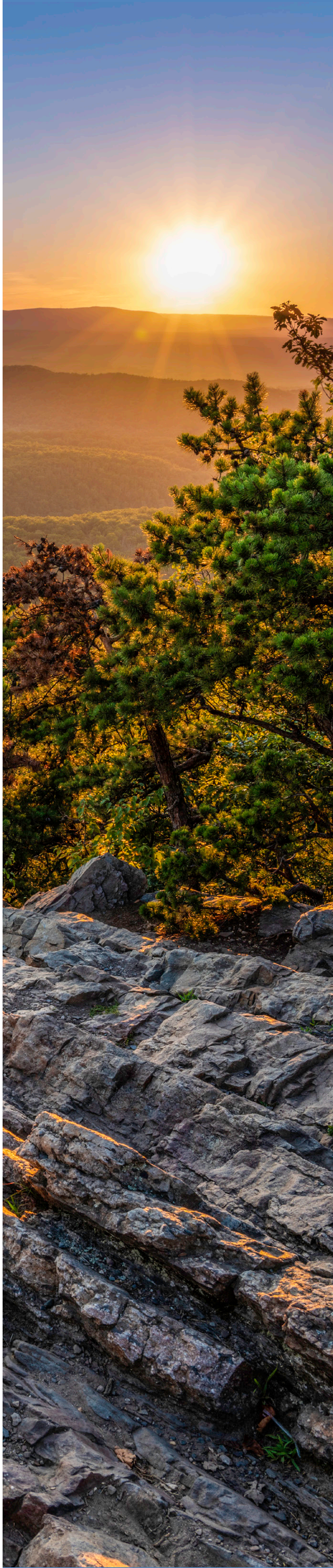
TRANSITION FINANCE HOW-TO GUIDE SERIES

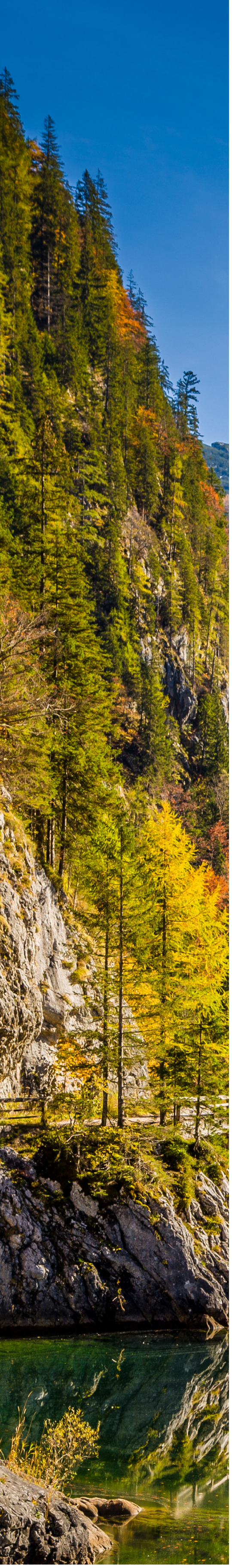
How To Develop Internal Capacity to Enable Transition Finance

RMI

June 2024

Table of Contents

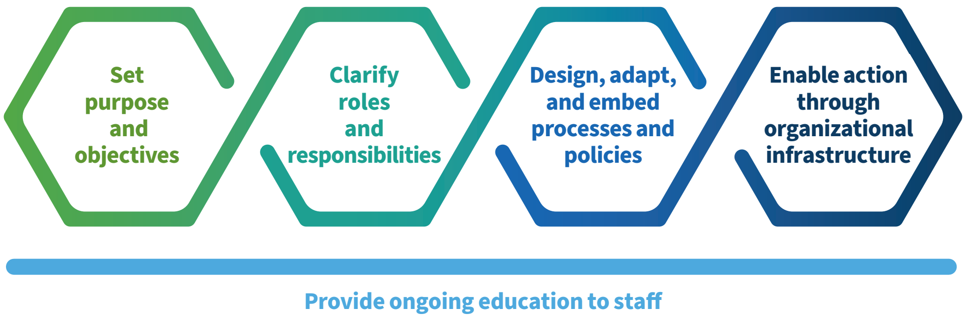




Introduction

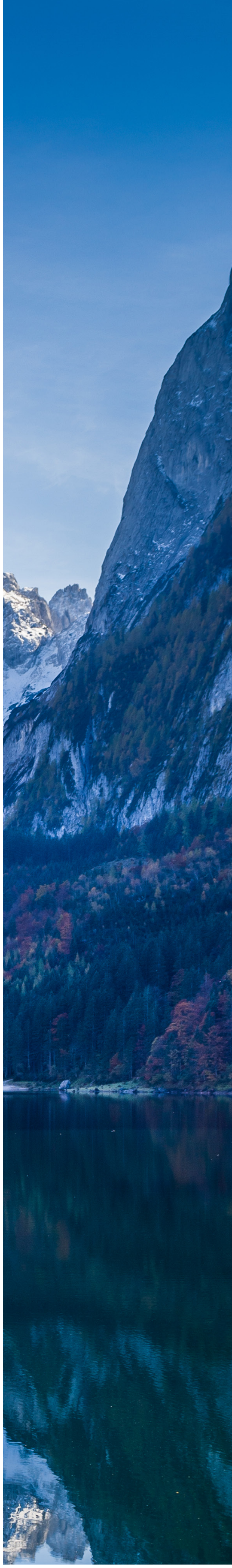
Transition finance is a new and complementary approach to sustainable or green financial services. Effective development of a transition finance strategy to scale the issuance of transition finance requires sufficient capacity within a financial institution to understand, identify, assess, and monitor it. This how-to guide describes steps to develop internal capacity to create and execute a transition finance strategy. It offers a roadmap for financial institutions and can be used regardless of where a financial institution is on its journey, whether it is exploring transition finance, beginning strategy development, or considering how to improve its existing strategy execution and set up employees for success.

The steps outlined below can help overcome internal barriers to successful transition finance implementation, such as organizational intransigence or resource constraints. These steps require a certain degree of change management in the organization to ensure success, so buy-in from and alignment of the firm's management and employees on a transition finance strategy and goals are crucial.

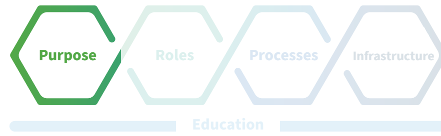


This guide assumes that the firm has a board or executive mandate and/or the resources to pursue transition finance. From there, it describes how to develop capacity within the firm to build, socialize, and implement a transition finance strategy to achieve this mandate.

The guide is aimed at sustainability and climate teams responsible for creating and stewarding the transition finance strategy at all types of financial institutions, but may also be helpful for executives, front-office employees, and others directly involved in designing and implementing the strategy. Readers may find it helpful to review RMI's other resources on transition finance, particularly our how-to guide on designing a transition finance approach,[1] as well as to consider how the transition finance strategy is related to or embedded in the firm's broader transition plan, climate strategy, or portfolio decarbonization targets.[i]



i Additional RMI resources on transition finance can be found at **www.rmi.org/transitionfinance**.



Step 1

Set the Purpose and Objectives of the Transition Finance Strategy

As a first step, a firm should set a clear purpose and outline objectives for the transition finance strategy. The purpose and objectives underpin the firm's narrative on transition finance, facilitate discussions to generate buy-in, and guide the firm toward a strategy that is best suited to its needs. Setting the purpose and objectives may be an iterative process in the early stages as the firm clarifies goals, develops the strategy, and socializes the concept internally.

Clarifying the Why

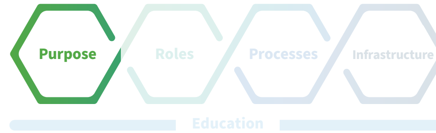
The purpose and objectives should be linked to a clear articulation of why the firm is defining and allocating transition finance, including how it relates to the firm's business strategy, net-zero targets, and transition plan. These could include setting a transition finance issuance target (e.g., allocating a specific volume of transition finance by a specified date), expanding assistance for counterparties' decarbonization journeys, reaching the financial institution's own interim and net-zero emissions targets, identifying additional climate-aligned business opportunities, or supporting the economy-wide transition. The business case for transition finance could be particularly relevant for obtaining firm-wide buy-in. Furthermore, development of a broader transition finance strategy helps clarify and deepen the financial institution's role in supporting the transition while enabling progress toward net-zero targets.

Defining Transition Finance

At this stage, it is also helpful to define transition finance for the firm. This serves several purposes. First, the process of choosing or creating a definition can help clarify the firm's purpose and objectives for pursuing transition finance. Second,

Tips for Getting Started on Transition Finance

- Transition finance is **complex** and **nuanced**, but you need to start somewhere.
- Focus transition finance efforts on **real-world impact** that differs from business as usual.
- Be **critical** of counterparty transition plans to ensure credibility.
- Use transition finance as an expansion of **customer support** for the transition.
- Transition finance may increase short-term financed emissions— but it should facilitate **longer-term reductions** and progress toward emissions targets.



an agreed-upon definition aligns stakeholders, both internal and external, on the scope and purpose of the firm's transition finance strategy. Finally, the definition contributes to accountability and credibility by promoting transparency.

Although definitions of transition finance vary across the market, when choosing or creating one, we encourage firms to review existing resources on transition finance to understand different perspectives and emerging best practices.[ii] The firm can then select a definition that is both credible and suitable for its business.

EXAMPLE 1

Barclays's Transition Finance Framework

In February 2024, Barclays published its Transition Finance Framework, outlining its approach to transition finance and listing eligible activities. Barclays includes a description of the framework's purpose for classifying transition finance to track and disclose against its target of $1 trillion in sustainable and transition financing by the end of 2030. It also sets out Barclays's working definition of transition finance, guiding principles for determining potentially eligible activities, eligibility decision trees, and governance structures. The transition activity list is organized by sectors, themes, and activities, with specific notes on any excluded activities. The framework can be found on Barclays's **website**.[2]

ii See RMI's article "Defining Transition Finance: Exploring Its Purpose, Scope, and Credibility" for an overview of key questions to consider when defining transition finance and a non-exhaustive list of currently available transition finance resources (**https://rmi.org/defining-transition-finance-exploring-its-purpose-scope-and-credibility/**).

Step 2

Clarify Roles and Responsibilities

Shortly after defining the purpose and objectives of the transition finance strategy, a financial institution must clarify roles and responsibilities for executing the transition finance strategy and ensure employees are aware of how it affects their day-to-day work. This begins with establishing robust governance structures for the transition finance strategy and communicating expectations clearly within the firm.

Developing Governance Structures

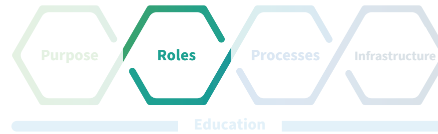
Clarification and assignment of responsibilities will likely be most effective if they build on existing structures and practices within the firm and explain how any new structures relate to, or supersede, current approaches. For example, a firm may need to specify how transition finance oversight sits within a broader sustainable finance group. External publication of a summary of governance structures, roles, and responsibilities promotes transparency, though a firm may need to create additional internal guidance to provide staff with further details than what is published publicly.

The governance structures of the transition finance strategy can provide an overview of roles, responsibilities, structures (e.g., committees, cross-functional teams), and oversight. They may also outline internal incentive structures, such as key performance indicators (KPIs) or linked executive compensation. To promote alignment with the transition finance strategy, a financial institution should evaluate internal incentive structures and may need to adjust them to mitigate competition among or misalignment of incentives.

Communicating and Embedding Governance

Individuals and teams directly involved in executing the strategy will likely require greater specificity than the governance overview provides so they are aware of how the strategy is embedded in their day-to-day work, the decisions for which they are

> **Bankers from around the world interviewed for this study confirmed that in the last two years they have seen rapid changes in internal agendas. These include:**
>
> - **Enquiries for sustainable finance knowledge and expertise increasing daily.**
> - **Departments with responsibility for the sustainability agenda moving to the Strategy function of the bank.**
> - **Sustainability knowledge is increasingly being distributed across business and risk units.**
> - **New roles and teams being resourced to meet client demand for sustainable finance, and to spread knowledge about market and industry trends.**
>
> — ***Bank 2030: Accelerating the Transition to a Low Carbon Economy,*** University of Cambridge Institute for Sustainability Leadership[3]



responsible, how and when to escalate decisions, how and when to engage with external stakeholders and counterparties, and any knowledge or skills they must have. Awareness of and confidence in carrying out responsibilities can be achieved through team- or role-specific training and guidance.

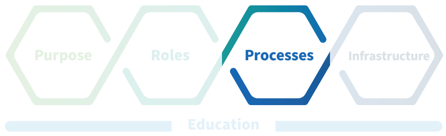
A financial institution may also establish a central team responsible for the design and oversight of the strategy execution, which could leverage an existing team already responsible for the firm's sustainable, climate, and/or green finance strategy. The core members of this team may coalesce prior to step 1 of this guide to complete initial research and proposal development for the firm's transition finance strategy. However, the team may expand or evolve over time to adequately resource the strategy ownership and implementation oversight.

Conducting periodic follow-ups with critical departments and individuals can ensure that implementation of the strategy and associated policies and procedures is successful. If any gaps or areas for improvement are identified, this team can also spearhead training or systems development to (see step 4 and the ongoing education section for further details). Continued executive- and board-level buy-in to champion the strategy is also crucial for engaging employees and ensuring success.

EXAMPLE 2

SMBC Group's Sustainability Governance

SMBC Group's annual **Taskforce on Climate-Related Financial Disclosures (TCFD)** report provides a detailed outline of the financial institution's governance structures and processes for sustainability.[4] The TCFD report outlines which committees, teams, and/or individuals are responsible for each sustainability-related item, as well as the general description and role of each part of the governance structure. Its **Transition Finance Playbook** provides a more detailed overview of governance specifically for transition finance.[5]



Step 3

Design, Adapt, and Embed Transition Finance Processes and Policies

Building on the firm's transition finance governance structure, a financial institution should establish standardized processes and policies that enable employees and external stakeholders to understand how it makes transition finance decisions and sets guardrails that promote credibility.

These processes and policies could include:

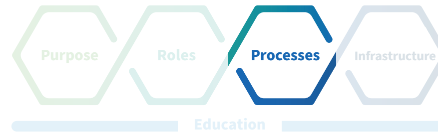
- Sector or activity financing policies
- Climate transition plan
- Environmental and/or social responsibility policies
- Sustainable and/or transition taxonomies
- Counterparty assessment and/or engagement policies
- Climate disclosure reporting policies
- Just transition positions

Although the type and content of these policies and processes will vary across financial institutions depending on their business, they should complement each other and support the financial institution's broader business, climate, and transition finance strategies.

Evaluating Processes and Policies

To begin, a financial institution can conduct an evaluation to better understand where pain points may exist currently or in the future for transition finance transactions, such as transition finance risk or credit evaluation, counterparty transition assessments, or post-financing monitoring procedures to track emissions reductions or KPIs. With this information, the financial institution can then adapt existing policies and processes or create new ones to facilitate transition finance. In general, it may be easier to embed transition finance in existing policies and processes, rather than create new ones. Overall, solving operational challenges of implementing a transition finance strategy

> **"Our transition plan is acting as a really helpful internal resource for people to be able to look at it. It drives a bit more consistency internally around approaches to some of those critical technologies. So having that resource that we can point everyone towards is becoming a really helpful tool for us."**
>
> — **Director Sustainable Finance,** Global Bank



may require an innovative approach and additional documentation may be needed where gaps in guidance and deployment persist.

A firm should also consider how to balance the need for integrity and credibility of transition finance with the need for clarity and ease of implementation, in recognition of the urgent need to scale up credible transition finance. Approaches and governance structures that are overly complex could slow decision-making to the detriment of transition impact and firm competitiveness. An iterative approach that is flexible but maintains robust guardrails will likely serve the firm well as best practices, additional market guidance, and voluntary and regulatory standards emerge over time.

Communicating Changes

Both new policies and processes and any changes to existing ones should be well documented and clearly communicated to all employees involved with them. Employees must be not only aware of the policies and processes, but also confident in carrying them out to ensure good governance practices. New and changed policies and processes may not have completely smooth execution at first, but communication, feedback, and incremental improvements can facilitate this over time and with experience. Although not all policies and processes will be publicly available, transparency around the firm's transition finance strategy and execution can facilitate external communication about progress and improvements.

Linking to Transition Planning

A firm should also consider how its transition finance strategy fits within and complements its broader climate transition planning, whether it has published a formal transition plan yet or not. Firm-wide transition planning can help clarify how different components of the firm's climate strategy fit together and complement each other to meet the firm's goals. This comprehensive view can in turn support internal alignment, corporate engagement, and stakeholder communication.

EXAMPLE 3

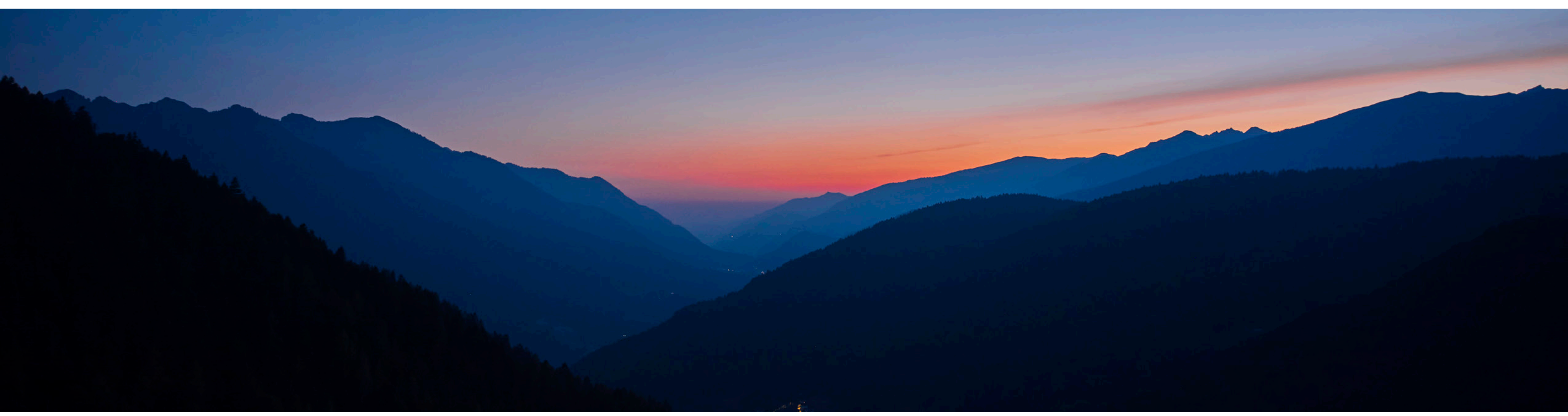
First Abu Dhabi Bank's (FAB) Sustainable Finance Framework

FAB's Sustainable Finance Framework 2022 includes information on its approach to both sustainable and transition financing. FAB describes an overview of governance and reporting guidelines and processes in the framework, as well as the classification logic used to determine whether a transaction may be labeled as sustainable or transition finance. This decision tree provides a succinct overview of the key classification process steps, while the governance and reporting details further clarify oversight of the framework and transaction classifications. In a subsequent section of the framework, FAB describes the assessment process for dedicated purpose financing, including a summary of governance and due diligence and a process flow diagram. FAB's Sustainable Finance Framework 2022 can be found on its **website**.[6]

Step 4

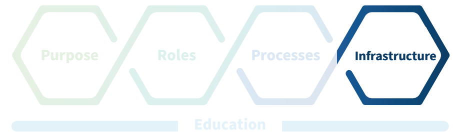
Enable Action through Organizational Infrastructure

Crucially, robust organizational infrastructure ensures employees have the tools, knowledge, and systems required to execute the transition finance strategy. To establish this infrastructure, the financial institution must allocate resources, particularly budget and staff time, to its creation and maintenance. With insufficient resources, the existence and utility of the infrastructure — and the transition finance strategy it enables — are at risk.



Identifying Organizational Infrastructure Requirements

A variety of infrastructure is needed to issue transition finance, though some of it may already exist for other purposes and can be adapted to include any new needs for transition finance. An easily accessible library of transition finance resources and training can serve as a central knowledge hub for all employees. If needed information is not included in existing training and resources, points of contact could be available to answer questions or provide guidance. These contacts would likely be staff who work most closely on the transition finance strategy (e.g., the sustainability team), but could be a variety of colleagues, external experts, and/or consultants that contribute to strategy and deal execution or have specialized knowledge on the transition.



Executing and identifying transition finance transactions will require data, analytics, and monitoring platforms with transition-relevant information to ensure the financial institution is making and tracking informed decisions. Transition finance often requires additional due diligence and analysis because it relies on the ability of financial institutions to assess the credibility of a counterparty's transition strategy and the broader environmental and social aspects of the transaction. Financed firms and projects may not be currently aligned with 1.5°C pathways and the precise emissions reductions that will result from the financing may be unknown due to inherent limitations of forward-looking data and projections. Transition finance may also be contingent on a specific set of circumstances for a technology to qualify, which potentially requires greater data availability and quality to verify; for example, energy efficiency in hard-to-abate activities may need to achieve a certain improvement threshold to be considered eligible, requiring detailed projections for the project. Robust systems and processes can help identify transition finance deals and manage analysis.

Establishing and Evolving Organizational Infrastructure

There is no one-size-fits-all solution for effective organizational infrastructure because the best systems for a particular firm will depend on its existing infrastructure, business composition, and internal structures. However, ongoing or periodic evaluation and improvement of organizational infrastructure can ensure that it remains fit for purpose as the firm progresses and evolves its transition finance and climate strategies. A firm can engage with third-party data and service providers to develop or refine the data and analytics required for transition finance, which could contribute to a more cohesive data landscape in the market. As the market for transition finance grows, new tools and systems may become available; these can be evaluated and integrated where appropriate to help streamline and scale counterparty transition assessment and engagement and capital allocation.

EXAMPLE 4

BlackRock's Aladdin platform

BlackRock's Aladdin is a technology system to assist with various aspects of the investment management process. BlackRock has also developed Aladdin Climate to quantify climate risks and opportunities in financial terms and provide tools to support climate-based security selection, climate-based portfolio modeling, and enterprise risk and reporting. The integrated system allows for consistency across various processes and analyses, while continued investment in the platform across decades has enabled evolution and expanded capabilities over time. Further information on Aladdin can be found on BlackRock's **website**.[7]

Ongoing

Provide Education and Training to Staff

Successful execution of a financial institution's transition finance strategy will require ongoing education and training for employees. Key topics include the financial institution's transition finance approach, how to embed and execute the strategy within various departments, transition trends, key technologies, and transition pathways specific to sectors and/or regions relevant for the firm and employees.

Communicating Actively

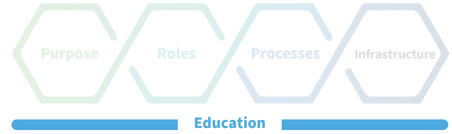
To start, the financial institution must clearly communicate its transition finance definition and strategy to all employees. This includes the purpose and objectives of the strategy, why and how the financial institution is pursuing transition finance, and what this strategy implementation means for employees across the firm. Regular and dynamic communication about the firm's transition finance strategy will ensure new employees are aware of the strategy and that existing staff stay engaged with it. Periodic reviews to ensure staff are aligned with the transition finance strategy and goals can assist with developing and benchmarking engagement and capacity over time. If applicable, periodic updates on progress toward targets, examples of innovative transactions, or evolutions in the strategy can help engage staff in ongoing efforts so initial education on the strategy is not their only contact with it.

Assessing Current Capacity and Future Needs

As part of the transition finance strategy development, a financial institution may conduct an inventory of knowledge and skills required to execute the strategy. Conducting inventories periodically can help assess how skills, knowledge, and capacity are changing over time. The required knowledge and skills can then be compared with employees' existing knowledge and skills to identify where training, capacity development, or hiring is needed.

> **Capacity- and capability-building are key if finance is to unlock net zero and other sustainability goals.**
>
> — ***Sustainable Finance Education Charter: January 2023 to December 2023***, Green Finance Institute[8]

Supporting Capacity Development



For staff that are directly involved with implementation of the financial institution's transition finance strategy, such as frontline, relationship management, risk, and legal teams, further capacity development may be required. For example, successful transition finance deals will depend on the ability of front-office employees to assess transition opportunities and engage with corporations on their transition plans, needs, and progress. They must have a solid understanding of transition topics, including sector pathways, regional regulations and policy landscapes, and the business and technical feasibility of key transition technologies, to benchmark and assess transactions and corporations. A financial institution may also consider developing and/or hiring expertise in critical transition technologies to assist with opportunity identification and due diligence.

Establishing educational programs — whether created and managed internally or outsourced to consultants, academia, or certification providers — across relevant parts of the firm may be helpful for broad training. This could also involve establishing knowledge-sharing mechanisms and platforms for training and learning, and requesting technical assistance to accelerate accessibility and delivery. Training modules could be required for onboarding new employees and refreshed periodically or as needed to ensure all employees are familiar with emerging best practice.

EXAMPLE 5

NatWest partnership with the University of Edinburgh

In 2022, NatWest announced a partnership with the University of Edinburgh Centre for Business, Climate Change, and Sustainability to provide climate education to NatWest staff. Key staff at NatWest received further in-depth training to increase their knowledge of climate change and prepare them for climate-focused conversations with customers and colleagues. The partnership also involved sector-specific training for commercial real estate, retail and leisure, and manufacturing. Further information on this initiative can be found on NatWest's **website**.[9]

Key Takeaways

Transition finance will introduce a significant shift in how financial institutions do business with their clients, requiring internal changes, education, and evolution in processes and practices:

1

Realize Ambition

Developing capacity will ensure that the economic opportunity and ambitious targets can be realized through day-to-day decision-making across each firm.

2

Be Adaptable in an Evolving Space

The rapidly developing landscape of climate and transition finance best practices and evolving needs of the energy transition will likely require adaptations to financial institutions' transition finance strategies over time, while maintaining robust guardrails.

3

Develop Capacity to Enable Success

Clear definitions and governance structures, ambitious policies and practices, infrastructure that enables action, and a well-informed workforce with strategic partnerships can set up firms for success.

Additional Resources

1 **"Defining Transition Finance: Exploring Its Purpose, Scope, and Credibility" (RMI)**
Elizabeth Harnett, Tricia Holland, and Lucy Kessler, "Defining Transition Finance: Exploring Its Purpose, Scope, and Credibility," RMI, November 28, 2023, https://rmi.org/defining-transition-finance-exploring-its-purpose-scope-and-credibility/

2 **Global Capacity Building Coalition**
"UN Agencies, Multilateral Development Banks, Private Sector Finance, and Philanthropy Leaders Unite to Scale Climate Finance Capacity Building," Bloomberg Philanthropies, December 1, 2023, https://www.bloomberg.org/press/un-agencies-multilateral-development-banks-private-sector-finance-and-philanthropy-leaders-unite-to-scale-climate-finance-capacity-building/

3 **Climate Safe Lending Network Fellowships**
"Climate Safe Lending Fellowship," Climate Safe Lending Network, https://www.climatesafelending.org/fellowship

4 **GFANZ Workshops in a Box**
"Workshops in a Box," Glasgow Financial Alliance for Net Zero, https://www.gfanzero.com/workshops-in-a-box/

5 **Climate Bonds Initiative Training Academy**
"Training," Climate Bonds Initiative, https://www.climatebonds.net/training

6 **Capacity-Building Alliance of Sustainable Investment (CASI)**
"CASI," Capacity-Building Alliance of Sustainable Investment, https://www.casi.net/

Authors and Acknowledgments

Authors

Kaitlin Crouch-Hess, Elizabeth Harnett, Tricia Holland

Authors listed alphabetically. All authors from RMI unless otherwise noted.

Contacts

Tricia Holland, tholland@rmi.org
Elizabeth Harnett, eharnett@rmi.org

Copyrights and Citation

Tricia Holland, Elizabeth Harnett, and Kaitlin Crouch-Hess, *How To Develop Internal Capacity to Enable Transition Finance*, RMI, 2024, https://rmi.org/download/40476/?tmstv=1718749381.

Acknowledgments

The authors thank those who informed this document through participation in the Transition Finance Alignment Forum. In particular, the authors are grateful for the feedback received from colleagues at RMI and external reviewers from Barclays, CDP, Ceres, the Glasgow Financial Alliance for Net Zero (GFANZ) Secretariat, JP Morgan Chase, NatWest, Sierra Club, the United Nations Environment Programme Finance Initiative (UNEP FI), US Bank, and the World Benchmarking Alliance.

RMI

About RMI

RMI is an independent nonprofit, founded in 1982 as Rocky Mountain Institute, that transforms global energy systems through market-driven solutions to align with a 1.5°C future and secure a clean, prosperous, zero-carbon future for all. We work in the world's most critical geographies and engage businesses, policymakers, communities, and NGOs to identify and scale energy system interventions that will cut climate pollution at least 50 percent by 2030. RMI has offices in Basalt and Boulder, Colorado; New York City; Oakland, California; Washington, D.C.; Abuja, Nigeria; and Beijing.

Endnotes

1 Elizabeth Harnett, Tricia Holland, and Kaitlin Crouch-Hess, *How To Design Transition Finance Approaches*, RMI, 2024, **https://rmi.org/download/40477/?tmstv=1718749462**

2 *Barclays Transition Finance Framework: Version 1.0*, Barclays, February 2024, **https://home.barclays/content/dam/home-barclays/documents/citizenship/our-reporting-and-policy-positions/Barclays-Transition-Finance-Framework-V1.pdf**.

3 Grant Rudgley, Jasminka Enderle, and Nina Seega, *Bank 2030: Accelerating the Transition to a Low Carbon Economy*, University of Cambridge Institute for Sustainability Leadership, 2020, **https://www.cisl.cam.ac.uk/system/files/documents/bank-2030.pdf**.

4 *2023 TCFD Report: Task Force on Climate-related Financial Disclosures*, SMBC Group, 2023, **https://www.smfg.co.jp/english/sustainability/materiality/environment/climate/pdf/tcfd_report_e_2023.pdf**.

5 *Transition Finance Playbook 2.0*, SMBC Group, 2023, **https://www.smfg.co.jp/english/sustainability/materiality/environment/business/pdf/tfp_en.pdf**.

6 *FAB Sustainable Finance Framework 2022*, First Abu Dhabi Bank, 2022, **https://www.bankfab.com/v1/-/media/fabgroup/home/about-fab/sustainability/reports/fab-sustainable-finance-framework-2022.pdf**.

7 *Aladdin by BlackRock*, BlackRock, accessed June 10, 2024, **https://www.blackrock.com/aladdin**.

8 *Sustainable Finance Education Charter: January 2023 to December 2023*, Green Finance Institute, 2024, **https://www.greenfinanceinstitute.com/wp-content/uploads/2024/05/SFEC-Report-2024.pdf**.

9 "Edinburgh University Partnership to Further NatWest Group Climate Expertise," NatWest Group, April 11, 2022, **https://www.natwestgroup.com/news-and-insights/news-room/press-releases/climate/2022/apr/edinburgh-university-partnership-to-further-natwest-group-climat.html**.

Tricia Holland, Elizabeth Harnett, and Kaitlin Crouch-Hess, *How To Develop Internal Capacity to Enable Transition Finance*, RMI, 2024, **https://rmi.org/download/40476/?tmstv=1718749381**.

RMI Innovation Center
22830 Two Rivers Road
Basalt, CO 81621

www.rmi.org