The Coalition of Finance Ministers for Climate Action

Mobilizing global bond markets for a just transition

Policy Note – September 2024

Key messages

- Mobilizing global bond markets for a just transition requires collaborative efforts from finance ministries, policymakers, and stakeholders across the public and private sectors.
- Ministries of Finance (MoFs) can play a crucial role in accelerating the transition to a sustainable and inclusive economy by supporting the adoption of transition plans and strategies, embedding a just transition into sovereign sustainable bonds, designing policies and incentives that support bond markets, adopting robust identification of transition activities, and supporting climate reporting.
- Enhanced coordination and collaboration among relevant stakeholders is crucial to fostering a conducive environment for a just transition, including for national transition planning, policy coherence, and data sharing. Additional support is needed to further develop transition-themed bonds in fossil fuel and hard-to-abate sectors, as well as to address the worsening debt crisis.

Introduction

Global bond markets could be a vital source of mobilizing investment for a just transition,[1] in particular green, social, sustainability, sustainability-linked, and transition bonds, collectively called sustainable or GSS+ bonds. The sustainable bond markets have shown rapid growth in recent years, with cumulative issuance passing over US$5.3 trillion in the first quarter of 2024.[2] According to the International Capital Market Association (ICMA),[3] the majority of green and sustainability bonds, which represent the biggest part of the GSS+ bond market, relate to the financing of climate transition. Social bonds, and sustainability-linked bonds (SLB), which have a smaller market share, also frequently make reference to transition targets. Bonds specifically labelled "transition bonds" currently represent less than 0.4% of the market. Despite this, this segment is expected to see significant development, especially in Asia, with Japan currently leading the way. [4] Importantly, the transition can be financed by unlabeled bonds in the broader capital markets, such as through investments in vanilla bonds of companies with transition plans. See **Box 1** for sustainable (GSS+) bond categories.

Bonds could be a particularly effective financial instrument for a just transition because of the following characteristics:[5]

- They enable more long-term financing by addressing maturity mismatches – as low-carbon and climate-resilient infrastructure assets such as renewable energy infrastructure are characterized by high upfront capital costs and long-dated and frequently inflation-linked income streams.[6]
- They enable a targeted approach through use-of-proceeds issuances or issuances for general purposes focused on achieving well-defined key performance indicators (KPIs).
- Bond markets are much larger than those for public equity, offering greater potential impact.
- The range of debt issuers is much more diverse than the range of equity issuers – they include development banks, education and health authorities, housing associations, and more.
- Sovereign sustainable bond issuances fund governments' investment programs and catalyze private sector sustainable issuances by increasing liquidity, benchmarking the yield curve, and setting best practices.

- Labelled bond markets can have an important signaling effect to the broader financial markets around what issues are important to a sovereign, business or financial institution – including a just transition.

Box 1. Sustainable (GSS+) bond categories and how they can support a just transition

Green bonds: Bonds with proceeds earmarked for projects aimed at generating positive environmental impact. Green Bonds can support just transition by adding social co-benefits to their framework or impact reporting commitments, as e.g. UK Green Plus Gilt.

Estimated 90% of green bonds issuance to date (ICMA, 2024) relates to the financing of climate transition, mostly in decarbonization of energy, buildings, and transport sectors.

Social bonds: Bonds with proceeds earmarked for projects aimed at generating positive social impact.

Proceeds from social bonds can be directed to qualifying projects that fund employments and training, education, or place-based community support in line with just transition goals.

Sustainability bonds: Bonds with proceeds earmarked for projects aimed at generating positive environmental and social impact. Sustainability bonds' use of proceed frequently includes spending on energy and possible just transition-related activities such as education, but the bonds' own frameworks do not always clarify if and how such expenditure is intended to support a just transition. It is key to ensure that social and green activities have a causal link between them so that they focus on just transition.

Sustainability-linked bonds (SLBs): Issuer makes a commitment to achieve pre-defined key sustainable performance targets, and the financial characteristics of the bond depend on the achievement of KPIs. Proceeds go towards general purposes. SLBs can include social impacts of the transition as part of their KPI structure. For example, KPIs can include indicators such as retraining workers or creating green jobs.

Contrary to use-of-proceeds bonds, SLBs are focused on the sustainability performance of the issuer. Entities issue SLBs to finance their commitments to climate transition.

Climate Transition bonds: Transition bonds sit somewhere in between green and sustainability-linked bonds. Like green bonds, the finance they provide is directed at a specific project. As with sustainability-linked bonds, the bond issuer is required to already be operating sustainably, but is usually in the process of transitioning to lower-carbon operations - such as a fossil fuel project aiming to reduce its emissions.

Note: transition can be financed by **unlabeled bonds** in the broader debt capital markets, such as through investments in vanilla bonds of companies with transition plans.

Source: Adopted from Robins et al 2023.

It is important to note that sustainable bonds play a major role in financing the economy-wide and climate transition. However, they do not yet finance at scale the transition of companies in the fossil fuel sector and the hard-to-abate industries (heavy-duty trucking, shipping, aviation, iron and steel, chemicals and petrochemicals)[7] due to their physical, technological or market-specific circumstances. These sectors alone account for approximately one-quarter of the world's energy consumption and around one-fifth of total CO_2 emissions – and the progress with relevant national strategic planning and guidance, described in this paper, can help in this respect.

Finance Ministries play a crucial role in mobilizing bond markets for just transition, as they have an opportunity to support the adoption of transition plans, taxonomies and sustainable bonds frameworks, and to address fiscal and regulatory challenges to scaling bond markets. Governments, especially MoFs, could play a critical role in the process of national transition planning[8] or in design of net zero strategies, which set decarbonization processes in line with national and international climate goals. This can then facilitate the development of credible debt instruments to finance the transition. For example, use-of-proceeds bonds could finance expenditures related to ensuring a just transition, as identified in a transition plan, green subsidies or tax foregone, or a combination of all. Sustainability-linked bonds could link coupon step-ups or step-downs to the achievement of just transition performance targets. MoFs have also have a critical role in supporting corporates and the financial sector in developing private-sector transition plans, designing and implementing fiscal policies that incentivize the transition, providing regulatory support and guidance for GSS+ bond issuers, and mobilizing public funds to support investments in sectors with significant transition challenges.

Mobilizing finance for a just transition is one of the key policy questions in the 2024-2025 work program of The Coalition of Finance Ministers for Climate Action (the Coalition). This policy note is the output following the Coalition's 11th Ministerial Meeting, seeking to explore key barriers to scaling bond financing for a just transition – and to define the role of MoFs in mobilizing bond markets, in particular sustainable bonds.

Work to Date

The Coalition started working on green and just transition in 2022, bringing it to attention in its Ministerial discussions and its work program. Green and just transition was a topic of the 8th Ministerial Meeting in October 2022 and became a separate workstream in Coalition's work program in 2023. The discussions during the in April 2023 focused on transition finance, and during the 11th Ministerial Meeting in April 2024 - on mobilizing the global debt markets for just transition, among other topics. The Coalition has also started work on national transition plans in 2024, which is a key driver for mobilizing transition finance. 9th Ministerial Meeting in April 2023 focused on transition finance, and during the 11th Ministerial Meeting in April 2024 on mobilizing global debt markets for just transition, among other topics. The Coalition has also started work on national transition plans in 2024, which is a key driver for mobilizing transition finance.

The work of the Coalition's partners to date highlights keys challenges and opportunities in leveraging bond markets to finance a just transition. Research indicates that while there is growing investor interest in GSS+ bonds, the supply of such bonds still falls short of the demand.[9] Challenges identified include the need for enhanced transparency and credibility in the green bond market and importance of policy support from finance ministries in incentivizing the issuance of green bonds. Across the economy, companies cite challenges arising from a lack of long-term funding certainty, mixed policy signals, and a slow public planning system.[10]

Concerns have been expressed about transition bonds (and other GSS+ bonds) providing a potential outlet for greenwashing, or "transition washing", the quality of reporting metrics and transparency. With no single global standard or recognized legal definition of transition, and the market criteria based on voluntary compliance, it is difficult to conclusively say if some bonds are "transition bonds". However, ICMA's Climate Transition Finance Handbook 2023 provides guidance on the steps entities need to develop, besides communicating a credible transition plan that underpins the issuance of transition-themed GSS+ bonds.

Improving credibility of GSS+ bonds may increase the "greenium" or "transition premium". Lower coupon payment, which means cheaper funding for issuers, also called the "greenium", has not been observed to be statistically significant in the primary market[11] – meaning there is no significant difference in pricing between corporate green and conventional bonds. The green bond premium, wherever it exists, is mainly a result of investors' pro-environmental preferences and concerns, or because demand outstrips supply. In the secondary markets, greenium was observed in the case of green bonds at the end of 2021 and all 2022, but it has not been observed since then.[12] Greenium has shown to be particularly associated with a green bond's credibility[13] - e.g. through external verification or issued by companies with established environmental credentials. Corporate green bonds of developing countries appear not to benefit from greenium, potentially due to lower credibility and higher financial risk. At the sovereign level, issuances have been relatively recent and not well documented in the literature. A recent IMF paper[14] is the first empirical study to estimate the sovereign greenium, which shows it to be small but increasing over time alongside the level of sovereign green bond issuances, especially in emerging market economies. As such, increased credibility of GSS+ bonds – through the policy actions by Ministries of Finance presented below – might help to materialize the greenium of GSS+ bonds.

To turn transition targets into concrete actions and to match them with transition finance needed, private sector entities are issuing transition plans. Transition planning identifies what needs to be done to deliver on climate commitments: when, in what sequence, and, preferably, how much it will cost. By setting a strategic vision and identifying capital needs, transition plans provide the roadmap to transformation and send clear signals to investors on how capital will be used. There is an intensifying effort by policymakers and others to build momentum behind a growing number of partially overlapping guidance frameworks for corporate level transition planning. However, comprehensive transition planning on the corporate level is still nascent. As of May 2024, 148 countries and 1,150 companies covered by Net Zero Tracker[15] had set a net zero target. However, only 5% of over 1,000 global companies assessed by the Transition Pathway Initiative Centre have published transparent quantified elements of their emissions reduction strategy, i.e. transition plans.[16] The lack of comparability, credibility and feasibility of current transition plans is a critical issue, and there are currently 28 different transition planning frameworks for the private sector.[17]

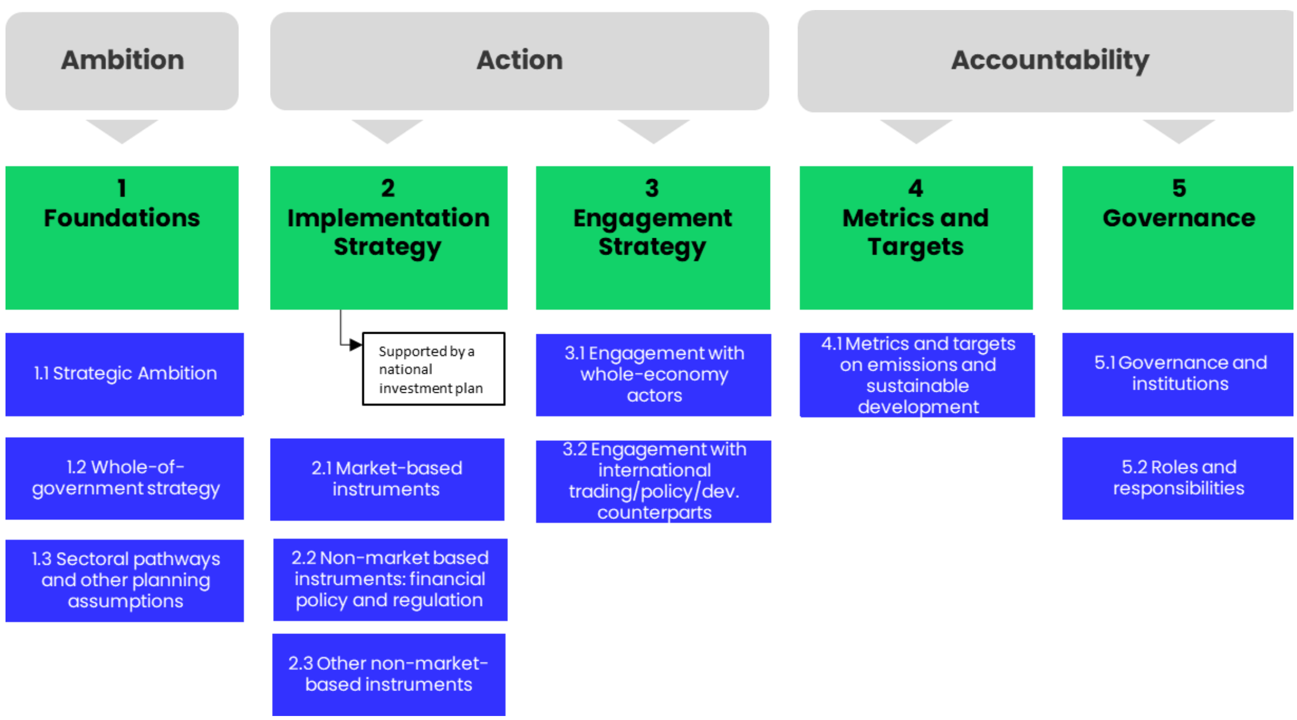
Transition planning on a national level is also key to mobilizing transition finance.[18,19] Having a national transition plan (NTP) in place will serve three overall aims, namely to improve access to finance by reducing uncertainty, enable more targeted resource and capital allocation, and boost trust and societal buy-in for the low-carbon transition. Domestically, an NTP allows the government to coordinate climate action and identify internal blockages, such as tariff barriers or tax policies that disincentivize green technologies, CO2 pricing or trading, as well as improve engagement with the private sector, ranging from direct financial support (tax or levy policy, government procurement) to non-financial measures such as licensing and performance standards. Internationally, an NTP allows the government to communicate transparently how it will manage the country's transition, enhancing its credibility and in turn helping reduce credit risk perceptions by international financial actors and thus make access to finance cheaper and more widely available.

National transition planning builds on existing plans and strategies such as Nationally Determined Contributions (NDCs), and fills the gaps in transition planning related to actionable commitments in financing and achieving climate targets. Governments do not have to start from scratch in their national transition planning process, but can build on existing policies and strategies, such as NDCs, Long-term Low-Emission Development Strategies (LT-LEDS), other related documents and sector-specific country platforms, such as Just Transition Energy Partnerships (JETP). Importantly, NTPs should not be seen as "yet another administrative exercise", but an evolution of governments' existing planning activities, such as NDC and LT-LEDs. Key content items in NDCs already contain a number of key elements of NTPs, however they do not provide granular actionable commitments on how one achieves the targets and how one finances them. LT-LEDS are another key piece of the NTP puzzle, however many of the 68 LT-LEDS published to date do not provide enough actionable information,[20] e.g. as related to the absence of costed needs to implement the strategy.[21]

An NTP is therefore an evolution of governments' existing planning activities, and their existing transition policies and strategies. Developing an NTP should be seen as a strategic blueprint for genuine action, a tool that brings all the inputs and key elements together in a coordinated, costed, and clearly communicated way, with accountability to stakeholders. The communication function of the NTP to domestic and international stakeholders, when done in a decision-useful and accessible way, is an important tool for finance mobilization.

Alignment of national transition plans with corporate transition plans will mobilize capital for just transition. A recent report from representatives of policy, academia and finance,[22] recommends the content and coverage of NTPs be structured under the same five "pillars" as the frameworks for corporate and financial services sector transition plans developed by the Transition Plan Taskforce (TPT) and the Glasgow Financial Alliance for Net Zero (GFANZ): foundations, implementation strategy, engagement strategy, metrics and targets, and governance (see **Box 2**). Aligning the approaches for NTPs and private sector plans in this way will help to integrate national and private sector plans, supporting the emergence of an integrated transition planning ecosystem that delivers a whole-of-system climate response. This, in turn, will provide benefits of better resource allocation by government, mobilization of capital for just transition, and more strategic overseas development support and private finance for emerging market and developing economies.

Box 2. Content and coverage of national transition plans



Source: Mark Manning, Riona Bowhay, Megan Bowman, Peter Knaack, Lisa Sachs, Agnieszka Smolenska, Fiona Stewart, Thomas Tayler, Perrine Toledano (2024). Taking the lead: a framework for strategic national transition plans at the centre of a whole-of-system climate response.

Work to date also shows the importance of policies and incentives that support transition activities, in particular combining sustainable bond issuance with carbon pricing measures. Literature suggests that finance ministries can play a crucial role in this regard by providing fiscal incentives, such as tax breaks or subsidies for green bond issuers. In addition, countries are increasingly using a combination of carbon pricing and sustainable bonds to finance the transition to low-carbon economies. Studies[23] show that sustainable bonds perform better when they are combined with carbon pricing (and the synergies with green bonds are greater for carbon taxation than for emissions trading). This option appears to be politically more feasible than a green transition based only on carbon pricing and is more prudent for debt sustainability than a green transition that relies overly on green bonds.

Role of Ministries of Finance

MoFs play a key role in providing long-term regulatory certainty to investors and designing policies and incentives to boost the bankability of transition activities. Through the Coalition, MoFs have an opportunity to strengthen international cooperation on best practices across the following policy, regulatory and engagement approaches to mobilizing global bond markets for just transition:

1. Participate in the national transition planning process
2. Require financial institutions and corporates to have transition plans and provide transparent reporting
3. Embed transition in taxonomies and bond labels, to ensure the impact of GSS+ bonds
4. Issue sovereign transition and other GSS+ bonds
5. Incentivize corporate bond issuance

1. Support national transition planning

Clear communication and implementation of an NTP, which sets out and delivers concrete, costed actions aligned with the national strategic ambition for just transition, will give actors across the economy the planning certainty, confidence and incentive to invest in the transition. This will, in turn, crowd-in and scale private finance and enable more effective deployment of overseas development support for the just transition. In their national transition planning, government can build on existing policies and strategies, such as NDCs, Long-term Low-Emission Development Strategies (LT-LEDS), sustainable or green finance strategies, other related documents and sector-specific country platforms, such as Just Transition Energy Partnerships (JETP). In determining just transition metrics and targets to use in the NTP process, a government may wish to consult Assessing Sovereign Climate-related Opportunities and Risks (ASCOR) tool.[24] In addition, public investment management (PIM) systems needs to be further strengthened, embedding transition considerations into every stage of the PIM cycle to be able to better meet the needs of national transition planning.

In the absence of an actual NTP in place, mobilizing bond markets via the government's existing climate-related planning processes, such as the NDC (in Uruguay) or net zero strategy (in the UK), described below, can be viewed as proxies for examples on how NTPs can mobilize global bond markets for a just transition.

Uruguay in 2022 issued sovereign sustainability-linked bond (SSLB) aligned with its NDC, which reached a demand of 1.5 billion dollars. The Uruguayan SSLB framework links Uruguay's sovereign bond financing strategy to its climate and nature targets as established under the Paris Agreement – these targets are based on quantitative goals set for 2024 as established in the NDC. The Reference Framework was prepared jointly by the Ministries of Economy and Finance; Environment; Livestock, Agriculture and Fisheries; Industry, Energy and Mining; and Foreign Affairs, with the technical assistance of the Inter-American Development Bank (IDB) and the

United Nations Development Programme (UNDP). UNDP on request of the Government of Uruguay undertook an external review of the two KPIs, related to reduction of GHG emissions and the area of native forest.

In the **United Kingdom,** the issuance of green guilt and the retail Green Savings Bond is aligned with the 2023 Green Finance Strategy[25], which sets out how the UK government will pursue its ambition to become the world's first Net Zero-aligned Financial Centre. One of the transmission channels for the Strategy is the UK Green Financing Framework, which includes the measurement of both social co-benefits and environmental impacts, to be reported by HM Treasury.

2. **Require financial institutions and corporates to adopt transition plans and provide transparent and comparable reporting**

At the private sector level, the adoption of standardized transition plans – which embed just considerations[26] - for the private sector could unlock the market. A recent ICMA report[27] encourages the early adoption of credible transition plans ahead of a potential regulation or a "de facto" requirement. Governments – in particular Ministries of Finance – have an opportunity to embed a systems mindset[28] and require financial institutions and the private sector to develop private-sector transition plans. Among 28 different transition planning frameworks for the private sector currently proposed, the framework developed by GFANZ and UK's TPT provides the blueprint for alignment between private level and national level transition plans (**Box 2**)[29] [30] and are grounded in a whole-of-government approach to economic transformation.

Importantly, the TPT framework sets specific guidance on the just transition,[31] and links to the reporting standards developed by the International Sustainability Standards Board (ISSB)[32] and the Taskforce of Climate-related Financial Disclosure (TCFD) – which would standardize reporting by corporates and financial institutions with transition plans, built on reliable data (such as provided by NZDPU repository).[33] In addition, Ministries of Finance can be supportive of more robust disclosure requirements,[34] such as including double materiality, which are usually in the hands of securities agencies or other branches of government (most Ministries of Finance do not have direct or sole competence over disclosure requirements). Many governments already require climate disclosures from publicly traded private finance institutions, usually in line with the TCFD recommendations, and the ISSB is developing a set of global baseline sustainability standards for jurisdictions to adopt or implement. Mandatory disclosure guidelines can also include a requirement for an interim GHG target and a climate transition plan, as the **UK, Switzerland,** and others are requiring for their largest institutions.[35]

3. **Embed the transition in taxonomies and bond labels, to ensure the impact of GSS+ bonds**

Ministries of Finance play a critical role in helping develop and adopt sustainable bond frameworks, green taxonomies or other methods to help financial institutions and firms identify transition activities and investments, lowering barriers, costs, and risks of "transition washing". In addition, there is an opportunity for Ministries of Finance to incorporate the elements of the transition and justice into GSS+ bonds,[36] and align them with SDG goals,[37] to provide clear signaling to the market. This can be done via a just transition label or by keeping existing labels (green, sustainability) to avoid market fragmentation. The criteria for sovereign bonds to be aligned with a just transition can depend on whether the country has a just transition strategy or a national transition plan, whether it has a national Just Transition Commission or equivalent, and whether the country assesses or plans to address the regressive effects of climate policies.

The identification of transition activities and investments should be based on transparent, credible, comparable, accountable, and timebound climate goals aligned with the Paris Agreement, as well as offer guidelines for verification, and stays adaptive to evolving science, market developments, technology, policies, and developmental priorities.

The Philippines, which had a landmark issuance of sustainability bonds in 2022, approved the adoption of the Philippine Sustainable Finance Taxonomy Guidelines (SFTG)[38] for banks - to increase transparency and attract foreign investment in mitigation and adaptation.

The **Indonesian** Sustainable Finance Taxonomy (2024) is an evolution of the Indonesian Green Taxonomy Edition 1.0. It now incorporates transition finance as a strategic pillar in Indonesia's climate finance strategy. This taxonomy influences the development of national fiscal policies to support mitigation and adaptation projects and serves as a standard for determining eligible activities in the decarbonization efforts of state-owned enterprises, public service agencies, and the private sector, as well as public financial services. Although currently voluntary, it has the potential to become a mandatory disclosure requirement for taxonomy-relevant investment portfolios of the private sector.

The European Union has so far not explicitly integrated just transition considerations in its sustainable finance framework, since it considers this framework as a tool for the transition. However, in 2023 it published guidance on the myriad ways in which the current framework can already be used to stimulate transition finance.[39]

4. Issue sovereign transition and other GSS+ bonds

The GSS+ sustainable bond market is evolving, with new issuers and new approaches such as sustainability-linked and transition bonds. Ministries of Finance can play a role in expanding sovereign debt markets by integrating environmental and social factors in public debt management practices, promoting robust and liquid sustainable bond markets, including through greater standardization of sustainable products and related taxonomies and impact reporting, expanding eligible expenditures, and sustained growing investor demand for sustainable investing and sustainable products.[40] Ministries of Finance also have a role in managing the allocation of bonds proceeds and coordinating with relevant line ministries on tracking, monitoring and reporting of environmental and social impacts of projects funded by bonds proceeds.

Japan became the world-first issuer of sovereign climate transition bonds in February 2024. The so-called GX bonds (from the Japanese shorthand for "green transformation") are aimed at channeling more money into activities that do not narrowly qualify as "green" but are expected to cut carbon emissions in the long term. The GX Plan promotes public and private investments of JPY 150 trillion (USD 1 trillion) over the next 10 years in advanced, sustainable technologies that support national emissions reduction. It underscores Japan's commitment to its 2030 GHG reduction goals.

Chile provides an example of a sovereign SLB that is closely aligned with the just transition, being the only sovereign to have priced bonds bearing all four of the following labels: green, social, sustainable and SLB**.** Chile's Sustainable Bond Framework supports the issuance of green, social and sustainability bonds, by complying with the respective ICMA principles. The Ministry of Finance issued $8.5 billion in sustainable bonds between 2021 and the end of June 2023, including both environmental and social projects under the eligible expenditures, and thus are likely to qualify as just transition-related bonds.[41]

Peru's Sustainable Bond Framework, under which green, social and sustainability bonds are issued, has a just transition component by including training programs to increase technical knowledge in vocational education centers in renewable energy, energy efficiency, low carbon transport and water and wastewater management projects. [42]

Kenya is set to become the first African nation to issue sovereign SLBs by the end of 2024, with the support of the World Bank. The World Bank will assist Kenya in developing the sustainability-linked framework and key performance indicators for the bond. The Democratic Republic of the Congo and Angola are also considering issuing such bonds.

5. **Incentivize corporate bond issuance**

With the private sector is responsible for 70% ($2.6 trillion) of all GSS+ bond volumes as of 2023[43], MoFs play a crucial role in this regard by providing fiscal incentives for GSS+ bond investors, such as tax breaks or tax subsidies.

For example, the **U.S.** federal government Clean Renewable Energy Bonds and Qualified Energy Conservation Bonds program allows for the issuance of taxable bonds by municipalities for the purposes of clean energy and energy conservation, where 70% of the coupon from the municipal is provided by a tax credit or subsidy to the bondholder from the federal government. **Zambia** provided an exemption from the 15% withholding tax on interest income earned on green bonds listed on the Zambian securities exchange with a maturity of at least 3 years to encourage investment in projects with environmental benefits.

Furthermore, Ministries of Finance have a coordinating role to play to address policy inconsistencies, such as fossil fuel subsidies coexisting with just transition incentives. In addition, studies[44] show that sustainable bonds perform better when they are combined with carbon pricing – and countries are increasingly using a combination of carbon pricing and sustainable bonds to finance the transition to low-carbon economies. Incentivizing corporate bond issuance could also be done via addressing additional costs of GSS+ bond issuance related to compliance with GSS bond standards, which includes project selection, impact reporting, verification and audit costs. Establishing an ecosystem of domestic market players can considerably reduce costs and facilitate development of the ESG services.

Further Research and Support Needs

Sustainable bonds play a major role in financing an economy-wide and climate transition, but do not yet finance at scale the just transition of companies in the fossil fuel sector and the hard-to-abate industries (heavy-duty trucking, shipping, aviation, iron and steel, and chemicals and petrochemicals).[45] These sectors alone account for approximately one-quarter of the world's energy consumption and around one-fifth of total CO2 emissions. There remains therefore significant scope for the further development of the SLB market in general, but also specifically fossil fuel and hard-to-abate transition-themed transactions for both use-of-proceeds bonds and SLBs. In these sectors, evidently a meticulous approach is necessary to minimize the risk of green or transition washing. The progress with relevant official and market guidance – taxonomies, national transition plans, policies and roadmaps, discussed in this note, can help in this respect. Importantly, the World Bank has recently published a guide on the Just Transition Taxonomy for coal, which identifies 57 eligible activities to guide investments that support a just coal transition and can facilitate the issuance of just transition-themed bonds.[46]

In addition, worsening debt sustainability is a common concern for developing countries, especially least developed countries (LDCs), who are among the most vulnerable to the triple crisis of debt, climate change and biodiversity loss. Many of these countries grapple with contracting fiscal space needed to issue green bonds.[47] At the same time, less than half of LDCs have a sovereign credit rating, and existing ones are infrequently updated and are below investment grade. LDCs generally lack access to markets to issue bonds for new financing. There exists therefore a critical need to design solutions to debt challenges - addressing the causes of debt and not just suspending some payments - such as debt restructuring and debt relief, combined with new issuance of sustainable bonds. Both debt conversion (which may include some degree of debt relief through a reduction of the principal) and new bond issuance can be upscaled to have a major impact on debt, climate and nature by linking the debt instrument with key climate and nature performance indicators drawn from existing debtor government commitments. In addition, many countries advocate for the reform of the international financial architecture with the implementation of LDC-tailored solutions and easier access to affordable and concessional development finance.

Enhanced coordination and collaboration among stakeholders, including finance ministries and other relevant ministries, central banks, regulatory agencies, second-party opinion providers and market participants is also crucial to fostering a conducive environment for a just transition. International coordination is critical when trying to avoid regulatory arbitrage and a race to the bottom. The EU green bond standards are an example: as it is more stringent than other standards, the jurisdictions may decide issuing bonds under more lenient standards. In addition, coordinated actions among the relevant ministries (e.g., ministries of transport, industry, agriculture) will be important for such undertaking as national transition planning, policy coherence, and data sharing. One of the objectives of the Coalition's work, described in its theory of change,[48] is to improve whole-of-government collaboration between MoFs and other ministries on climate action, and to increase climate action and leadership by MoFs. Finance Ministries may require additional technical assistance and support in the areas described in this note. Partners are encouraged to prioritize these areas of support to meet the evolving needs of Finance Ministries in advancing climate finance agendas and achieving sustainable development objectives.

Resources for Ministries of Finance

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- Transition Plan Taskforce (2022). *The Transition Plan Taskforce Disclosure Framework.* https://transitiontaskforce.net/wp-content/uploads/2022/11/TPT-Disclosure-Framework.pdf

[1] The 'just transition' is defined by the International Labor Organization as "maximizing the social and economic opportunities of climate action, while minimizing and carefully managing any challenges", including through effective social dialogue and respect for labor and human rights. It is also defined by UNDP as "Greening the economy in a way that is as fair and inclusive as possible to everyone concerned, creating decent work opportunities and leaving no one behind." (considering there is also the population that might be affected by this, beyond the specific workers or industries). https://climatepromise.undp.org/news-and-stories/what-just-transition-and-why-it-important

[2] The World Bank. Green, Social, Sustainability, and Sustainability-Linked (GSSS) Bonds Market Update – April 2024 https://thedocs.worldbank.org/en/doc/2fa215f2779f95d970ef0601aa551cbc-0340012024/original/GSSS-Quarterly-Newsletter-Issue-No-7.pdf

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