TPT Transition Plan Taskforce

Opportunities and challenges

relating to the use of private sector transition plans in emerging markets and developing economies

APRIL 2024

Contents

Cover photo Matias Santana, Unsplash.com **Above, photo** Agustin Gunawan

1. Executive Summary

The purpose of this paper is to share insights and reflections, following engagement by the Transition Plan Taskforce (TPT) Secretariat, about the opportunities and challenges that may arise with the use of private sector climate transition plans in emerging markets and developing economies (EMDEs).

There is growing global momentum surrounding private sector transition plans – for both the financial sector and real economy firms – and their role in supporting the transition to a low-emissions resilient world. Transition planning is a strategic process that a firm can undertake to respond and contribute to the transition towards a low-GHG emissions, climate-resilient economy, which can be then articulated through a transition plan internally or disclosed to various users and market participants.

Transition planning and transition plan disclosure are widely recognised as key tools to mobilise finance at scale for the global transition to climate safety. Their use should be seen in the wider context of the challenges that all countries, but particularly EMDEs, face in the transition to climate safety. Every country in the world will need to adequately finance its climate transition, and the climate finance gap is particularly large for EMDEs. Transition finance frameworks and transition planning frameworks can help unlock greater quantities of transition finance for EMDEs with a plan to transition.

Realising this opportunity requires the development of globally consistent norms for private sector transition planning and plans, together with high-level guiding principles, that address the needs and challenges of transitioning entities within all jurisdictions.

The paper draws on discussion points from two closed-door roundtables held in November 2023 by the TPT co-hosted with the Glasgow Finance Alliance for Net Zero (GFANZ). Common themes that emerged from the TPT Secretariat's stakeholder engagement are presented, including:

1. The demand from EMDE actors for contextualised regional and sectoral transition pathways and metrics which can enable them to undertake transition planning.
2. The opportunity for national transition plans or economic transformation plans to be a means to unlock private sector planning for transition.
3. The opportunity for enabling regulatory environments in EMDEs to incentivise private sector transition plans – covering both the need for increased regulatory requirements, and the importance of such requirements being proportionate, fit-for-purpose, and supported by tools like guidance and training.
4. The key role of public finance institutions including multilateral development banks, public and national development banks, in making climate actions and commitments which facilitate private sector transition planning in EMDEs.
5. The importance of addressing capacity issues within EMDEs when it comes to supporting effective transition planning and transition plan disclosures – especially for small and medium enterprises (SMEs) and in relation to the collection and disclosure of data.

A number of multilateral initiatives and processes underway, mostly at international level but also at regional level, have opened up solution spaces in 2024 to address challenges and take advantage of opportunities. Leveraging these solution spaces with a sense of urgency, taking into account the experience and realities of the transition within all jurisdictions including EMDEs, and building on important steps already taken to develop best practices for private sector transition plans, will be key to ensure the successful emergence of a global norm on transition plans that works for all countries and supports mobilisation of finance at scale for a global economic transition to climate safety.

2. Background

2.1 PURPOSE OF THIS PAPER

The purpose of this paper is to share insights and reflections about the opportunities and challenges that may arise with the use of private sector climate transition plans in emerging markets and developing economies (EMDEs).

Transition plans should be seen in the wider context of the challenges that all countries, but particularly EMDEs, face in the transition to climate safety. Every country in the world will need to face the challenge of financing its climate transition, and the climate finance gap is particularly large for EMDEs. Transition finance frameworks and transition planning frameworks can help unlock greater quantities of transition finance for EMDEs with a plan to transition.

There is a growing global momentum surrounding transition plans – for both the financial sector and real economy firms – and the role of private sector transition plans in supporting the transition to a low-emissions resilient world. Realising this opportunity will require the development of international disclosure norms, together with high-level guiding principles for private sector transition planning, that address the needs and challenges of transitioning entities within all jurisdictions.

The Transition Plan Taskforce (TPT) was created by the UK government and given a mandate from March 2022 to set out best practice for private sector climate transition plan disclosures. In October 2023, the TPT launched its Disclosure Framework,[1] providing a sector neutral framework for transition plan disclosures in line with the transition to a low-GHG emissions, climate-resilient economy.

Within its Terms of Reference,[2] the TPT was asked by the UK to engage with international stakeholders to support the emergence of international norms around private sector transition plans. As the TPT has conducted this international engagement over the last two years it has become clear that transition planning and the use of transition plans – as an element of wider government and private sector efforts and as part of a range of transition finance tools and methodologies available – have substantial potential to facilitate the mobilisation of finance at scale into EMDEs and to support climate transition and resilience.

It has also become clear that there are barriers to overcome, in order to avoid negative unintended impacts that could constrain the potential for private sector transition plans to facilitate the mobilisation of finance at scale in EMDEs. There is a risk that mainstreaming disclosure expectations without due consideration of EMDE specificities could lead to unintended consequences, including in terms of access to global capital markets, underscoring the importance of work in this area.[3]

This paper draws on discussion points from two closed-door roundtables held in November 2023 by the TPT co-hosted with the Glasgow Finance Alliance for Net Zero (GFANZ). The roundtable discussions covered both the concept of transition

1) Transition Plan Taskforce, **Disclosure Framework**, 2023.
2) Transition Plan Taskforce, **Terms of Reference**, 2022.
3) MOBILIST, **Research Note: ESG Investing Must 'Do No Harm' to Developing Countries**, 2023.

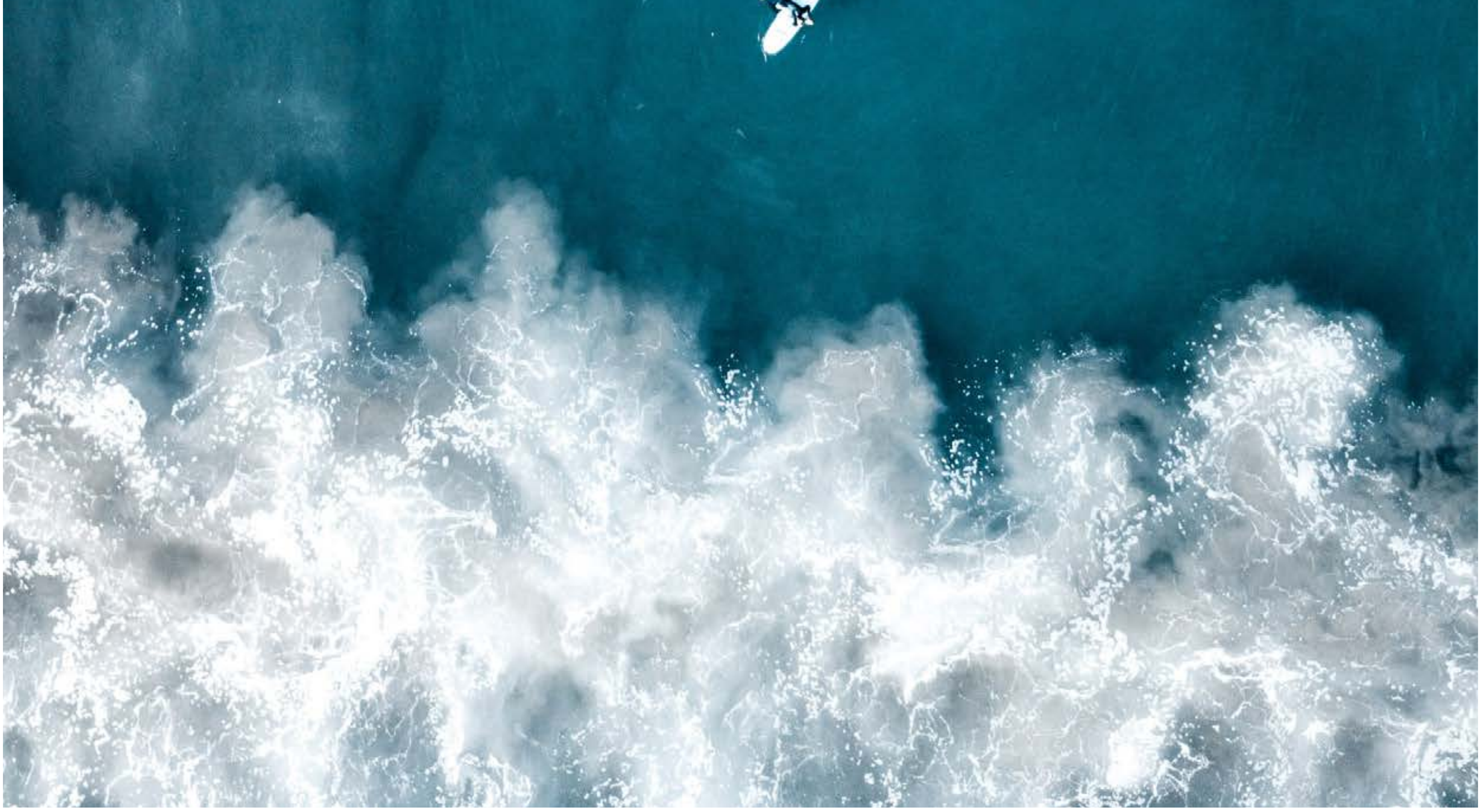
planning and transition plans. In general, transition planning refers to the internal process a firm undertakes to respond to and contribute to the transition towards a low-GHG emissions, climate-resilient economy, while a transition plan is a product which articulates this process and may be used to communicate with internal and/or external stakeholders.

The roundtables were attended by around 40 public and financial and non-financial private sector representatives from countries in Asia-Pacific, Africa, Latin America and the Caribbean, and from relevant international organisations such as the International Sustainability Standards Board (ISSB). The use of "participants" in this paper refers to people who attended one of these roundtables. The TPT Secretariat acknowledges that the term EMDEs refers to a broad range of regions and jurisdictions with their own unique circumstances, and that the themes and issues discussed in this paper will therefore impact individual EMDEs in different ways. Where possible specific regions or jurisdictions have been identified as the source of specific feedback or examples. In addition, the TPT Secretariat acknowledges that challenges and opportunities may vary between financial institutions and real economy firms, and has aimed to accurately reflect these differences.

This paper also draws on inputs from expert reviewers including representatives of the OECD, the Network for Greening the Financial System (NGFS), and the UK's Transition Finance Market Review Secretariat, and from a variety of other conversations between the TPT and EMDE stakeholders, including a session on opportunities and challenges of transition plans in EMDEs held in Singapore in November 2023, and a panel discussion held at COP28 in Dubai in the UK Pavilion: 'Transition Plans: Mobilising Capital for the Global Transition'.

When organising roundtables to engage stakeholders further on this issue, the TPT Secretariat collaborated with GFANZ and its three regional networks in Africa, Asia-Pacific, and Latin America and the Caribbean. Recognising that the transition must be globally inclusive, the GFANZ Regional Networks ensure that a broad array of perspectives and expertise are reflected in its work to support the global financial system, including through the voluntary adoption of its globally consistent framework for net zero transition planning, and aim to support the mobilisation of private sector transition finance in those regions.

Photo Jeremy Bishop, Unsplash.com



2.2 THE ROLE OF TRANSITION FINANCE AND TRANSITION PLANS IN EMDES

Planning for transition requires first and foremost setting net zero targets, which has been done by a large number of governments and private firms. Reaching these targets is a multi-pronged endeavour for all jurisdictions, one that requires planning and information disclosure from all participants of the economy, together with appropriate policy and regulatory adjustments, and, critically, adequate financing.

It is generally agreed that addressing the climate challenge will require the mobilisation, rapidly and at scale, of significant additional public and private sector financial flows, and that this is especially true and difficult for EMDEs. While these countries bear the least historic responsibility for climate change, they continue to be disproportionately affected by it.[4] At the same time, they need to transition their economies to address high emitting industries that may otherwise strand in the future, and to develop new comparative advantages in the industries of the future. Their climate finance needs are substantial, as are the challenges they face in accessing sufficient investment from global capital markets. Existing literature documents this extensively. Most recently:

- The Independent High-Level Expert Group on Climate Finance released a new summary report during COP28,[5] highlighting the need to unlock climate finance from a variety of sources for investment in EMDEs (concessional finance, public finance from multilateral development banks, domestic public resources), but also noting the critical role to be played by private sources of finance. The same group had noted that private investment could cover 55% of climate finance needs in EMDEs.[6]
- In its 2023 'Global Financial Stability Report',[7] the IMF highlighted that emerging economies need much more private financing for the climate transition than developed economies. This builds on International Energy Agency projections that by 2030 EMDEs will need about USD 2 trillion of climate investment annually to reach net-zero by 2050, a fivefold increase from investments planned over the next seven years. With limited projections for growth in public investment, the IMF projects that the private sector will therefore need to make a major contribution toward the climate investment needs for EMDEs and that private sources will need to supply about 80 percent of the required investment by 2050.
- In 2023, the OECD published a report on 'Scaling Up the Mobilisation of Private Finance for Climate Action in Developing Countries'.[8] This paper found that, in the context of the collective goal of developed countries to mobilise USD 100 billion per year for climate action in developing countries, tracked volumes of private finance mobilised by bilateral and multilateral public finance interventions remain relatively small. In 2021, developed countries provided USD 73.1 billion in international public climate finance through bilateral and multilateral channels, and USD 2.1 billion as export credits; in that same period, only USD 14.4 billion was mobilised from the private sector. The paper noted that loans provided with long maturities continue to be the dominant form of international public climate finance.

4) IPCC, AR6 Synthesis Report: Climate Change 2023, 2023.
5) Bhattacharya A, Songwe V, Soubeyran E and Stern N, A climate finance framework: decisive action to deliver on the Paris Agreement – Summary, 2023.
6) Songwe V, Stern N, Bhattacharya A, Finance for climate action: Scaling up investment for climate and development, 2022.
7) IMF, Global Financial Stability Report, 2023.
8) OECD, Scaling Up the Mobilisation of Private Finance for Climate Action in Developing Countries, 2023.

- In the context of the 2023 Indian Presidency of the G20, the OECD released a report 'Towards Orderly Green Transition: Investment Requirements and Managing Risks to Capital Flows' detailing the need for EMDEs to access finance from global capital markets.[9] Highlighting the benefits of Foreign Direct Investment flows to EMDEs, this report noted that Foreign Direct Investment alone is unlikely to meet all private finance needs of EMDEs for the transition. The report goes into further detail about barriers to EMDEs accessing investment at scale from global capital markets. It listed various drivers of low allocation of green or transition portfolio investments to EMDEs: beyond risk perception difficulties and structural trends in global capital markets, it identifies ESG or green ratings, and "broader issues of transparency and disclosures", as bottlenecks to global capital market access for EMDEs.
- MOBILIST, a programme that works to mobilise institutional capital through listed product structures to support investment to meet the global SDGs and climate transition, released a research note in 2023 in relation to EMDEs.[10] This paper noted a range of mechanisms that risk diverting capital from EMDEs including data shortages, data bias, increasingly stringent regulations in developed market jurisdictions that are misaligned to EMDE contexts, and the use of backwards-looking metrics. In response to these issues, MOBILIST recommended that advanced economies and global standard setters work in partnership with EMDEs to fully consider the impact of their decisions on capital flows to EMDEs. It also recommended that a particular emphasis be placed on transition planning and management as an enabling tool for companies from EMDEs to communicate their transition strategies through forward-looking data.

In this context, there is currently high political salience to the issue of mobilising finance to EMDEs. There is a range of factors or issues at hand: from both jurisdiction-specific contexts (such as, a lack of clear national or sectoral transition plans, and the need for complex policy to be developed to overcome barriers to transition or the cost of investment) to the impact of macroeconomic factors (such as inflation, currency and interest rates risks, and increased risk-return uncertainties on transition finance within EMDEs).

Another concern sometimes expressed is that the rapid development of the transition finance agenda in advanced economies may, unless EMDE needs are taken into account along with domestic priorities, risk EMDEs finding it difficult to adequately access transition finance. Some EMDE actors have voiced concerns that increased uptake by international firms of disclosure mechanisms, ESG labels, or other transition finance tools such as transition plans, risks further complicating their access to global capital markets if such developments do not take into account EMDE needs and challenges. The concern is that these tools could dampen investor appetite by signalling EMDEs' structurally higher exposure to climate risk, perpetuating a vicious cycle where EMDE vulnerabilities are worsened as a result of inadequate investment. These sorts of concerns are also driven by the recent general inflationary context globally, which has driven investor behaviour to focus on short-term risk over impact and long-term resilience with accompanying capital outflows from EMDEs.

9) OECD, Towards Orderly Green Transition: Investment Requirements and Managing Risks to Capital Flows, 2023.
10) MOBILIST, Research Note: ESG Investing Must 'Do No Harm' to Developing Countries, 2023.

At the same time, there is growing recognition that globally consistent norms for credible transition planning and transition plan disclosures can make a major contribution to supporting a successful economic transition. As a tool for the development and communication of forward-looking transition strategies and actions, transition planning and transition plans may help to address several EMDE concerns and priorities - supporting the mobilisation of transition finance, enhancing the financial system's resilience to the transition, and supporting delivery and strengthening of countries' Nationally Determined Contributions (NDCs). The important and constructive role that can be played by transition plans at all levels in the context of transition finance has been highlighted by a number of publications and through the work of several key multilateral forums and regulatory networks:

- A Task Force for the Global Mobilization Against Climate Change (TF CLIMA) has been established under the G20 Brazilian Presidency.[11] This Task Force will promote a high-level dialogue among governments, financial institutions, and international organisations and includes national transition plans as a key priority.
- The G20's Sustainable Finance Working Group (SFWG) has identified transition plans as an important policy tool to support transition finance since the development of its high-level Framework for Transition Finance in 2022.[12] This work is being built upon in 2024 with one of the key priorities for the SFWG agenda under the Brazilian Presidency being "advancing credible, robust and just transition plans" for the private sector.
- The International Platform on Sustainable Finance (IPSF) highlights the role of transition plans in supporting transition finance in its 2023 interim report on transition finance principles.[13] In the context of EMDEs, the IPSF notes the need for interoperability approaches to transition plans to account for the status of developing markets and their different transition trajectories, given the need to reach global goals and their role in global supply chain.
- The IMF's most recent Global Financial Stability Report[14] highlights the important role played by robust disclosure requirements in strengthening the climate information architecture and aligning financial flows with the needs of the transition. It calls on international climate disclosure initiatives to target the standardisation of transition plans, including plans made by financial institutions. The report also calls on countries to devise sectoral transition plans, especially in the energy sector.
- The OECD's 'Guidance on Transition Finance'[15] identifies credible corporate climate transition plans as necessary to provide confidence to investors that corporates raising transition finance are on a credible path to net zero and provides recommendations on key elements of credible corporate transition plans. The role of transition plans was also highlighted in the OECD's report on 'Mechanisms to Prevent Carbon Lock-in in Transition Finance'[16] which noted that transition plans should include explicit assessments of carbon lock-in and measures taken (or planned) to address it, such as through phase-out or retirement plans.

11) G20, Task Force for the Global Mobilization against Climate Change, website as of 2024.
12) G20 SFWG, 2022 G20 Sustainable Finance Report, 2022.
13) IPSF, Implementing transition finance principles – Interim report, 2023.
14) IMF, Global Financial Stability Report, 2023.
15) OECD, Guidance on Transition Finance: Ensuring Credibility of Corporate Climate Transition Plans, 2022.
16) OECD, Mechanisms to Prevent Carbon Lock-in in Transition Finance, 2023.

- There is increasing interest in how financial institution and corporate transition plans can support an orderly transition and financial stability, with transition plan working groups established in a number of forums including:
  - the Financial Stability Board (FSB) which has set up a working group on transition plans that will, as a first step, develop a conceptual understanding on the relevance of transition plans and planning by financial and non-financial firms for financial stability.
  - the Network for Greening the Financial System (NGFS) which published a stock take on financial institutions' transition plans and their relevance to micro prudential authorities last year,[17] and is currently working on forthcoming publications on:
    - EMDE considerations for transition plans and planning;
    - Interlinkages between real economy and financial institution transition plans; and
    - Ensuring Credibility of Transition Plans and Planning.
  - the International Organization of Securities Commissions (IOSCO) which has included considering the role of securities and markets regulators in promoting integrity and mitigating greenwashing with regards to transition plans in its priorities for 2023-24.
- Literature from global finance initiatives also recognises the investment challenge, and how investors can remove barriers through supporting the development of the enabling environment and using tailored engagement approaches in emerging markets. Global investors are increasingly engaging with corporates on their transition plans to inform capital allocation decisions. Two examples include the Investor Guide for Engaging in Asia from Climate Action 100+[18] and the Call for Urgent Action on Emerging Markets Transition Investment (EMTI)[19] supported by the Net Zero Asset Owner Alliance (NZAOA), the Sustainable Development Investment Partnership (SDIP), and the EU-ASEAN Business Council (EU-ABC).
- In addition, some jurisdictions have established work programmes focused on transition finance such as India's International Financial Services Centre (IFSCA) Expert Committee on Transition Finance[20] and the UK's Transition Finance Market Review.[21] Both programmes include workstreams on the relationship between transition finance and transition plans and global alignment, with a specific focus on EMDEs.

17) NGFS, Stocktake on Financial Institutions' Transition Plans and their Relevance to Micro-prudential Authorities, 2023.
18) Climate Action 100+, Climate Action 100+ Investor Guide for Engaging in Asia, 2022.
19) EMTI, Code Red! Call for Urgent Action Emerging Markets Transition Investment (EMTI): Discussion paper for policymakers, regulators, investors and other capital market participants, 2022.
20) India International Financial Services Centres Authority, Press Release on Expert Committee on Transition Finance, 2023.
21) City of London Corporation, Transition Finance Market Review for global impact, website as March 2024.

The findings and work outlined so far reflect the increasing momentum around private sector transition plans and point to such plans potentially playing a crucial role to support transition finance.

As financial institutions and corporates have made commitments to align their businesses and portfolios to net zero, many have begun to develop transition plans that demonstrate how they will achieve their climate goals, supported by initiatives such as the Glasgow Financial Alliance for Net Zero (GFANZ) and its principles-based framework for net zero transition planning.[22]

Global regulatory norms for transition plans are also emerging, most notably through the ISSB's release of the final IFRS S1 Sustainability-related disclosure standard and S2 Climate-related disclosure standards, with the latter including an expectation that firms should disclose transition plans if they have them. Many jurisdictions across the globe are now looking to implement ISSB-aligned guidelines or standards including Australia, Bangladesh, Brazil, Canada, Colombia, Costa Rica, Hong Kong, Japan, Korea, Malaysia, Nigeria, the Philippines, Singapore, Taiwan, Turkey, and the United Kingdom.[23] In addition, some jurisdictions are also working on specific guidance or requirements for transition plans, including the:

- Australian Treasury's reference to transition planning in its draft Sustainable Finance Strategy;[24]
- European Union's first set of European Sustainability Reporting Standards under the Corporate Sustainability Reporting Directive, which requires companies to disclose their transition plan for climate mitigation, if they have one;[25]
- Hong Kong Monetary Authority's set of high-level principles on transition planning for banks;[26]
- Monetary Authority of Singapore's consultation on guidelines for transition planning for financial institutions;[27]
- United Kingdom Financial Conduct Authority's commitment to consult on guidance aligned with the TPT Framework when it consults on ISSB-aligned standards;[28] and
- United States Treasury's 'Principles for Net Zero Financing & Investment,' which set out voluntary principles for credible net zero targets including transition plan expectations.[29]

So far, advanced economy firms have tended to be the early movers when it comes to producing transition plans, although there is increasing interest and work underway within EMDE-headquartered organisations.

Further work is still needed to understand the impacts, risks, and opportunities of transition plans within EMDEs, and to ensure these are adequately considered as global norms for transition planning continue to develop. Through this paper, the TPT hopes to provide constructive input on the matter by sharing findings from its sustained international engagement, especially those drawn from the two closed-door roundtables mentioned above. Summary points, together with reflections and insights on the part of the TPT Secretariat, are outlined in the next section of this document.

22) GFANZ, Financial Institution Net-zero Transition Plans: Fundamentals, Recommendations, and Guidance, 2022.
23) Responsible Investor, ISSB Tracker: Jursidictions implementing IFRS S1 and S2, website as of March 2024.
24) Australian Government - The Treasury, Sustainable Finance Strategy: Consultation paper, 2023.
25) European Commission, News Article: The Commission adopts the European Sustainability Reporting Standards, website as of March 2024.
26) Hong Kong Monetary Authority, Circular on 'Planning for net-zero transition', 2023.
27) Monetary Authority of Singapore, MAS Guidelines for Financial Institutions on Transition Planning for a Net Zero Economy, 2023.
28) UK FCA, Primary Market Bulletin 45, 2023.
29) US Treasury, Principles for Net-Zero Financing & Investment, 2023.

3. Opportunities and challenges identified by TPT Secretariat in the course of stakeholder engagement

Common themes and concerns which emerging from the TPT Secretariat's stakeholder engagement around EMDE-related issues are presented below. Many of these themes are related. There are especially strong connections between discussions relating to pathways, national transition plans, and the wider enabling policy environment for firms; however, in order to fully present the range of feedback these are discussed in separate sections below.

3.1. APPROPRIATE PATHWAYS, METRICS, AND THIRD-PARTY VERIFICATION

A key concern expressed by EMDE actors, which inhibits their ability to undertake transition planning, relates to the view that there is a lack of contextualised transition pathways and metrics.

Roundtable participants generally recognised the importance of using credible global pathways, such as those developed by the International Energy Agency, and the need for a common principles-based approach to transition planning. Participants, however, noted that the fairness and integrity of EMDE transition also hinge on the development of transition pathways capable of taking regional economic conditions into account. Participants called for work to be done quickly to develop pathways at the sectoral, regional, and national levels which have a high level of international buy-in, and noted that regionally specific pathways, along with appropriate integrity benchmarks, are needed by both real economy firms and financial institutions.

On the other hand, one participant noted that although there is a clear role for national pathways, going further and tailoring international standards to the national context to the extent that comparability and robustness of disclosures, both at national and international level, was reduced or lost could reduce opportunities for interoperability of approaches. Although there was consensus among participants that global pathways may not be fit-for-purpose in some EMDE economic contexts, it would also be important to ensure environmental integrity when such pathways are significantly adapted to local circumstances. This is relevant for the quality of transition plan disclosures, as participants viewed resolving these pathway issues as critical to securing the enabling environment required for successful transition planning, and meaningful transition plan disclosures, in EMDEs.

Participants called for work to be done quickly to develop pathways at the sectoral, regional, and national levels which have a high level of international buy-in

The following examples or concerns were shared on this theme:

- A participant from ASEAN noted that countries in the region are acutely aware that global norms and expectations leading investors and companies to use "fixed" global transition pathways might in turn lead regional companies to be excluded from new, clean value and supply chains. A participant from Latin America proposed that this type of exclusion was not a sustainable outcome and that as the global transition progresses, emerging markets will need to play a key role in forming new, clean value and supply chains. This participant concluded that this means that developed economies, and global norms around transition pathways, will need to recognise and address specific challenges of transition in emerging markets - including the fact that some countries will not be able to instantly abandon economic activities which depend on fossil fuel extraction.
- Participants' views on a lack of regionally appropriate transition pathways were discussed in the context of well-known global voluntary standards for setting emissions reduction targets aligned with 1.5 degrees. Participants felt that emissions reduction targets set at a global level typically do not take into account regional emissions reduction pathways. Several participants, primarily from Africa, identified approaches based on global emissions reduction pathways as too demanding in the short term, and ill-adapted to local realities. One participant shared that their financial institution had recently withdrawn from a leading global voluntary target-setting initiative and was looking to establish its own regional approach as a result of these challenges.
- A participant from Mexico noted that while there is clear demand for transition pathways to be supported by location-appropriate metrics, there are also concerns from private sector actors that use of such localised metrics, without clear regional or national frameworks, could lead to perceptions or accusations of greenwashing. Firms relying on these localised metrics could potentially be accused of claiming to be "climate friendly" while relying on standards that are perceived as less stringent than global standards. This participant noted that third party verification/certification could be part of the solution, although this would incur additional cost to firms.
- In addition, the TPT Secretariat has heard from financial institutions and corporates based in advanced economies, and subject to reporting requirements in those economies, who have raised the difficulty of reporting at a group level when they have operations in emerging markets which have national emissions reduction targets that are different to those adopted at group level by the firm. It was proposed that differing national pathways should be recognised by users of their transition plans (such as, regulators and policymakers) and taken into account when considering an entity's contribution to the global transition.

3.2. USING NATIONAL TRANSITION PLANS AS A POINT OF REFERENCE

Participants from several geographies mentioned a lack of national transition plans or economic transformation plans as a barrier to planning private sector transition. A participant from Latin America shared that financial institutions can struggle with policy uncertainty driven by a lack of national level transition planning for the real economy in EMDEs, leaving them without clear policy support to achieve emissions reduction goals. This participant shared a practical example, which was that a national transition pathway could, for example, prioritise retrofitting existing buildings in a specific national context where this activity would have more economy-wide emissions reduction potential than building new energy-efficient buildings – in turn, enabling the private sector to prioritise this investment when undertaking their own transition planning. This participant also connected a lack of national level transition planning to a lack of other tools such as non-existing or conflicting/varying national green investment taxonomies.

Similar difficulties were expressed by a financial institution representative from North Africa, who noted the critical role that banks have to play in transitioning their clients and the whole system/economy, and highlighted an absence of national decarbonisation plans in EMDEs. Such plans were described as a critical building block of the "empowering infrastructure" needed to accelerate the transition. Building on this, this participant noted that national transition plans should result from national conversations between governments and other system stakeholders, as opposed to being built solely off global scenarios such as those established by the IEA.

In the absence of such national plans, Nationally Determined Contributions (NDCs) were highlighted by several participants as reference points for private sector firms to understand climate transition plans at national level in EMDEs. NDCs were also cited as a key tool to map forward national action to address nature and biodiversity loss, particularly given the 'climate-nature nexus' where nature interacts with climate and has the potential to compound or reduce climate risks. One participant noted that in Brazil, a third of the country faces floods, another third extreme heat, and another third faces drought, with these climate tipping points having been reached because of damage to nature. It was noted that full integration of climate (including resilience), nature and biodiversity in planning for the climate transition is essential in the participant's region of Latin America, and that for now NDCs are the only planning tool available to local corporates and financial institutions, who are struggling to use them to link these overlapping agendas.

3.3. THE IMPACT OF THE WIDER ENABLING ENVIRONMENT

Several participants mentioned a lack of an enabling regulatory environment in EMDEs as a barrier to implementing transition plans. This discussion of an enabling regulatory environment covered the need for increased mandatory regulations, such as those relating to disclosure or taxonomies, to support transition planning efforts, while continuing to the acknowledge the need for rules and regulations to be fit-for-purpose for the context they apply to and supported by 'softer' tools like guidance and training.

One participant from Morocco noted that the country has a national sustainability strategy, and mature public institutions and stakeholder dialogues, but little in the way of mandatory rules and regulations relevant to private sector transition planning.

Other participants from the Latin American region noted that the lack of mandatory rules around green taxonomies were a barrier to investment, as taxonomies help give companies a clear sense of direction regarding transition-compatible activities, thereby supporting transition planning efforts. They highlighted that different countries are at very different points when it comes to developing green taxonomies, with various countries (such as, Mexico and Brazil) having a taxonomy under development but no mandatory rules yet.

Several participants raised a different point about the enabling environment, which was that they perceived prudential regulations for banks as a barrier to investing in transition in EMDEs:

- A participant from the Caribbean noted misalignment between the incentives set by prudential requirements and the goals outlined in NDCs.
- A participant from India said that global prudential regulation was a significant barrier to transition finance, with Global Systemically Important Banks (GSIBs) from advanced economies seeking to apply a global, group-level "one-size-fits-all" risk policy to transactions in EMDE countries and as a result disincentivising transition investments in emerging markets. This participant noted that scenarios established by the Network for Greening the Financial System are translated by GSIBs into credit loss and high transition risk (stranded assets). This participant noted the need for prudential regulations to find a better balance between conduct and credit risk issues and points to a need to incentivise finance for emerging markets' transition needs.

3.4. THE ROLE OF MULTILATERAL, PUBLIC AND NATIONAL DEVELOPMENT BANKS

Climate commitment and actions by multilateral development banks (MDBs), public and national development banks (PDBs and NDBs), were highlighted by several participants as being critical to facilitate private sector transition planning in EMDEs.

Public banks can play numerous, important roles in supporting whole-of-economy transition planning efforts. As well as direct provision of finance, they also help to create and shape new markets by derisking using blended finance instruments such as first-loss guarantees, sending economic signals about the direction of investment. Their technical assistance and capacity-building functions are also important in order to bring new skills and capacities into both national governments and the wider market ecosystem in-country and to support replication and learning between different countries.

One participant from Latin America noted that MDBs and PDBs, along with public finance investments and policies such as government-defined frameworks and taxonomies, act as climate transition pathfinders for the private sector, with their actions charting a course (the demonstration effect), providing certainty that the transition will occur, and unlocking private capital flows towards the transition. The same participant highlighted the potential for public banks to act as the "connective tissue" between NDCs and other financial system actors.

Comments from a National Development Bank representative from North Africa echoed this view, noting that:

- There is close work between the development bank and the government to support climate mitigation and adaptation projects that would support economic transition, especially in industrial zones.
- There is in general appetite from Public Development Banks to align with NDCs and to help develop national strategies and transition plans.
- Commercial banks have been observed to emulate best practices at the international level in response to MDB and PDB commitments and actions.

3.5. DATA AND CAPACITY ISSUES

Participants generally agreed that real economy firms and financial institutions in EMDES, and often also regulators in those countries, are at an earlier stage in their climate journey than peers in developed economies, and that this can negatively affect their capacity to support effective transition planning and transition plan disclosures. Participants highlighted capacity issues as something that is particularly relevant for small and medium enterprises (SMEs) – a challenge that spans advanced economies and EMDEs - especially in relation to the collection and disclosure of data. One participant considered that the different capacities, starting points, and external constraints that entities within EMDEs need to work with when undertaking transition planning underline the need for a streamlined, proportional, and gradual approach to transition planning internationally.

Several participants raised specific examples illustrating capacity gaps:

- One participant shared that, based on their experience working with financial institutions (including both small and large banks) in emerging markets, there is a lack of historic practice in relation to broader corporate reporting processes. As a result, internal governance arrangements may be under-developed and communication across departments may be low. Consequently, the transition planning process within a firm requires a lot of preparatory work, including updates to internal policies or ways of working as a first step.
- A financial institution participant working across the Caribbean, largely with SME clients, noted that alongside a lack of "in-house" capacity, there isn't a network of local expertise available to support firms and SMEs with their transition planning. As a result, many firms rely heavily on international consultants, however, these consultants may not understand the relevant regional or local context. This can be a barrier to timely transition planning as it takes time and incurs cost for the contracting institution to educate the consultants about the local context.

Some participants noted that capacity gaps are particularly important when it comes to collecting complete and reliable data, including measurement of GHG emissions, and that lack of data is an important challenge to overcome.

One participant noted the broader system repercussions of data challenges faced by SMEs – if smaller corporates do not have the tools or capacity to track their own GHG emissions, or are held back from taking this action by proportionately greater compliance costs, this then creates barriers for financial institutions' own transition planning. These reflections on GHG emissions reporting are supported by a recent report from the London Stock Exchange Group which found that reporting of Scope 3 emissions is lower in emerging markets than in developed markets, with 21% of EMDE companies assessed providing some form of Scope 3 disclosures and only 5% reporting on material Scope 3 emissions in their sector.[30]

Some participants noted that capacity gaps are particularly important when it comes to collecting complete and reliable data, including measurement of GHG emissions, and that lack of data is an important challenge to overcome

30) FTSE Russell, Scope for improvement: Solving the Scope 3 conundrum, 2024.

4. Opportunities and solutions

This paper has discussed the extensive ongoing work relating to transition planning and plans, and that this work is led by a variety of national, regional, and multilateral actors. Work around transition plans at multilateral level enables continued dialogue around some of the challenges listed above, and creates space for the international community to discuss and craft potential solutions which can capture the opportunities. Some key initiatives which may provide space to develop solutions are described below.

4.1 PATHWAYS, METRICS, AND THIRD-PARTY VERIFICATION

- The ISSB set up a Transition Implementation Group (TIG) in August 2023 in relation to its general sustainability-related (IFRS S1) and climate-related (IFRS S2) disclosure Standards. The purpose of the TIG is to solicit, analyse and address stakeholder questions or issues pertaining to disclosure implementation. Ongoing dialogue led by the ISSB's TIG could help clarify jurisdiction-specific, or cross-jurisdictional concerns or difficulties with IFRS S1 and S2 implementation, and could enable solutions to emerge. The broad and varied jurisdictional representation in the TIG is especially critical; discussions led there could feed into discussions led within other multilateral fora where these jurisdictions are also represented. It is important that any discussions led by the TIG or the ISSB more broadly take into consideration key regional perspectives from EMDEs. The ISSB's forward-looking program of work might also build further on these discussions, and take on other related concerns concerns, such as capacity and other implementation issues for small and medium sized enterprises.
- Regional networks such as ASEAN have already done a substantial amount of work, to develop common regional transition finance tools such as, the ASEAN Taxonomy[31] and the ASEAN Transition Finance Guidance.[32] This ongoing work opens up a space for countries in the region to further discuss transition pathways and regional specificities, working closely with other regional or international bodies.

31) ASEAN Taxonomy Board, **ASEAN Taxonomy for Sustainable Finance**, 2021.
32) ASEAN Capital Markets Forum, **ASEAN Transition Finance Guidance**, 2023.

- The G20 Sustainable Finance Working Group's 2022 Transition Finance Framework,[33] the IMF's September 2023 report on 'Activating Alignment',[34] and the IPSF's December 2023 interim report on transition finance,[35] provide significant input for continued dialogue that aims to build a common understanding and approaches to transition plans and potential adaptations at international level to enable greater integration of EMDE-related considerations. In particular:
  - The G20 Transition Finance Framework offers an opportunity to continue for continued dialogue within the Sustainable Finance Working Group that can be supportive of, and complementary to, the agenda set out in 2024 for TF CLIMA, and seeking to take greater account of EMDE needs and perspectives.
  - Acknowledging that some EMDEs "have fewer resources available to comply with onerous disclosure requirements", the IMF noted that these countries could focus on key strategic concerns first, for example "aligning their operations in order to maintain their position in global supply chains" or restructuring their operations to benefit from supportive domestic policies such as green subsidies.
  - The IPSF recommended that further work be undertaken on transition finance including the application and disclosure of transition plans for EMDEs, as well as for SMEs. The IPSF suggested this work could consider "prioritisation of different transition plan elements that are material to enable the provision of transition finance to SMEs or companies in EMDEs, as well as whether there may be simplified methods to support the assessment of credibility of transition plans and finance, for example, where there might be data gaps". It noted that this work should be undertaken by organisations already progressing work in this space, to avoid duplication.

4.2 AN ENABLING POLICY ENVIRONMENT

Several multilateral processes and agendas will provide an opportunity in 2024 to progress discussions about the enabling policy environment required to support take-up of transition plans and planning by the private sector across geographies. In particular:

- The 2024 Brazilian presidency of the G20 has announced a Task Force for the Global Mobilization Against Climate Change Task Force. Bringing together the Finance and Sherpa tracks of the G20, this workstream will include a focus on transition or economic transformation plans at national level. In addition, the G20's Sustainable Finance Working Group agenda for 2024 includes a priority focused on "advancing credible, robust, and just transition plans" for the private sector.
- The Coalition of Finance Ministers for Climate Action brings over 90 countries to work together to promote national climate action, especially through fiscal policy and the use of public finance, providing a forum to focus on transition planning with several members referring their work in this space as part of the Coalition's Climate Action Statement released in October 2023.[36]
- In 2023, the UNFCCC launched a consultation on its Recognition and Accountability Framework to support non-state actors' contribution and commitment to the transition. This opened a space for dialogue with a wide group of actors, on many topics related to transition plans and planning, but particularly enabled discussions on the relationship between NDCs and private sector transition plans.

33) G20 Sustainable Finance Working Group, Sustainable Finance Report, 2022.
34) Gardes-Landolfini, C et al. Activating Alignment: Applying the G-20 Principles for Sustainable Finance Alignment with a Focus on Climate Change Mitigation, 2023.
35) IPSF, Implementing transition finance principles – Interim report, 2023.
36) Coalition of Finance Ministers for Climate Action, Climate Action Statement by the Coalition of Finance Ministers for Climate Action, 2023.

4.3 AN ENABLING REGULATORY ENVIRONMENT

Various stakeholders talked about the need for private sector transition plans to sit within a broader enabling regulatory environment in EMDEs. This broader context potentially includes a wide range of regulatory and supervisory levers, and different stakeholders tended to prioritise different levers depending on the nature of their business, including whether they represented a financial sector company subject to prudential oversight, or a real economy firm.

There are a variety of international developments which may help to shape the development of domestic regulatory environments in the near term, of which some are listed below.

- In the field of disclosure requirements, the recently released IFRS Jurisdictional Guide for the adoption or other use of ISSB Standards,[37] to be finalised in 2024, provides a framework to support different implementation pathways for IFRS S1 and S2 across jurisdictions including different types of entities, and may provide an opportunity to develop and articulate additional guidance as it relates to S1 and S2.
- In addition there is appetite from international investors for companies to develop transition plans, including those operating within EMDEs or with significant exposure to them. This is a result of investors seeking greater transparency to make informed assessments and comparisons of a company's ability to transition, manage climate risks and take advantage of climate-related opportunities. International investors can leverage their engagement activities to support capacity building on transition planning. For example, in a 2022 report Climate Action 100+, an investor-led collaboration, recommends that local and international perspectives and expertise be paired when investors are engaging in Asia. The report outlines investor experience which found that having local perspectives represented in their engagement made them more fruitful, as recognition of the local regulatory landscape and norms can be a critical factor for making progress and that engaging companies in this way helps to build their capacity to transition to net zero.[38]
- Moving to prudential levers, in November 2023 the Basel Committee on Banking Supervision opened a consultation process on potential adaptations to its disclosure framework, which is a critical pillar of the existing global prudential framework.[39] The document discusses an evolution to the existing framework to incorporate and build on disclosures to be made in line with IFRS S1 and IFRS S2, and considers the incorporation of forward-looking quantitative and qualitative metrics, including transition plans. Work done in this area could help address concerns that the global prudential framework is misaligned with the transition needs and efforts of real economy actors in EMDE geographies.

37) IFRS, The jurisdictional journey towards globally comparable information for capital markets: Preview of the Inaugural Jurisdictional Guide for the adoption or other use of ISSB Standards, 2024.
38) Climate Action 100+, Climate Action 100+ Investor Guide for Engaging in Asia, 2022.
39) Basel Committee on Banking Supervision, Consultative document: Disclosure of climate-related financial risks, 2023.

- The Basel Committee's consultation document also mentions an ongoing effort to assess gaps between the global prudential framework and climate risk, on the basis of a request made in July 2021 by the Financial Stability Board to identify and address these gaps. This gap analysis effort could support potential improvements to the global prudential framework's alignment with climate risk and transition concerns. Transition plans can help support financial institution climate risk management, including the implementation of the Basel Committee's Principals for the effective management and supervision of climate related financial risks.[40] The Basel Committee, similarly to other international standard-setters, has also created a working group on transition plans where discussions on this topic could also be pursued.
- The International Association of Insurance Supervisors (IAIS) also plans to launch additional consultations this year to complete a comprehensive application paper on climate risk in the insurance sector by the end of year.[41] This work is expected to cover climate risk management and disclosures, and potentially transition plans. At the same time, IAIS plans to help address climate related insurance protection gaps by knowledge sharing with EMDEs, and work with both the Global Shield initiative and the Insurance Development Fund.[42]

4.4 Data and capacity

Numerous stakeholders identified a need to build capacity and provide technical assistance within EMDEs to attract transition finance. This would include increasing capability in EMDE firms for transition planning and for disclosure of transition plans as well as more fundamental sustainability data such as greenhouse gas emissions. These capacity-building efforts could in turn enable financial institutions within EMDEs, particularly banks, to play a leadership role by supporting and increasing the capacity of their clients.

Planned work by the Global Capacity Building Coalition, which was announced at COP28, will bolster these efforts by bringing together a range of institutions including the UN, World Bank, IMF, ISSB, NGFS, GFANZ, and PRI to support climate finance capacity building and technical assistance for financial institutions in EMDEs, including those seeking support for developing their climate strategies and transition plans.

The ISSB is also planning to apply increased efforts to capacity-building among firms worldwide, including in EMDEs. This includes an ongoing effort to collate and present guidance resources related to the IFRS Sustainability Disclosure Standards on it Knowledge Hub.[43]

Guidance on proportionality provisions within transition plan disclosure frameworks, particularly in relation to the collection and use of data (such as, Scope 3 emissions data), would also support organisations in EMDEs facing challenges related to the accessing high-quality data within their markets or difficulty obtaining relevant data themselves due to lack of expertise or costs. This sort of guidance should leverage existing research, for example recent a paper from the London Stock Exchange Group on Scope 3 emissions includes recommendations on the need for companies, investors and regulators to focus on the most material Scope 3 categories in each sector to reduce reporting burdens and improve quality and comparability of Scope 3 data.[44]

40) Basel Committee on Banking Supervision, Principles for the effective management and supervision of climate related risks, 2022.
41) International Association of Insurance Supervisors, IAIS Newsletter December 2023 to January 2024, 2024.
42) International Association of Insurance Supervisors, A call to action: the role of insurance supervisors in addressing natural catastrophe protection gaps, 2023.
43) IFRS, Knowledge Hub: Preparers' guide to the IFRS Sustainability Disclosures, website as of 2024.
44) FTSE Russell, Scope for improvement: Solving the Scope 3 conundrum, 2024.

5. Conclusion

Transition plans are widely recognised as a key tool to mobilise finance at scale for the global transition to climate safety. For this reason, they can potentially be of great benefit to EMDEs, whose climate finance needs are considerable. The interest generated among actors in EMDE markets by events organised by the TPT on this topic (including at COP28 and at the two roundtables mentioned in the introduction) corroborates this and resulted in constructive conversations that identified a range of barriers to be overcome.

A number of multilateral initiatives and processes underway, mostly at international level but also at regional level, have opened up opportunities and solution spaces to address these barriers in 2024. Leveraging these opportunities with a sense of urgency, taking into account the experience and realities of the transition within all jurisdictions including EMDEs, and building on important steps already taken on building best practices for private sector transition plans, will be key to ultimately ensure the successful emergence of a global norm on transition plans that works for all countries and supports mobilisation of finance at scale for a global economic transition to climate safety.

Transition Plan Taskforce

CONTACT US

secretariat@transitiontaskforce.net

---

transitiontaskforce.net