target of limiting global warming to 2° C will represent an economic benefit of US$ 17 billion approximately per year compared to the business-as-usual scenario. Nevertheless, there is still a significant funding gap for sustainable development. For instance, the OECD (2022) estimates the investment gap to achieve the Sustainable Development Goals is around 70%, meaning that the global sustainable investment is far from reaching the necessary US$ 2.5 trillion per year.

▶ **Figure 2.9. FDI in renewables, % of Energy FDI**

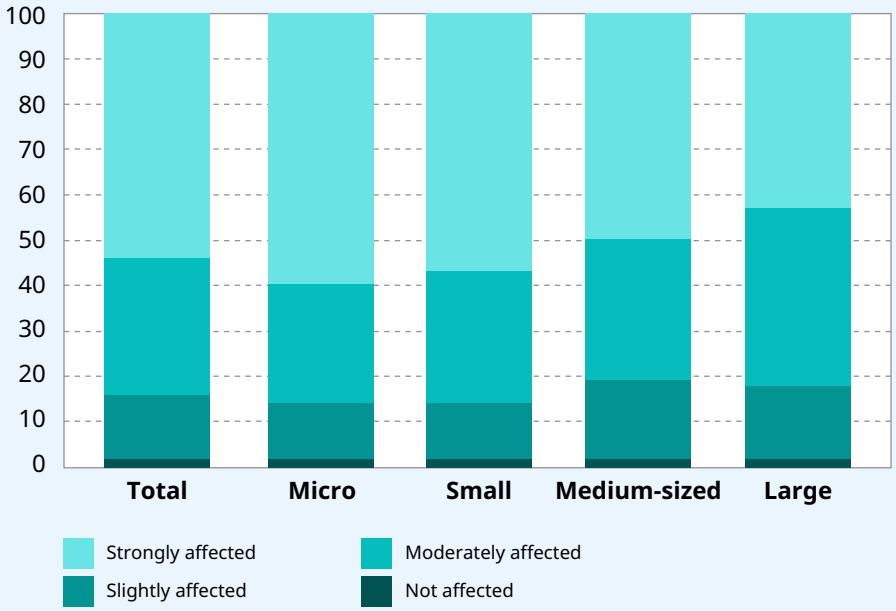


Boosting Foreign Direct Investment (FDI) can be a possible mechanism to increase financing for low-carbon development. The OECD argues that FDI is a relevant source of sustainable financing for low-carbon development. When FDI is properly regulated, it can enhance the overall productivity of the economy and improve the innovation capacities of the domestic companies. In this regard, there is evidence that supports the idea that FDI has a positive impact on the green markets. For instance, Figure 2.9 shows that energy FDI is mostly constituted by renewable energy investment (OECD, 2022).

Green financing instruments are another effective means to reduce companies' emissions and improve access to financial resources. The growth of transactions in sustainable financial markets displays the efforts of several enterprises to achieve sustainability in their operations. According to Bloomberg (2022), the issuance of sustainable debt presented a 100% increase in 2021 compared to the previous year. However, these financial instruments are mostly used by large enterprises, leaving policy makers the challenge to secure financial opportunities for MSMEs that are equally or more vulnerable to negative shocks during the just transition. For instance, during the Covid-19 pandemic, a larger number of MSMEs reported to be at risk of permanently closing (UN Department of Economic and Social Affairs, 2021). Furthermore, Figure 2.10 shows micro enterprises were the most likely type of companies to be strongly

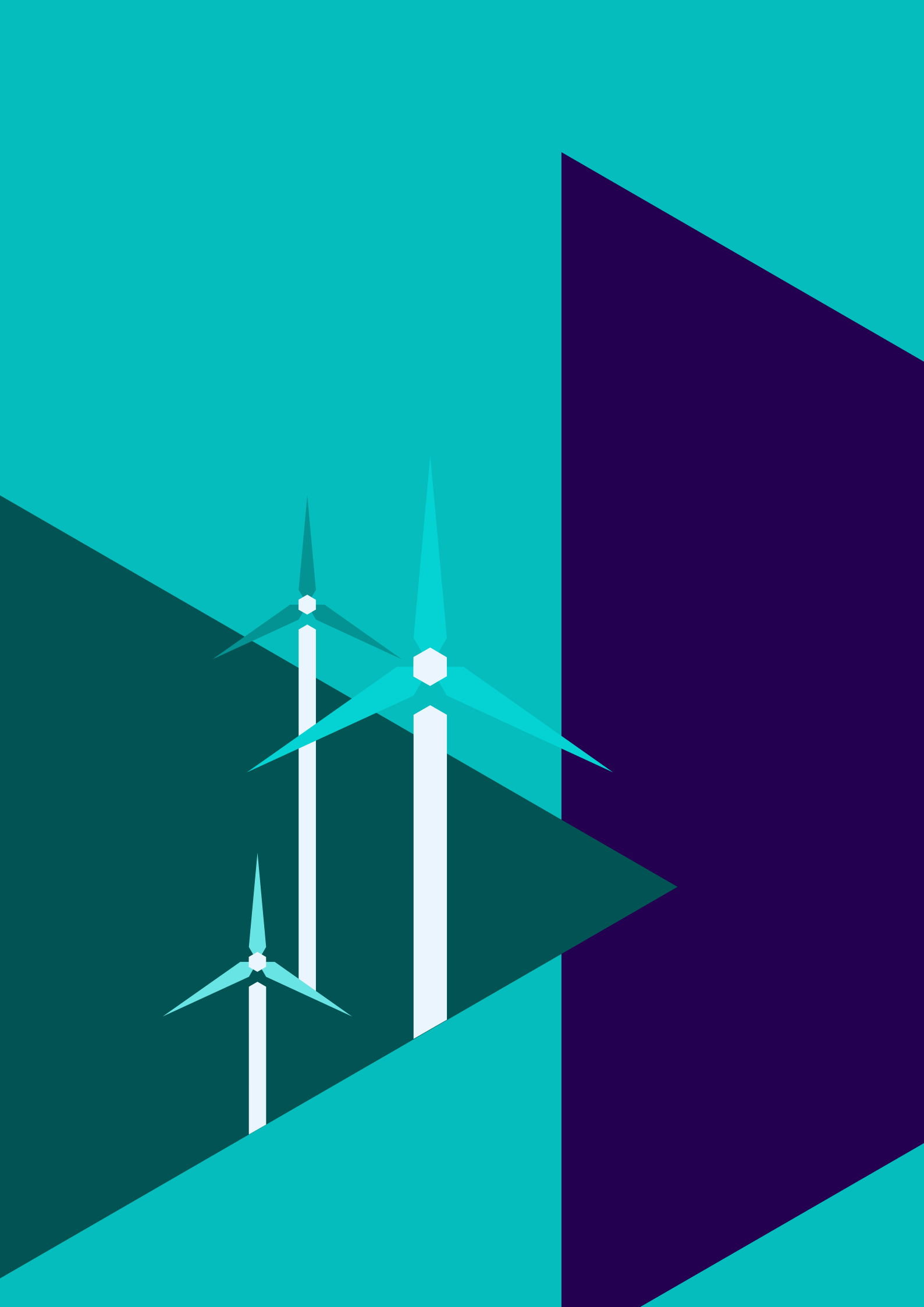
affected by the Covid-19 pandemic, while large companies were the least likely to be strongly affected by the pandemic.

▶ Figure 2.10. The impact the Covid-19 on enterprises, according to their size



Source: UN (2021).

MSMEs may have difficulty accessing financing from traditional sources, which can limit their ability to invest in productivity-enhancing equipment, clean technology, or R&D. Governments can provide loan guarantees to MSMEs to help them access financing and make these investments. They can offer low interest loans to businesses improving their environmental performance. The public sector can also provide direct capacity building to MSMEs regarding financial inclusion and green practices. The Horizon 2020 programme is a relevant example in terms of targeted green financing to companies. The European Union implemented this programme to provide funding to MSMEs operating in the energy efficiency industry during the recovery period of the Covid-19 pandemic (UNECE, 2020). This type of programmes can offer support to smaller enterprises, while boosting low-carbon development.



Chapter 3

3. The Role of EBMOs in Supporting the Business Case for Just Transition

EBMOs can provide valuable support to their members, including companies and sectoral business associations, in the field of just transition towards low-carbon and sustainable economies. They support members by offering services, advocating policy, and building strategic alliances to promote knowledge exchange and collaboration. Some general guidelines are provided below. EBMOs have key areas to support their members such as services' provision, policy advocacy, knowledge exchange and collaboration, as well as legal and regulatory support. Section 3.1 focuses on member services, while section 3.2 analyses the policy-advocacy role of EBMOs and section 3.3 describes the strategic alliances needed to implement valuable member services and effective policy advocacy.

EBMOs have key areas to support their members such as services' provision, policy advocacy, knowledge exchange and collaboration, as well as legal and regulatory support.

Services

EBMOs can facilitate access to information and resources related to inclusion practices, CSR policies, resource-efficient practices, sustainable production methods and skills development programmes. For an economically viable transition, enterprise need to identify challenges and areas of opportunity. EBMOs can assist members in conducting sustainability assessments to identify such areas for improvement and provide guidance on implementing sustainable practices across their operations. This can involve developing sustainability checklists, guidelines, or offering expert consultations.

For instance, EMBOs can create campaigns and programmes with the objective to inform their members about the challenges and opportunities of inclusion practices, providing examples of recruitment and corporate policies that ensure inclusive societies. Furthermore, enterprises can be guided in the adoption of CSR practices by EMBOs' consultants which can improve their brand reputation, recognition, and workers' performance.

Resource efficiency is at the heart of the transition to sustainable economies. In this respect, EBMOs can offer guidance on resource optimization, waste reduction, and circular economy practices. The advisory services related to these practices can help companies in the understanding of legal requirements and assist in establishing internal processes for compliance. By providing these forms of support, EBMOs can enable their members to navigate the challenges of transitioning to low-carbon and sustainable economies, while reducing any regulatory risks.

Skills development is essential in the context of a just transition. As it has been mentioned before, transitioning to a sustainable economy requires the re-skilling and training of the workforce in green-oriented jobs. For instance, they can contribute to the design of training programmes, skills development initiatives, and job placement services such as events where members can connect with potential employees and communicate them what are the skills they require.

Policy Advocacy

EBMOs can engage in policy advocacy to shape climate and sustainability policies at local, regional, and national levels. They can actively participate in policy dialogues, engage with policymakers, and provide input on regulations and incentives that encourage the transition to low-carbon and sustainable economies. This may include advocating for renewable energy subsidies, carbon pricing mechanisms, or green procurement policies.

Advocating for supportive legal frameworks and incentives is instrumental to promote just transition. EBMOs can engage in dialogue with policymakers to highlight the needs of businesses during the transition and propose measures such as tax incentives for renewable investments or regulatory flexibility during the initial phase of adoption. Furthermore, EBMOs can advocate for a conducive business environment, government investment in green infrastructure, clean technology research and development, and financial support mechanisms for businesses transitioning to sustainable practices. For instance, they can work towards ensuring that funding programmes from national development bank and incentives are accessible and tailored to the needs of their members.

Strategic Alliances

EBMOs can create platforms for members to share best practices in implementing sustainable business models, adopting renewable energy sources, and managing the social and economic impacts of the transition. They can organize conferences, workshops, or webinars where members can learn from each other's experiences and exchange knowledge.

Moreover, collaborative projects may support just transition. In this respect, EBMOs can facilitate collaboration among members to undertake joint projects aimed at promoting sustainability. They can share case studies and success stories, provide training on waste management or eco-design, and connect members with relevant service providers or suppliers of eco-friendly materials.

They can foster sectoral cooperation where businesses collaborate on sector-specific just transition strategies. EBMOs can organize working groups or task forces that bring together businesses, academia, government representatives, and civil society to develop roadmaps and action plans for a sustainable transition within their respective industries.

As will be shown in this chapter, EBMOs can collaborate with governments, labour unions, and other stakeholders to develop just transition frameworks and policies that ensure a fair and inclusive transition for workers, industries, and communities affected by the shift to sustainable economies.

▶ 3.1 Services

EBMOs play a vital role in facilitating a just transition to sustainable economies by acting as advocates, enablers, and intermediaries between businesses and policymakers. They ensure that business voices are represented in the development of climate policies that balance environmental, social and economic objectives. EBMOs can provide essential support through tailored services such as climate transition planning, green skills development and access to green finance, enabling businesses to navigate the complexities of the transition. They also foster social dialogue, promote public-private collaboration and build business resilience by providing tools and knowledge to prepare their members for the future. In doing so, EBMOs can help create an inclusive and viable transition that ensures all businesses, regardless of size, sector or location, can participate and thrive in the transition to a sustainable economy.

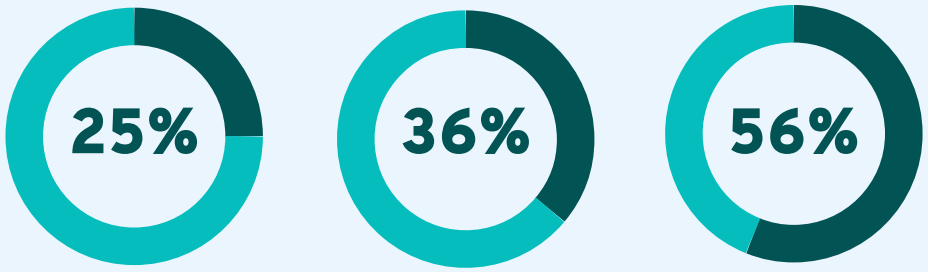
Some EBMOs offer services to their members to improve the efficiency of their production processes or to strengthen their inclusion practices. This section presents several services offered by EBMOs to support companies in the just transition. This content is relevant for EBMOs around the world as it reveals different types of services that can be implemented in their organisation to contribute to the just transition while supporting the needs of their members.

Inclusion Practices

As mentioned in the previous chapter, a just transition requires that no one is left behind. This means ensuring that minority workers, vulnerable groups; as well as people from all ages and any gender have equal access to opportunities on the labour market. Various EBMOs are already promoting inclusive practices on enterprises. One can consider the case of the Confederation of British Industry (CBI), an EMBO founded in 1965 and constituted by 190,000 large and small businesses in the United Kingdom. This organization created a campaign for enterprises to enhance in Diversity and Inclusion (D&I) practices. The campaign invites companies to ensure equal opportunities in recruitment processes and encourages training for managers leading remote teams to foster an inclusive work environment. Finally, the campaign recommends companies to measure the baseline of their D&I practices so they can set tangible KPIs. This topic is also relevant for productivity enhancement, since it encourages the selection of the best candidates on the recruitment process.

As part of the campaign, CBI conducted interviews with their members to discuss specific D&I practices and published a video with the key takeaways. The campaign was conducted transparently, enhancing the trust on the survey results and recommendations. Furthermore, the CBI provided practical advice on how to close gender and ethnicity pay gaps. The campaign constructs the business case for D&I practices by providing information and benefits of specific recruitment strategies that ensure D&I (CBI, 2023). Figure 3.1 presents information on the performance of businesses that are inclusive, demonstrating that they have a higher probability to outperform the companies that possess lower levels of D&I.

▶ Figure 3.1. Inclusive Businesses Perform Better



Firms with the highest levels of gender diversity on executive teams are 25% more likely to outperform their rivals on profitability

Firms with high cultural and ethnic diversity on executive teams are 36% more likely to outperform their rivals on profitability

Higher levels of employees feeling like they belong can lead to an 56% increase in job performance

Source: CBI (2023).

While CBI addressed the national barriers to inclusion, other EBMOs have taken a sectoral approach, focusing on a particular industry where a specific group tends to face higher entry barriers. For instance, one can consider the service provided by the Canadian Manufacturers and Exporters (CME). CME identified that women represent 48% of the total workforce in Canada, but only 29% of the workers in the manufacturing sector are female. To address this issue, they created the program Women in Manufacturing that has the objective to engage female workers to untapped potential in the sector. CME published a study (2017) to shed light on the workplace culture challenges that decrease women's participation and the gender skills gap that is key to understand the low representation of women.

This program offers different resources, one is called *Ontario Skills* which empowers the youth through hosting summer camps for skills development, organizing presentations at schools and connecting students to employers. Furthermore, there is an apprenticeship initiative that targets women in apprenticeship programmes and gives them grants to cover their expenses. It also created a bridge with organizations that support women in their professional decisions and encourage them to pursue careers in science (CME, 2023). All the resources available to promote the participation of women in the manufacturing workforce are contributing to the improvement of D&I practices in companies.

Corporate Social Responsibility

As mentioned in the previous chapter, Corporate Social Responsibility (CSR) practices are relevant during the just transition since they strengthen the firm's relationship with employees and customers. This can derive on a positive impact to the community while increasing the company's profitability. Regarding the relationship between companies and workers, CSR can boost the workers' affinity with the company's values, leading to an increase in workers motivation and performance.

EBMOs are already providing relevant services to their members related to CSR. For instance, the Federation of Egyptian Industries (FEI), an EBMO created in 1922 to lower the barriers to the development of the industrial sector, has recognized the importance of CSR in terms of creating an enabling business environment. FEI created a CSR unit that offers services to their members such as special annual workshops for CSR topics, advice on CSR interventions within specific industries and database management (FEI, 2023).

According to UNIDO, through CSR a company can achieve a balance of economic, environmental, and social imperatives, while meeting the expectations of shareholders and stakeholders (UNIDO, 2013). Regarding the environmental component, the Federation of Egyptian Industries (FEI) has created an ECO unit that functions as a subsidiary for environmental programmes. This unit offers services of environmental audits and surveys for industrial facilities and districts. They evaluate companies and support them in the development of necessary capabilities for the adoption of green technologies. This department aims to support companies on their compliance with environmental regulations and promote environmental investment, among other goals (FEI, 2023).

There are other EMBOs that address social and environmental issues with their services. The Confederation of Indian Industry (CII), an EMBO created in 1895 with the purpose of developing the industrial sector and communicating the companies' requirements to succeed, created a Centre of Excellence for Sustainable Development that provides services in four areas: resilient business and society, biodiversity and nature, climate action and circular economy. Table 3.1 provides the description of such services.

▶ **Table 3.1. Confederation of Indian Industry, Centre of Excellence for Sustainable Development Services**

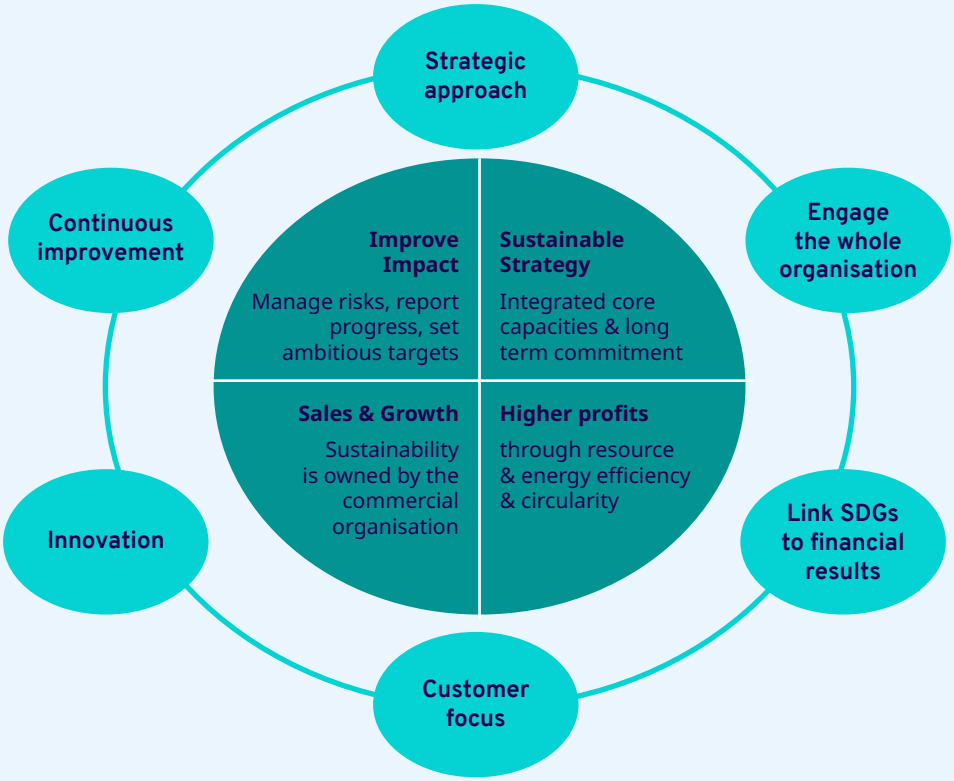
Area	Services
Resilient Business and society	It conducts human rights risk assessments when companies request them and provides training on human rights practices.
Biodiversity and nature	It offers advisory services on how companies can introduce the biodiversity approach on their operations. It provides recommendations on how to communicate the assessment results that at the same time comply with international standards. It also provides a tool for the biodiversity indexing of the sites and corporate levels. To deliver this service they construct an assessment methodology that scientifically evaluates the level of biodiversity within the company's boundaries and the strategics adopted by the company. This assessment considers indexes and research developed by the India Business and Biodiversity Initiative (IBBI). The IBBI was created with the purpose of generating awareness in the environmental and biodiversity aspects of business practices (CII, 2015).
Climate Action	It aims at reducing climate change risks for companies by providing assessment services, GHG classification and carbon neutrality services. The Certified GHG Emissions Accounting & Management Training Program was created in this area to regulate the GHG reporting among companies, the Training also provides information on constructing GHG reduction projects with roadmaps and specific targets.
Circular Economy	This area publishes results of resource efficiency studies that can be useful for numerous industries. The website currently presents relevant findings for the steel and paper industry. One of the studies found that the scrap-use of metal represents iron ore savings, meanwhile another study shows that the use of recycled paper increases efficiency for paper companies.

Source: CII (2023b).

The Confederation of Danish Industry (DI) is an EMBO that represents the industrial enterprises in the country. DI engages in social dialogue with workers, improves regulations and makes available different services to its members. This Organization created a self-assessment tool for members that want to evaluate the CSR practices within their company (DI, 2023). Furthermore, DI is also informing and supporting companies to endorse the Sustainable Development Goals (SDGs) and make the right decisions when adapting their production processes. To advance on this mission, DI has published documents that present the business case for investing in sustainable solutions. For instance, the Global Goals and Opportunities for Businesses (2016) is a document that shares examples of Danish companies that compete in the global market with businesses that contribute to the SDGs in developing countries. The document explains that companies can find business opportunities in countries where green markets are starting to develop as they can meet the demand for technology or consultancy services that is created by the sustainable transformation of the private sector in such countries.

In 2020, they published another report called *How to win with Sustainability and the Sustainable Development Goals*, where they described the Philanthropy to Business project, recommended a business model and discussed specific cases. Figure 3.2 presents the business model proposed for this project. The purpose is for companies to adopt a systematic approach to sustainability where the whole organisation is involved. Companies can disclose the main challenges of contributing to the SDGs, communicate innovative solutions and convey their contributions to their consumers.

▶ Figure 3.2. Business model for companies participating in the Philanthropy to Business project



Source: DI (2020).

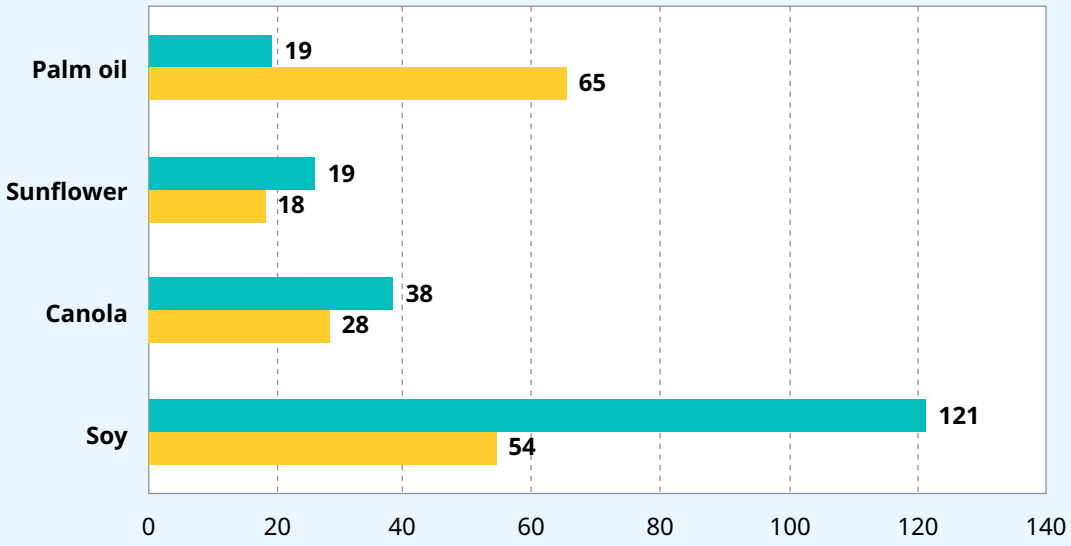
Production Process and Resource Efficiency

Improving enterprises' production processes and resource-efficiency is a mean to reduce operational costs, increase profits, and mitigate CO2 emissions. This is a win-win scenario for enterprises, society, and the environment. In this regard, some EBMOs area already providing services to support enterprises

on this matter. For instance, one can consider the case of GREPALMA, an organization created by small, medium, and large enterprises in Guatemala. It represents the palm oil industry in the country. The Organization's view is that sustainability can be a profitable path for its members and that it can increase their competitiveness. This Organization engages in operations regarding capacity-building, strategic partnership promotion, the implementation of programmes and information on palm oil production.

The companies that are members of GREPALMA have access to a near real-time satellite monitoring platform that includes their operational areas and a radius of 100 km around them. The project started as an attempt to understand the link between the palm oil industry and deforestation, conducting studies to measure the real impact of palm oil (OIT, 2022). Figure 3.3 displays some relevant results from the studies. It shows that palm oil can produce 65 tons of oil with 19 million hectares, whereas sunflower oil produces 18 tons of oil with 26 million of hectares. It is the same case for canola and soy oil, which need more hectares to produce oil.

▶ Figure 3.3. Relationship between tons of oil production (yellow bars)



Source: GREPALMA (2022).

The Chamber of Industries in Uruguay (CIU), an EMBO that represent the interests of the industrial sector in this country, created the Packaging Management Plan (PGE). It provides collection, classification and recovery tools for companies producing or importing products that use non-recyclable containers. They have recovered 3,130 tons of materials such as PET, HDPE, LDPE, glass, among others, and so far, 2,601 companies have joined the PGE. To address the waste management issue within companies, the CIU created a sharing economy tool where companies have access to a virtual market. Companies can buy or sell waste, sub-products and services improving the connectivity on the waste market (CIU, 2023).

When companies have access to disposal centres and sharing economy platforms to trade their waste, the transactions costs are reduced, and it is easier for them to comply with public regulations. The final disposal of solid waste is also supported by the CIU. This Organization has a designated facility to dispose 10,960 tons of waste per year classified with a hazardous level of medium and high produced by 157 enterprises. This disposal centre secures the compliance of waste management regulations by user companies and reduces the environmental impacts (CIU, 2023).

In Colombia, the National Association of Employers (ANDI), founded in 1944 to promote proposals that boost employment and economic growth, has created a department for sustainable development with a team of specialists that offer consulting services for companies. They manage the technical, legal, and administrative relevant aspects for the sustainable enterprises' performance. The safe disposal of

chemical substances is one example of these programmes. It equips companies with documents about normative regulations and safe practices to dispose chemical substances (ANDI, 2023b).

In Japan, EBMOs from different industries provide useful recommendations on how to increase resources' efficiency. For example, the Japan Iron and Steel Federation (JISF), an EMBO created in 1948 with the purpose of representing the steel industry, recommends the use of high-function steel for some parts of automobiles, vessels, boilers, transformers, and railway. High-function steel can be use in the form of steel sheets, plates or tubes that maintain their strength when they are thinned out which reduces the weight of the product. This reduction in the weight leads to energy saving in the stage of product use decreasing the overall emissions in GVCs in the steel industry (Keidanren, 2018).

Another relevant example is the case of the Japan Paper Association. This EBMO estimates a significant reduction of CO2 emissions at the manufacturing and transporting stages when paper companies decide to produce lightweight corrugated sheets. They calculate that by the year 2030 there is going to be a reduction of CO2 emissions of approximately 900,000 t-CO2 per year compared to the 1990 baseline (Keidanren, 2018). This information can be very valuable for companies in the paper industry as they can adopt these techniques with the knowledge of what they would represent for their processes.

Skills Development

As explained on the previous chapter, millions of workers will need to acquire new skills and competencies to remain employable in the changing labour market. This highlights the need of boosting skills development for just transition, for instance, related to growing industries such as renewable energy or energy-efficiency. With the aim to support its members on this relevant challenge, the Singapore National Employers Federation (SNEF), an EMBO which is committed to the responsible growth of businesses in the country, created the Career Conversion Programme (CCP) for sustainability professionals. For instance, with this programme, workers can learn to repair and maintain Electric Vehicles (EV). This programme represents an opportunity for employers to re-skill their workers and increases the workers' employability (SNEF, 2023).

On average, MSMEs tend to have less technical skills and fewer access to training. The targeted support towards MSMEs is essential for the just transition, especially considering their high contribution to employment on developing economies. In France, the French Business Movement (MEDEF) identified 3 challenges for MSMEs regarding skills development and professional training. First, the adaptation of workers' skills to the changes in the global economy. Second, the transition to a digital economy. And third, the necessary re-skilling and training of employees because of the green transition. On this regard, MEDEF created a programme called *Rue de la Formation* which is a website that contains resources for enterprises requiring training (MEDEF, 2023). There are several articles available that provide information on relevant topics such as the youth's perspective on digital training opportunities for companies (Rue de la formation, 2023).

On this front, various EBMOs are already providing relevant skills development services particularly directed to MSMEs and young professionals. For instance, the Council of Industrial Chambers of Jalisco (CCIJ), an EBMO that represents the industrial sector in Jalisco, created the "Hospital MIPyME" that supported MSMEs during the pandemic (CCIJ, 2020). In a nutshell, it was a sharing economy online tool that allowed local university students from different areas (accounting, business development, finances, law, etc.) to offer advisory services to local MSMEs. For students, this was considered as a valid internship by their university, which allowed them to implement their technical knowledge to solve the day-to-day challenges from local small companies. As a result, both students and MSME's employees increased their skills set, in line with the demands from the challenging business environment.

Areas of Opportunity for Service Enhancement or Development

To effectively support enterprises in navigating the complexities and maximising the opportunities of the just transition, EBMOs need to adapt their service offerings to meet the evolving needs of their members. By expanding and improving the services they provide, EBMOs can ensure that businesses of all sizes - especially small and medium-sized enterprises (SMEs) - are equipped to manage the risks and capitalise

> To effectively support enterprises in navigating the complexities and maximising the opportunities of the just transition, EBMOs need to adapt their service offerings to meet the evolving needs of their members.

on the opportunities presented by the transition to a sustainable economy. Below are some areas where EBMOs can strengthen existing services or develop new initiatives to help their members through such a transition.

1) Green finance facilitation services

EBMOs can play a critical role in helping businesses, especially SMEs, navigate the complex landscape of green finance opportunities. By establishing a green finance advisory hub, EBMOs can provide tailored support to their members, guiding them through various financial instruments such as sustainability loans, green bonds and government grants. These services will help businesses understand and access financial products that are critical to their transition to sustainable practices, maximising the financial benefits available and enabling them to secure the necessary funding to meet climate change targets. In addition, the provision of Green Tax Incentive Consultation services will educate members on existing tax breaks and incentives linked to the adoption of green technologies and processes. Through these services, EBMOs ensure that businesses can capitalise on tax opportunities, helping them to reduce operating costs while contributing to a sustainable economy.

2) Sustainability transition planning services

To help businesses align their operations with sustainability goals, EBMOs could offer sustainability transition planning services. This would include the provision of tailored transition roadmaps to help businesses identify and mitigate risks associated with the climate transition. Businesses will benefit from strategic planning that includes energy efficiency audits and advice on implementing circular economy principles to reduce resource consumption and operational costs. By incorporating carbon footprint reduction services, EBMOs can help companies track and reduce their carbon emissions through practical recommendations on production adjustments, waste reduction and green supply chain management. Such services will future-proof businesses while ensuring they make a positive contribution to environmental goals.

3) Green skills and workforce reskilling programmes

Given the changes in the labour market brought about by climate change, EBMOs can address the growing need for green skills by working with vocational and higher education institutions to establish Green Skills Training Centres. These centres would provide businesses with access to specialised training programmes focused on emerging green sectors, such as renewable energy and sustainable business practices. The EBMOs would help workers obtain certifications and skills critical for employment in new industries, thereby addressing potential skills gaps in the workforce. In addition, by developing reskilling programmes for displaced workers in partnership with the above-mentioned institutions, EBMOs can support regions and sectors that are particularly vulnerable to job losses due to the transition from fossil fuels, enabling affected workers to transition to sustainable industries and secure employment in growing green sectors.

4) Support for the circular economy

The shift towards resource efficient production processes offers businesses significant opportunities to reduce costs and increase profitability. EBMOs can support this shift by providing Circular Economy Integration Services, guiding companies on how to move from linear to circular business models. This includes advice on how to minimise waste, reuse materials and reduce operating costs through sustainable resource management. In parallel, energy efficiency audits would help businesses identify areas for improvement in energy use, contributing to both cost savings and environmental sustainability.

EBMOs could also work with environmental agencies to provide grants and low-interest loans to businesses that adopt energy-efficient technologies, ensuring that their members remain competitive and resilient in the evolving green economy.

5) Innovation and sustainable business models incubators

To drive innovation in green industries, EBMOs could create Sustainability Innovation Incubators that foster the development of new technologies and business models focused on sustainability. These incubators would offer mentorship, access to funding opportunities, and connections to expert networks, helping start-ups and established businesses alike to innovate in ways that align with climate goals.

Sustainability innovation incubators could also serve as collaborative spaces where businesses from different sectors can come together to share best practices, explore synergies, and co-create solutions. By fostering an environment that encourages cross-industry partnerships, these incubators can facilitate the exchange of knowledge and accelerate the development of breakthrough sustainable technologies. Moreover, they could provide targeted support for prototyping and testing, offering access to resources that individual businesses might not have. This would not only reduce the risk and cost associated with early-stage innovation but also enhance the likelihood of successful commercialization of sustainable technologies.

6) Facilitating technology access and adoption

Access to technology is essential for a successful transition to greener practices, especially for SMEs that may lack the resources to invest in advanced technologies. EBMOs can establish a green technology advisory service to help businesses adopt the latest clean technologies and digital tools to improve efficiency and reduce their carbon footprint. By facilitating partnerships with technology providers, EBMOs can create pathways for businesses to adopt innovative solutions at a lower cost.

7) Stakeholder collaboration and social dialogue platforms

EBMOs can enhance the success of the just transition by promoting stakeholder cooperation through the creation of Just Transition Stakeholder Forums. These forums would bring together businesses, governments, trade unions and civil society to share challenges and best practices related to the transition to a sustainable economy. Facilitating such dialogues would help companies to mitigate risks and build stronger relationships with stakeholders, ensuring smoother implementation of green projects. EBMOs could also focus on fostering public-private partnerships, acting as intermediaries to form collaborations that co-finance or co-develop green projects, thereby aligning private sector initiatives with national sustainability goals.

8) SME support services for sustainable practices

To ensure that SMEs are not left behind in the just transition, EBMOs could establish a dedicated SME Transition Support Hub. This hub would offer targeted services that provide SMEs with the knowledge and guidance to adopt sustainable practices. Simplified compliance assistance could help smaller businesses navigate regulatory requirements, while guidance on how to access affordable financing options would help bridge the financing gap to make the transition.

▶ 3.2 Policy Advocacy

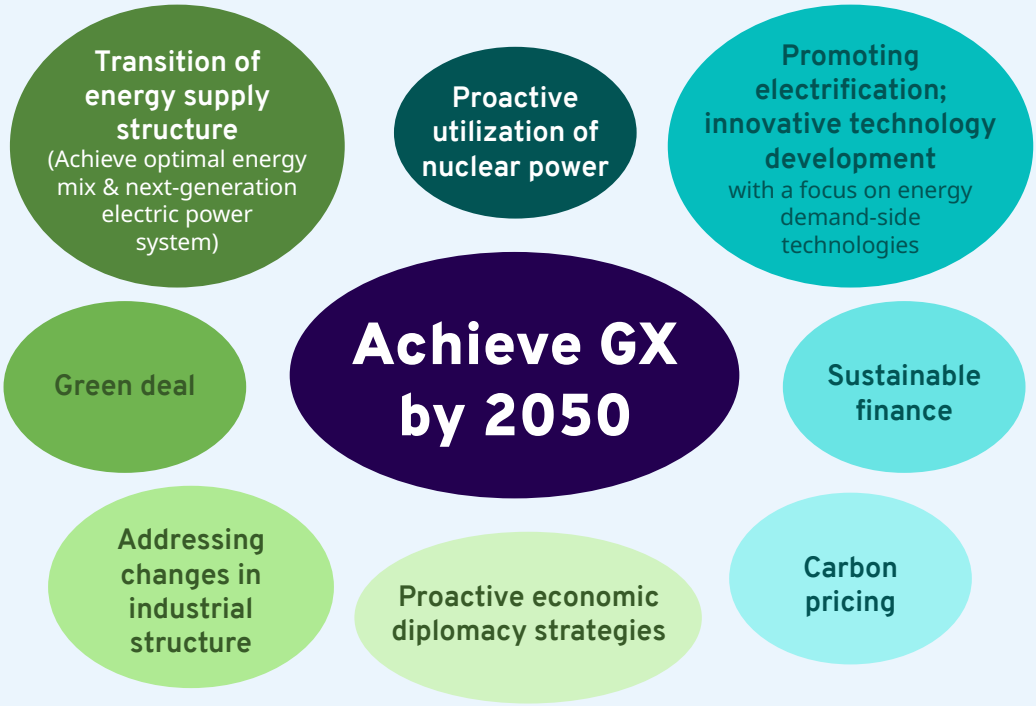
EBMOs can advocate for a better business environment that can support enterprises during the just transition. In this regard, EBMOs can suggest improvements in policies and regulations to policy makers. For example, consider the case of Japan and the Keidanren (Japan Business Federation). Given the environmental commitments recently signed by Japan, its companies would need to increase the

sustainability of their overall processes. To this end, Keidanren is advocating that the government implement a comprehensive Green Transformation (GX) policy package that maximises private and public investment in markets for sustainable development. The package represents the necessary transformation of the entire economy and society (Keidanren, 2022).

Figure 3.4 shows the areas that need to be addressed in the policy package according to Keidanren's recommendations. For example, the condition on the transformation of the energy supply structure aims to decarbonise energy sources and secure the next generation of power networks. This condition encourages the implementation of policies that increase R&D investment in the nuclear sector, ensure the supply and low cost of renewable energy, initiate a decarbonisation process in the thermal industry by switching fuels to liquefied natural gas, and prepare network infrastructure for the introduction of renewable energy, among other recommendations.

The Green Transformation (GX) strategy also advocates a Green Deal linked to achieving a carbon-neutral economy by 2050, which will require significant investment. Keidanren recommends that, in the medium to long term, government spending on the aforementioned goal should be increased, especially in high-risk areas of innovation, in order to encourage private investment. Furthermore, with regard to the carbon pricing condition, this EBMO argues that the use of taxation does not guarantee the reduction of emissions but may reduce the competitiveness of Japanese companies in international markets due to high energy prices.

▶ **Figure 3.4. Conditions for the GX Policy Package**



Source: Keidanren (2022).

Similarly, the United States Council for International Business (USCIB) advocates policies that improve the business environment. This organisation has identified various challenges to the private sector in the context of climate change and energy transition. In this context, it has promoted specific policy responses that will be needed to address them. Table 3.2 shows the main challenges identified. For example, USCIB encourages active US participation in the UN climate agenda, as it considers it important to represent the interests of US business in the international context. The organisation also promotes international cooperation to regulate the reporting methodologies that each economy uses to measure progress in climate policy (USCIB, 2023).

▶ Table 3.2. Climate change and energy transition related challenges faced by US businesses, according to the US Council for International Business

▶ **The US has committed in the Paris Climate Agreement to lower GHG by 2030. The current promises are not going to be enough to comply with the agreement. Transparency frameworks need to be implemented.**
▶ **Governments have neglected the involvement of the private sector in the low emission agenda. Clear engagement channels for the private sector's involvement in the UN structure is essential to achieve a low emission economy.**
▶ **Carbon pricing and regulations on emissions implemented by different economies affect the competitiveness of American businesses in the global market.**
▶ **Uncertainty around costs and access to different energy sources. Investment in energy infrastructure is recommended by international organizations such as IEA and OECD.**

Source: USCIB (2023).

In addition to these examples, the International Organisation of Employers (IOE) highlights the essential role of business and governments in promoting a just transition to sustainable economies. The IOE (2024) emphasises that a just transition is crucial not only for achieving climate goals, but also for advancing sustainable development. A successful transition depends on a strong business sector that is well equipped to adapt to new economic and environmental realities. EBMOs are key intermediaries in this process, facilitating knowledge exchange, representing business interests in policy processes and helping to mitigate the socio-economic impacts of climate policies.

EMBOs' efforts to communicate the specific needs of industries within the economy to comply with government regulations, as well as their discussions on the barriers and opportunities of just transition, can indeed be valuable inputs for governments willing to improve policies and regulations. By communicating their research findings or the main challenges identified by industry, EMBOs can help governments to better understand the barriers faced by the private sector in the context of just transition.

As explained in Chapter 1, governments around the world have already committed to reducing greenhouse gas emissions through their Nationally Determined Contributions (NDCs). It is vital that governments consult with the EBMOs when revising their NDCs and developing national policy and regulatory frameworks tailored to their specific circumstances. The review of policy and regulatory frameworks to meet NDC targets requires the active involvement of EBMOs, as they play a key role in representing the needs and challenges of business in the transition to a low-carbon and sustainable economy. The relevance of EBMOs in effectively communicating the needs of the private sector remains essential in this process.

▶ 3.3 Strategic Alliances

Achieving a just transition requires the collaboration of multiple stakeholders from the public and private sector, representing a relevant logistical challenge, commonly faced by EBMOs. In this regard, it is illustrating to consider the case of Business Unity South Africa (BUSA), an EBMO created in 2003 to represent the interests of the private sector, which recognizes the importance of public and private partnerships. This EBMO has committed to work in collaboration with their own government and the governments of France, Germany, UK, US, and EU; announcing that the partnership represents an effort to facilitate a transition to clean energy where no one is left behind (BUSA, 2021). BUSA and the National Business Initiative (NBI) have also partnered with Boston Consulting Group (BCG) to develop decarbonization pathways in different sectors in South Africa. They found that reaching a net zero emission economy is possible by the year 2050, and they have published the decarbonization pathways for the power, mining, petrochemicals, and chemicals sectors (NBI, 2022).

Public-private partnerships can support the innovation in sustainable solutions as collaboration fosters social dialogue that may lead to a green transition where no one is left behind. State of Green is a non-profit alliance made by the Danish government with the Confederation of Danish Industry, Green Power Denmark and the Danish Agriculture and Future Council. The organization connects businesses that are working towards a global transition to a low and zero emissions economy. They offer solutions in the areas of energy transition, water management, green infrastructure and circular economy providing examples of companies that have implemented sustainable solutions across sectors. Also, they have a section of solution providers in their website where companies can look out services from companies that support the sustainable adaptation of business operations (State of Green, 2023).

Public-private partnerships can support the innovation in sustainable solutions as collaboration fosters social dialogue that may lead to a green transition where no one is left behind.

Another example of EMBOs providing information on other companies that are advancing in sustainability, is the initiative Business for 2030 created by the USCIB with the collaboration of other international EMBOs. To support the 2030 Development Agenda and Sustainable Development Goals (SDGs), USCIB launched in 2015 a platform to showcase private-sector efforts aligned with the SDGs. It currently features over 200 projects from over 50 companies in over 150 countries, contributing to 89 targets of the 169 SGD targets, which can be viewed by specific SDG, by company and by country at Business for 2030 (Business for 2030, 2023).

Multiple governments around the world have committed to reducing their emissions, and they are pressing companies with stricter regulations. The private sector is innovating in their processes to comply with current and future sustainable regulations. These changes represent an opportunity to secure the resilience of their supply chains through processes that have higher resource efficiency. Keidanren, the Japanese EMBO has renewed their Voluntary Action Plan for Establishing a Sound Material-Cycle Society. This plan was constructed by the industry sectors in Japan to reduce the final disposal volume of industrial waste by 2020. Each industry decided on specific goals that would lead to the reduction of waste (Keidanren, 2022).

Furthermore, Keidanren is also addressing the challenge of industrial decarbonization. This EBMO created Challenge Zero as a response to this issue, a programme that encourages companies to publish their challenges towards developing net zero emissions technologies. Companies disclose how they are dealing with the identified challenges and how they are planning to finance decarbonization projects. The Challenge Zero aims at promoting collaboration among stakeholders including governments, universities, financial institutions, and enterprises to achieve a net zero emission economy (Keidanren, 2019).

The generation of information and data is also a key opportunity area related to boosting collaboration between the public and private sector. One relevant example can be seen in the case of Colombia. In this country, the national EBMO (ANDI) has partnered with the Biodiversity Information System (SIB) to collect and publish data on biodiversity in the private sector. This partnership aims at increasing the private sector's contribution in the biodiversity knowledge, improving the companies' data management and the quality of these data bases. It also reduces information barriers by supporting open data and adopting fair principles that ensure that computational systems may find, access, interoperate and reuse data. Companies that have endorsed sustainable principles may decide to share their data, this can improve the management of natural resources, promote scientific research, and enhance social awareness (SiB, 2022).

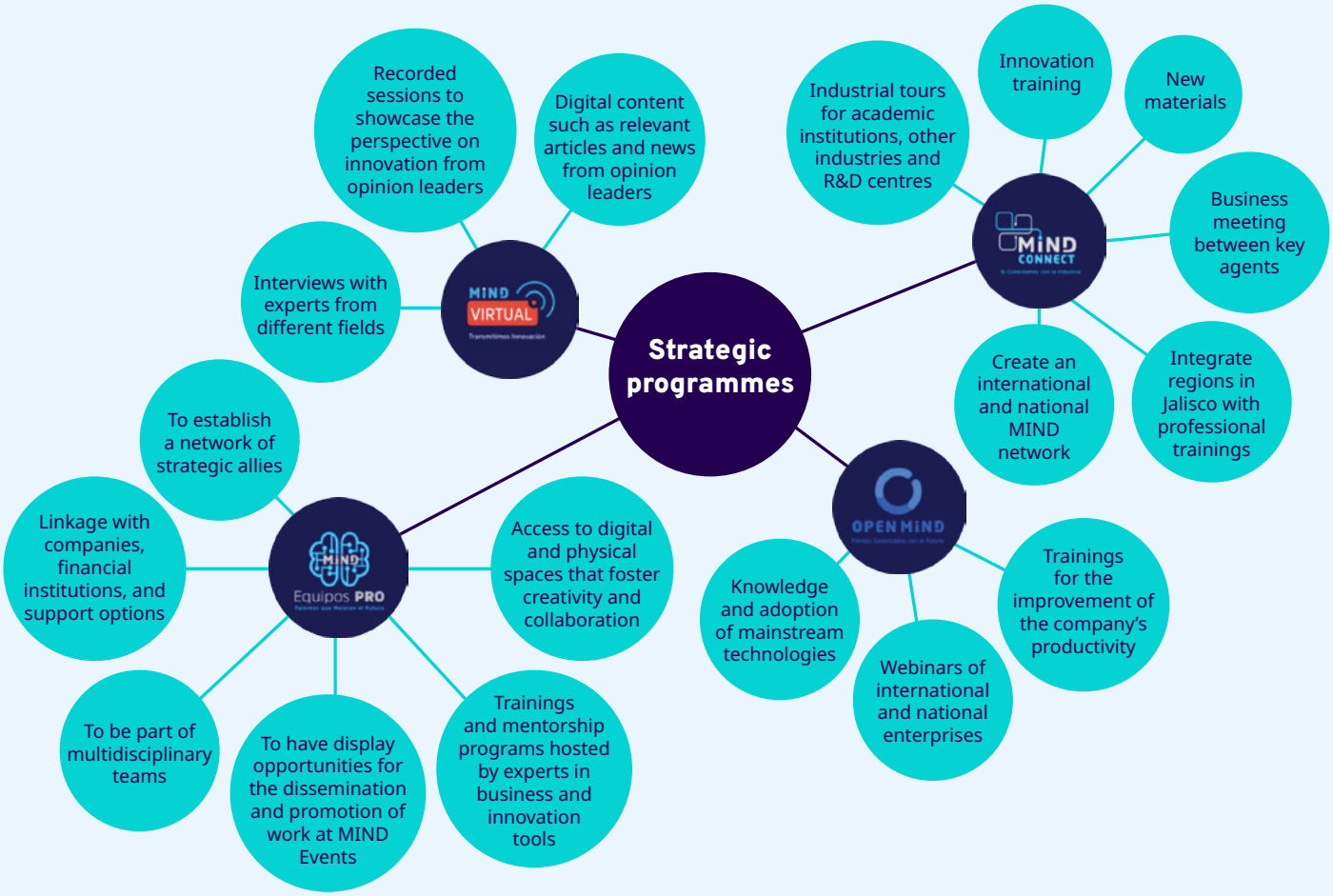
Furthermore, ANDI has made a commitment with circular economy practices in Colombia. They combined efforts with Grupo Retorna Organization to manage post consumption waste. This organization is constituted by member companies of ANDI that have adopted business models that are in line with the circular economy principles established by the UN and the OECD. They aim at collecting materials

and products that can be reincorporated to the industrial cycles. This is an opportunity for companies looking to reduce the waste generated by their production processes and become resource efficient (Grupo Retorna, 2023).

The Vision 30/30 Initiative is part of the commitment with the circular economy previously mentioned. ANDI created this collective initiative to extend the responsibility of producers in the country. There are more than 290 enterprises from 27 productive sectors that are involved in the responsible management of waste. This campaign pursues the construction of a robust information system that accounts for every container and package placed in the national market, it also raises awareness in the population and promotes the improvement of consumption habits. Improving the use of resources can be achieved when enterprises join efforts with governments, cities, academia, civil organizations, among other stakeholders. Since the creation of the initiative, they have recycled 30,000 tons of containers and packages and 2,500 jobs have been created. In the long term, this initiative can foster innovation in materials and processes (ANDI, 2023a).

The Council of Industrial Chambers of Jalisco (CCIJ) created the Mexico Innovation and Design (MIND) centre. This industrial innovation centre aims to boost communication and collaboration between academia, enterprises and government to share scientific and technological knowledge and enhance innovation, productivity and competitiveness (MIND, 2023). Figure 3.5 23 shows the four strategic programmes and their specific activities. MIND is a platform to share knowledge and exchange ideas.

▶ **Figure 3.5. Activities offered by Mexico Innovation and Design (MIND)**

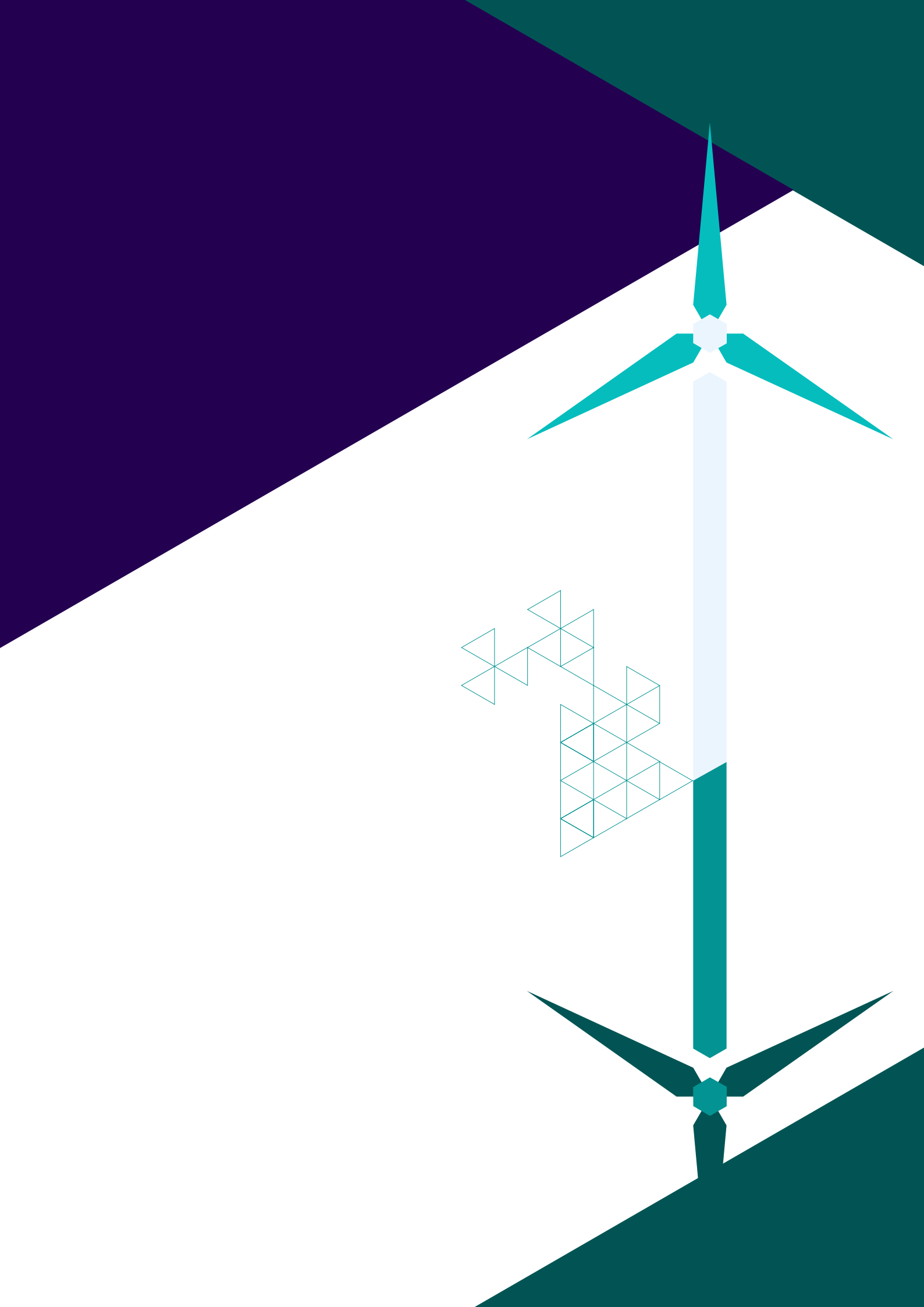


Source: MIND (2023).

Key partnerships can tackle down other relevant issues for just transition, such as workers' well-being, leading to benefits for employers and the overall community. The Federation of Kenya Employers (FKE) is an EMBO established in 1959 that aims to promote socio-economic development and improve the business environment. This Organization acknowledged the importance of workers' well-being to enhance productivity and joined the Clustered Health Enterprise Partnership (CHEP). This partnership attempts to reach most of the population through its network of enterprises with the purpose of creating HIV awareness. They have implemented prevention campaigns where workers can get tested, reducing the spread of HIV. This collaboration has increased the well-being of workers reducing health risks at the workplace (FKE, 2022).

Achieving a just transition will continue demanding the collaboration between multiple stakeholders, from the public and private sector. Public-private partnerships (PPPs) can significantly contribute to supporting EBMOs in their efforts to assist members in the transition to low-carbon and sustainable economies. For instance, PPPs allow the exchange of knowledge, expertise, and resources between the public and private sectors. Governments can share insights on policy frameworks, regulations, and funding opportunities, while businesses can provide industry-specific knowledge, innovation, and practical implementation experience. This collaboration enhances EBMOs' ability to support their members by accessing a broader pool of information and resources. They can also facilitate joint policy development and advocacy efforts. By working together, governments and businesses can align their interests, share perspectives, and collectively influence the development of supportive policy frameworks. EBMOs can leverage PPPs to amplify their advocacy efforts, ensuring that policies and regulations effectively address the needs and challenges faced by their members during the transition.

Overall, public-private partnerships can strengthen EBMOs' capabilities in supporting their members during the transition to low-carbon and sustainable economies. These partnerships foster collaboration, facilitate knowledge sharing, provide financial support, influence policy development, enable infrastructure implementation, support skills development, and enhance monitoring and reporting mechanisms. By leveraging the strengths of both sectors, EBMOs can effectively assist their members in achieving their sustainability goals.



Chapter 4

4. Conclusions and Recommendations

▶ 4.1 Key Findings

> An enabling environment for sustainable enterprises can speed up the just transition, but a challenging business environment can also limit companies in achieving their social, environmental, and economic goals.

The literature and case studies examined during this research show strong economic benefits for enterprises joining the just transition. Consumers increasingly prefer sustainable options, opening new market opportunities in areas such as sustainable textiles, plant-based foods, and circular economy initiatives. Companies are increasingly recognising accessible financial mechanisms, like green bonds, to fund sustainable projects. Regarding management practices, several companies are now implementing a comprehensive approach, such as the Human-Centred Business Model, which strengthens ties with communities and reduces a firm's reputational risks. On this front, more enterprises are adopting inclusion practices, as they have proven to improve innovation and attract more talent. These strategies are part of the just transition framework, promoting equal opportunities within society.

Numerous enterprises are now building alliances with their communities, increasing their projects' likelihood for success, as well as their brand recognition. Companies are upgrading their business models to focus on resource efficiency because it leads to cost-savings, while producing positive spillovers to the environment. On this front, circular-economy models have proven to be a medium towards reducing waste, while increasing the company's profits. Finally, firms operating in developing and developed economies, are now benefiting from an array of tax incentives and conducive regulations oriented towards sustainable development.

While companies can find numerous benefits of joining the just transition, this research also highlights that there are crucial factors that can boost or deter companies from doing so. An enabling environment for sustainable enterprises can speed up the just transition, but a challenging business environment can also limit companies in achieving their social, environmental, and economic goals. For instance, equal access to information between companies is vital. Currently, MSMEs tend to have limited information regarding the benefits of sustainable development, compared to larger enterprises. Likewise, boosting access to financing for all companies is necessary to advance the just transition, especially considering the disproportional access that MSMEs' have and how this limits their capability to upgrade their production-processes.

In many developing countries, the informal economy is larger than the formal economy and poses a significant challenge to a just transition by constraining workers' productivity and wages and depriving governments of tax revenues needed for public investment. Effective regulation and supportive public policies are essential to facilitate the transition to a formal economy. Infrastructure, both physical and digital, is also critical to this transition, but currently advanced economies have a much higher quality of infrastructure than emerging and low-income countries. To accelerate the just transition, substantial investment is needed in key areas such as reliable internet access, improved digital networks and the

decarbonisation of the electricity grid. Equally important is developing the skills of the workforce; governments need to prioritise upskilling and reskilling programmes to improve employability and boost productivity across the population.

It is understood that enterprises face several challenges as economies adapt to changes in the structure of industries and energy sources. These changes have consequences in the population density, the economic activity, and the operational costs of enterprises in the communities. Implementing policies specifically designed to address the pertinent issues faced by businesses presents an opportunity to enhance the overall business environment while simultaneously facilitating the transition of industries towards a sustainable economy.

Policymakers are not the only agents that are able to support enterprises in the just transition. Employers and Business-Membership Organizations (EMBOs) play an important role in the improvement of business environment. EMBOs' voice must be considered vital on the national policy debates. Some EMBOs already disclosing comprehensive policy-views related to sustainable development, such as the Japan Business Federation (Keidanren). Other EBMOs are making specific policy-campaigns on relevant topics, such as the Confederation of British Industry campaign on Diversity and Inclusion.

Finally, this research found that multiple EBMOs are already as supporting companies with services targeted to their most urgent economic, social, and environmental challenges. This Report found that EMBOs around the world are already offering useful consultancy services and workshops to their members, regarding inclusion practices, CSR, resource-efficiency business models and skills development facilitating the compliance of their members with official regulations.

▶ 4.2 Implications for EBMOs, policy and practices

The report has highlighted the many economic benefits of a just transition for business. However, this research has made it clear that businesses need to be supported by the right policies and an improved business environment. In this context, regulatory and policy agendas would need to be comprehensive to address the multiple social, environmental and economic challenges. To this end, the voice of EBMOs should be seen as crucial in shaping the future approach to policymaking.

EMBOs are key agents of change in the context of the just transition since they share the private sector's needs. Additionally, EMBOs can strategically communicate all the regulatory and policy changes to their members, facilitating the companies' understanding regarding opportunities and risks emerging from governments' regulations. Finally, EBMOs will continue to have a crucial role on the just transition, due to the valuable services that they provide to their members in the planning, implementation, and management of sustainable strategies.

▶ 4.3 Recommendations for Future Research

Expanding research on sustainable practices among MSMEs is a valuable opportunity. Currently, there is more information for the case of large companies. In this regard, MSMEs can struggle more to find quality information that are relevant for their case. While this Report highlights certain relevant case-studies and research for MSMEs, collecting more evidence on MSMEs' sustainable practices can fill a relevant information gap.

Furthermore, there is a need for quality enterprises' survey data related to sustainable practices; especially considering the environmental dimension. This data can be useful for conducting benchmarking among enterprises operating in different economies, aiming to identify causal links between business environment characteristics and sustainable practices.

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