The Transition Finance Nexus

A primer on the connections among transition pathways, planning, assessment, and finance in the banking sector



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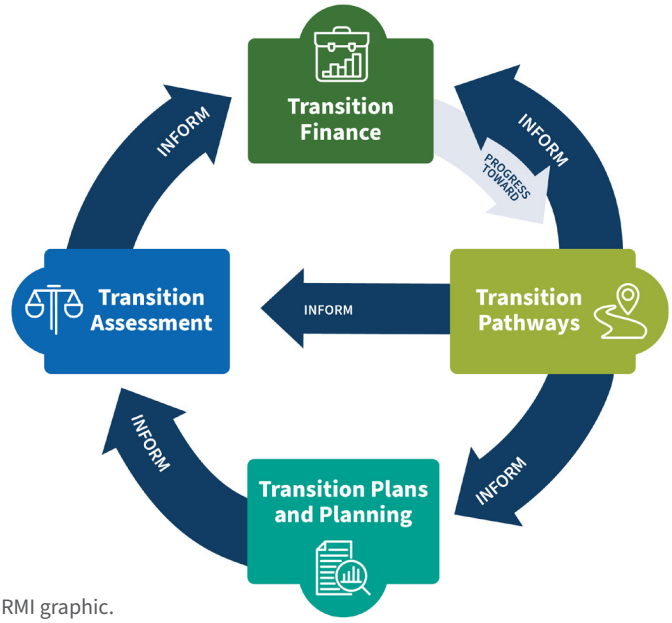
Executive Summary

Transition finance has rapidly emerged as a key concept for banks seeking to reach their net-zero targets and support real-economy decarbonization. This has relied on and contributed to a growing ecosystem of transition-related processes and approaches. In this primer, we introduce the "transition finance nexus" as a new way of conceptualizing the connections among transition pathways, transition plans and planning, transition assessment, and transition finance (Exhibit ES1).

While transition finance guidance often refers to these different elements, little attention has been paid to the interconnections between them. In this primer, we address this gap and add nuance to the transition narratives in the banking sector. This includes highlighting key dependencies involved and demonstrating that improving individual parts of the system will strengthen the whole nexus. These insights are based on research and engagement across the transition finance nexus, including interviews and consultation with 15 organizations, including banks, industry alliances, and nongovernmental organizations (NGOs).

Exhibit ES1 **Transition finance nexus**



RMI graphic.

Key insights:

Transition pathways offer a critical starting point for informing plans/planning, assessment, and financing.

Corporate transition plans are important, but the *process* of transition planning is the critical element. A published plan is not sufficient by itself or currently necessary for the allocation of transition finance, but it can offer helpful information for decision-making.

Client transition assessment is the crucial intermediate step between plans/planning and deploying financing or advancing related offerings (e.g., client engagement, advisory services, etc.).

Transition finance is enabled by other elements in the nexus and should, in turn, enable progress toward pathways, plans, and assessments over time. The nexus can therefore be a circular process for banks to deploy and scale transition finance.

Each section of the primer provides an overview of the key elements, how they fit in the nexus, and recommendations for further work. Collaboration among banks, policymakers, and industry leaders to enhance the feasibility and credibility of each element could rapidly scale the transition finance market, benefiting from a multiplier effect across the nexus.

Recommendations for strengthening the transition finance nexus:

- **Enhance transition pathway granularity** with regional and sector-specific insights to improve corporate transition planning and assessments.
- **Encourage corporate transition planning** by developing clear guidance on decision-useful disclosures that support financing decisions.
- **Standardize and streamline transition assessments** to reduce cost and complexity for banks while ensuring credibility.
- **Support transition finance deployment** by developing clear, actionable solutions for barriers to implementation and questions of credibility.



Introduction

Transition finance has become an integral part of the climate finance landscape. It is now seen as an important element of how banks support their clients' transition and implement their own net-zero commitments. However, there is not just one definition or approach to transition finance, and it exists in a wider nexus of transition-related processes and approaches. In this primer, we explore how banks' deployment of transition finance is connected to, and dependent on, three related concepts: transition pathways, client transition plans and planning, and client transition assessments.

Understanding this nexus, and the further work required to strengthen its parts and the whole, is timely because many banks are designing their own transition finance approaches and effective climate action is increasingly urgent.

To varying degrees, standards and guidance exist for transition pathways, transition plans/planning, transition assessments, and transition finance.[i] Yet their interdependence is often underexplored. This has contributed to practitioners and other stakeholders making implicit and explicit assumptions, without sufficient reflection or evidence, about how each component of the transition finance nexus can lead to real-economy change.

For example, there is a growing perception in the market that transition plans will unlock transition finance for real-economy firms. While this may be true, it assumes that financial institutions are poised to readily derive relevant information from their clients' transition plans and incorporate those insights into core business functions and capital allocation decisions. It also assumes that real-economy firms across the globe will be able to build the capabilities needed to create credible and decision-useful transition plans at the pace that climate change demands.

Exploring the interconnections of the transition finance nexus early allows stakeholders from finance, the real economy, civil society, and government to better understand how to support the build-out of effective transition finance infrastructure while finding creative solutions to urgent short-term gaps within the nexus. For example, robust client transition assessment can start to inform transition finance decisions even in the absence of perfect corporate transition plans.

Our findings are based on RMI's **previous work**[1] as well as insights from practitioners across nine commercial banks, which reveal how transition finance, pathways, client transition plans/planning, and client transition assessments are integrated into decision-making today and how this could be strengthened in the future. While focused on the global banking sector, the report draws relevant insights for anyone interested in this topic. Where relevant, we call out specific stakeholders needed for implementing recommended actions and next steps.

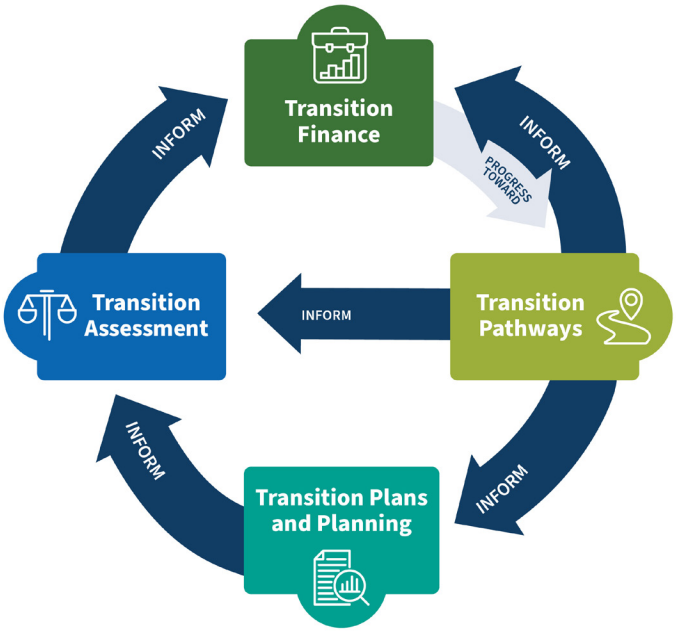
i Examples of such standards and guidance are referenced in the *Additional Resources* section at the end of this report.

Transition Finance Nexus Overview

Banks leverage and deploy transition pathways, client transition plans/planning, client transition assessments, and transition finance as part of a mutually reinforcing process. Exhibit 1 provides a simplified graphic to contextualize the nexus underpinning banks' transition finance decisions, acknowledging the interconnectedness of these terms. The transition finance node in the nexus diagram primarily refers to transactions (i.e., the act of banks deploying capital to their clients).

When referring to transition plans and planning, we are talking about those of real-economy clients rather than the banks themselves. A bank's own transition planning can, however, help it establish strategies, processes, and frameworks that will make this nexus work for its own organizational goals and structures.

Exhibit 1 **Transition finance nexus**



RMI graphic.

The terms in the nexus have various definitions in use across the market. For the purposes of this report, we define each as follows:

Transition finance: Transition finance is an emerging concept with various opinions on its precise scope, purpose, and credibility. Some see it as any financing that broadly supports the transition to net-zero emissions.[2] In "A Global Call to Action on Transition Finance at COP28," RMI and 10 other NGOs defined transition finance more narrowly as enabling the decarbonization of high-emitting entities and hard-to-abate sectors where a credible pathway to decarbonization exists.[3]

Transition pathway: A goal-oriented scenario or combination of scenarios that depicts the rate of greenhouse gas (GHG) emissions reductions, often including how economic activities and technologies should shift over time to achieve those emissions reductions (adapted from the Glasgow Financial Alliance for Net Zero, or GFANZ[4]). Pathways can be global in scale or specific to a region, country, or sector.

Transition plan: Publicly available document(s) outlining a set of goals, actions, and accountability mechanisms to align a firm's activities with a pathway to net-zero GHG emissions (adapted from GFANZ[5]).

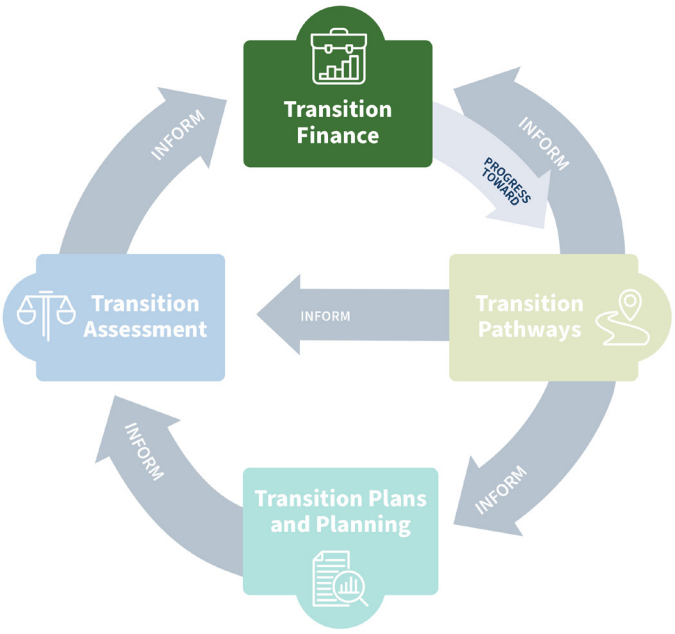
Transition planning: The process of developing a strategy and implementation plan to decarbonize an entity, reduce climate-related risks, or meet climate targets. While an organization may not have a published transition plan, it may have or be currently engaged in transition planning.

Transition assessment: A bank's process for evaluating the feasibility and ambition of a client's transition plan/planning, including comparing the client's objectives and performance relative to sectoral and regional expectations of the net-zero transition (adapted from GFANZ[6]).



Transition Finance

The transition to a low-carbon economy will require significant finance and investment. Decarbonizing high-emitting sectors, including aviation, shipping, road freight, steel, and cement, for example, is estimated to require up to US$1.6 trillion per year.[7]



However, disagreements persist about the definition of transition finance. While some define it as any finance that enables the net-zero transition (this could include a green bond to a renewables developer), others focus more narrowly on finance intended to decarbonize high-emitting entities and activities (e.g., general corporate purpose [GCP] debt for a steelmaker). Either way, the primary goal of transition finance for banks and stakeholders should be to deploy capital in a way that facilitates long-term, real-economy emissions reductions where they are needed most.

In practice, transition finance — and the tools and infrastructure needed to make more effective and transparent capital allocation decisions — remain nascent, and there is an ongoing debate over whether this trend needs its own label, like sustainability-linked or green financial products. It remains difficult for corporations in high-emitting sectors as well as banks to raise and deploy transition finance, with many **persistent barriers**, including unclear and inconsistent policy signals, stigma around high financed emissions, and a shortage of commercially viable transition projects.[8]

However, there is a growing collection of transition finance resources (see *Additional Resources* in this report and **RMI's Transition Finance Resource Hub**), and transition finance has become a central component of how banks talk about implementing their net-zero strategies. We can see this in banks' evolving thinking about how to conduct client transition assessments and engage with high-emitting clients on their transition plans, as well as emerging **case studies of transition finance** and published transition finance frameworks.[9]

Role in the transition finance nexus

Credible deals that accelerate emissions reduction in the real economy remain elusive because transition finance is a nascent, nuanced, fragmented, difficult-to-measure, and highly scrutinized field. Banks' transition finance teams are generally working their way *toward* transactions — labeled or otherwise — by taking on some or all of the steps outlined in the nexus diagram: determining pathways, gathering client transition plans, and conducting client assessments.



Our research surfaced recurring barriers to leveraging pathways, plans/planning, and assessments to deploy capital. These include a lack of widespread corporate transition planning, uncertainty about best practices for client assessment, the need for actionable guidance on incorporating sectoral and regional dynamics in decision-making, and a lack of integration of the outputs of client assessments into different banking functions.

Several areas of divergence in opinions were noted without clear solutions or next steps. For example, questions remain about when or whether to divest from those clients that are not transitioning fast enough, whether transition finance can only be allocated to companies and sectors with a 1.5°C pathway, and what guardrails are needed to avoid carbon lock-in. Other areas noted for further work included greater clarity on best practices for transition finance and advancements in forward-looking metrics that can complement financed emissions approaches to better account for and incentivize transition finance.

We may not see transition finance deals at scale until improvements are made in the broader ecosystem underpinning it. This includes the processes within the transition finance nexus outlined in this primer as well as underlying external dependencies, such as enabling policy, governance, and the bankability of technologies and projects. Nevertheless, there are still opportunities — as well as an urgency — to begin deploying transition finance while the infrastructure catches up and the enabling environment remains imperfect. This report highlights how, even today, transition pathways and client assessment approaches can become more robust and support banks in overcoming some of the nexus's challenges.

The banks interviewed emphasized that they are at the start of a journey to implement transition finance strategies but believe it is important to begin with available approaches while committing to evolving and refining over time. Strengthening the transition finance nexus steadily would not only support banks in deploying more capital but also enable them to increasingly bring decision-useful information into a range of core services, such as client engagement, advisory services, risk management, strategy development, and compliance. Furthermore, the increased allocation of capital and support for real-economy decarbonization should, over time, enable progress along relevant transition pathways and implementation of transition plans.

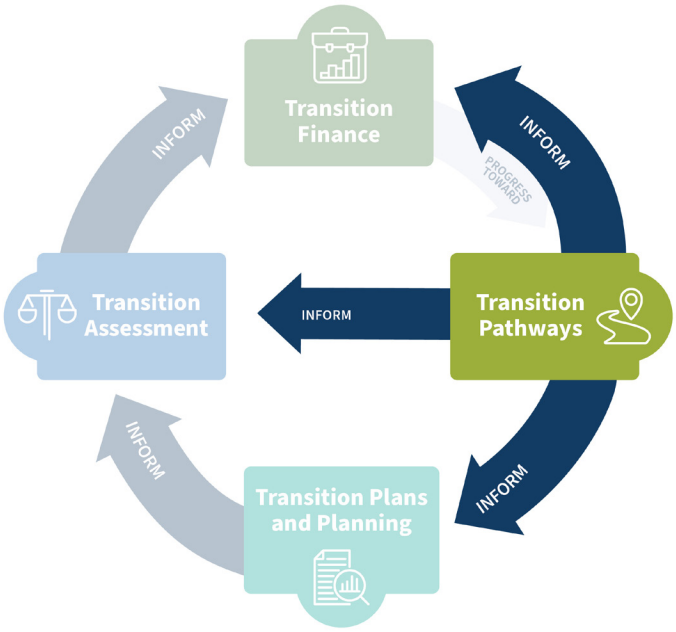
Key findings

- Transition finance is still nascent but is seen as an important component of net-zero strategies, particularly by enabling banks to support decarbonization of clients in high-emitting sectors.
- At the heart of the nexus, transition finance is enabled by and enables progress toward other elements.
- Although questions remain as to how credible transition finance can be defined and scaled, banks are getting started by assessing clients using the data and insights already available, including transition pathways and plans. Strengthening these other nexus elements could accelerate the allocation of transition finance.

Recommendations for future work

- Banks should, when possible, offer public case studies of transition finance and thought leadership insights to help move the market toward greater uptake, transparency, and convergence.
- Guidance is needed on if and how transition finance can be credibly allocated in different contexts. This includes whether a 1.5°C pathway is necessary, how to avoid carbon lock-in, and best practices for GCP transition finance.
- Advances are needed in methodologies, metrics, and reporting standards that can complement financed emissions approaches to better account for and incentivize transition finance.

Transition Pathways



Banks use transition pathways to understand their clients' and their own portfolios' transition in context. Transition pathways depict how specific climate mitigation objectives can be met in the future. They vary in sectoral and regional coverage, granularity of technology assumptions, future temperature alignment, and many other parameters that have an impact on their suitability to transition finance use cases.

There are two broad categories of transition pathways:

- Global integrated assessment models developed by research institutes and industry coalitions, such as the International Energy Agency (IEA), One Earth Climate Model (OECM), and the Network for Greening the Financial System (NGFS).

- Sector- and/or region-specific scenarios are often developed by a wider variety of institutions, including governments, nonprofit organizations, and industry associations. Examples include the Mission Possible Partnership (MPP) sectoral scenarios as well as nationally determined contributions (NDCs), which dictate the climate ambition in a country and the corresponding policy environment.

In general, global and sector- and/or region-specific pathways can complement each other to serve as benchmarks for assessing the overall ambition needed for the transition and to identify the technological switches and investments needed to make transition possible. Global pathways that have clear temperature alignment often lack the regional and/or technology-specific granularity needed to tailor the pathway to a given client's context. Sector- and/or region-specific pathways, on the other hand, can provide this granularity but often do not have a clear temperature alignment to determine ambition.

Role in the transition finance nexus

Transition pathways are critical for transition finance. Pathways can reveal which technologies and investments are needed to meet different levels of climate ambition, and the dependencies on other actors or activities that make those investments viable. They inform institutional and regional taxonomies and client transition plans and planning as well as acting as a benchmark to contextualize clients' transition assessments. A clear understanding of the pathways available at a sectoral and regional level is therefore critical for banks to productively engage with clients on their transition and to identify opportunities to deploy or withhold transition finance.

In practice, there remains a significant gap in the coverage of transition pathways, particularly at the regional and sectoral levels. When and how corporations in different regions can be reasonably expected to decarbonize high-emitting capital stock across different sectors is a key question for practitioners assessing transition finance opportunities.

Many banks require clients to reference and align with climate scenarios to qualify for transition finance. In most situations, a single pathway will likely not provide all the necessary information for robust transition planning or assessments. Instead, corporations and financial institutions would benefit from leveraging multiple pathways to construct transition plans and assess corporations, respectively. While a multi-pathway approach is complex, it allows relevant stakeholders to maximize the decision-useful information available from pathways. For banks, this opens opportunities to identify transition finance and advance a range of activities, including regulatory compliance, investment screenings, investment strategy development, credit risk assessments, client engagement, and advisory services.

In practice, there remains a significant gap in the coverage of transition pathways, particularly at the regional and sectoral levels. When and how corporations in different regions can be reasonably expected to decarbonize high-emitting capital stock across different sectors is a key question for practitioners assessing transition finance opportunities. Access to more granular and open-source pathways across various regions and sectors would enable better transition planning and assessments, and — as those processes are themselves strengthened — ideally support more transition capital deployment.

While guidance is available on how to select, assess, and incorporate sectoral scenarios into transition finance,[10] our research highlighted a clear need for greater *regional* granularity in these sectoral scenarios. That said, the exact rate of carbon reduction in a region is a complicated question of practical limitations and what is fair for a just transition. Regional roadmaps will inform transition assessments by showing local dependencies and assumptions, but transition finance practitioners should not expect universally agreed-on regional pathways with clear temperature alignment.

Because pathway design and selection affect the level of climate ambition, great care needs to be taken when leveraging pathways to deploy transition finance. For example, while it may be relevant to use non-1.5°C aligned pathways to derive more granular information about technologies, prices, asset life cycles, and such, these pathways may also run the risk of leading to carbon lock-in.

Moreover, while pathways are an effective tool within the transition finance nexus, no one pathway offers a sole source of truth because different pathways explore different assumptions, trends, and climate outcomes.[ii] Transition pathways necessitate ambition and, by definition, depend on policy, finance, and corporate action to materialize. Where these dependencies are lagging, other actions such as advocacy and client engagement can be taken by banks to continue supporting the transition and minimize transition risk.

ii Predictive scenarios (which do attempt to predict future trends without climate constraints) can also be used in transition assessments to establish a business-as-usual reference and as an input to risk management.

Key findings

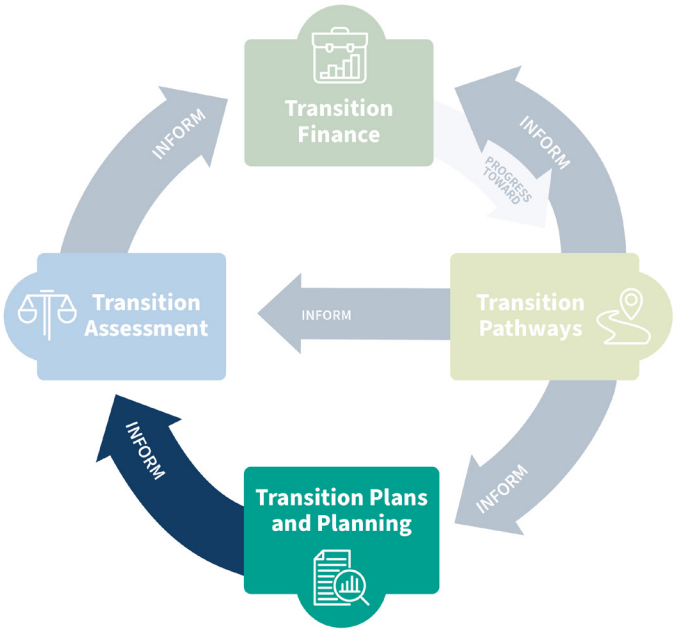
- Transition pathways are central to client transition planning and client transition assessment, which inform the deployment of transition finance.
- Pathways can be used to identify key technology shifts and their respective dependencies on enabling technologies, activities, and policies.
- A multi-pathway approach is recommended to take advantage of the different insights offered by different kinds of pathways.
- Regional sector pathways are needed urgently to strengthen the transition finance nexus.

Recommendations for future work

- Relevant stakeholders should advance the design and use of credible regional, sector-specific pathways where gaps exist. Regionalization can add credibility to a sectoral pathway if informed by local policymakers, regulators, and just-transition experts to address geographic and market dependencies.
- Policymakers and regulators, in consultation with corporations and banks, should support geographic-specific pathways. Regional sector pathways should then be mapped against countries' NDCs to determine what further system-wide interventions are needed to enable corporate transitions. This could result in national or subnational initiatives mirroring the European Hydrogen Bank's recent subsidy auctions or the global maritime shipping industry's commitment to increasing the uptake of zero or near-zero-emissions shipping fuels to at least 5% by 2030.[11]

Transition Plans and Planning

Real-economy corporate transition plans, and the underlying transition planning process, are emerging as vital mechanisms for companies to demonstrate to financiers, regulators, and civil society:



- A commitment to net zero and climate action
- How they will adjust their business model to remain resilient and value-creating in a net-zero economy
- That they have an action-oriented and science-led strategy and an investment and resource plan to maintain or shift their material business lines to align with climate targets[iii]
- Which verifiable and quantifiable key performance indicators — including capital expenditures made to support the transition — and accountability and governance mechanisms can be measured and monitored
- What dependencies need to materialize for their strategy to work

Many organizations, including GFANZ and Assessing Transition Plan Collective (ATP-Col),[12] have developed guidance to ensure the credibility and completeness of transition plans (see the *Additional Resources* section for more). This important work is ongoing, but existing guidance can provide greater clarity for corporations when developing plans and for financial institutions when assessing them.

However, this debate also highlights how challenging it is for companies to develop robust transition plans. Few transition plans published today satisfy all the criteria of these frameworks, and developing this capacity and institutional infrastructure will take time.[iv] Perfect should not be the enemy of good, however, and companies should continue to undertake transition planning as part of the ordinary course of business and publish transition plans even if they cannot satisfy all the ideal criteria.

Banks can still leverage imperfect transition plans and planning as a starting point for deeper client transition engagement and assessment. Furthermore, transition planning can be seen as a valuable

iii Diversified companies may be engaged in some business lines that are material from an emissions and financial perspective as well as others that are not.

iv For example, CDP found that only 140 (2.3%) out of 6,000 companies that disclosed having a 1.5°C-aligned transition plan in 2023 disclosed 21 credibility criteria. Almost 40% had disclosed two-thirds of the credibility indicators (**https://www.cdp.net/en/climate-transition-plans**).

strategic exercise for corporations themselves, above and beyond their utility in demonstrating intentions to external stakeholders.

Role in the transition finance nexus

Stand-alone client transition plans can inform a series of key activities for banks, notably client transition assessment, but also client onboarding, client screening and engagement, transition finance needs assessments, risk assessments, and potentially capital allocation decisions.

A transition plan's utility in unlocking transition finance is proposed in much of the literature on this topic. For example:

> "Transition finance … can … provide new investment opportunities for financial institutions. Forward-looking information contained in transition plans developed by non-financial firms will allow identification of such investment opportunities. This financing opportunity could support the long-term viability of firms' business models in a low-emissions climate resilient economy."
> — *Network for Greening the Financial System*[13]

> "Transition plans may unlock the potential of transition finance in the sustainable bond market by:
> i. Providing a strategic context to evaluate the consistency of issuer level transition and sustainability commitments;
> ii. Helping issuers avoid controversy related to potential carbon lock-in risk in their individual projects and investments; and
> iii. Enhancing sustainability-linked bond target setting and KPI selection while offering context for the evaluation of failed targets and circumstances beyond an entity's control."
> — I*nternational Capital Markets Association*[14]

Whether this happens in practice remains less clear, and evidence gathered in this project suggests that assessment based on transition pathways and client transition planning — rather than a stand-alone plan — informs transition finance. Where they exist, client transition plans are currently being used primarily to inform engagement and, to a lesser extent, risk assessment processes. Through interviews, RMI identified the following areas of convergence in bankers' opinions and experiences on the connections, or lack thereof, of client transition plans to transition finance:

- Client transition plans provide clarity about a company's goals and strategy for decarbonizing — including which pathways they are benchmarking progress against — but, today, they rarely provide information that would change the credit assessment of counterparties. Even as the overall transition nexus is strengthened over time, transition plans will be one of many inputs to credit assessments and financing decisions.

- Client transition plans do not always guarantee that the client will undertake or be able to sustain a value-creating, emissions-reducing transition. Banks, therefore, still need additional information to continually assess the feasibility, economic viability, and ambition of the plan before lending to and/or engaging with the client's transition plan. Client transition plans can improve accountability and clarify

capital allocation strategies, but they cannot predict the future. External shocks like geopolitics and technology leaps remain difficult to plan for.

- Transition plans are still nascent, making reliance on them for transition assessment or transition finance unfeasible at the portfolio level because of a lack of availability from many clients. This is particularly the case for banks with significant exposure to emerging markets, private markets, or small and medium enterprise portfolios.

- Other transition-relevant data exists, often spread across various public documents, meaning that a single transition plan can be helpful in consolidating information but is not essential today. Banks still need to find ways to engage in effective client transition assessments, whether or not their clients have a robust stand-alone plan.

In the short term, the lack of consistency and availability of stand-alone transition plans across sectors and regions may hamper banks' ability to use them as a requirement for transition finance allocation. Instead, capital allocation will rely more on the ambition and feasibility of client transition planning, the capabilities of the bank to analyze clients' transition readiness, and an enabling economic and policy environment. In the future, as transition plans become more widespread and comprehensive, they could serve as a more helpful and consistent basis for assessing whether to allocate transition finance.





Key findings

- Client transition plans and planning can inform client transition assessments and transition finance decisions. Credible plans and planning should be informed and assessed against transition pathways.

- Publicly available corporate transition plans can support, but are currently not necessary for, the allocation of transition finance. Though often challenging to source and imperfect, evidence of transition planning needed for client assessments and transition finance allocation can be accessed through different means. If incentivized and enabled by a wide range of stakeholders, transition plans are likely to become more widespread and more credible over time. This should be encouraged.

- Banks need transition plans to contain decision-useful data that can be incorporated into their core business practices. Nevertheless, even as the overall transition nexus is strengthened over time, transition plans will likely remain one of many inputs to assessments and financing decisions.

Recommendations for future work

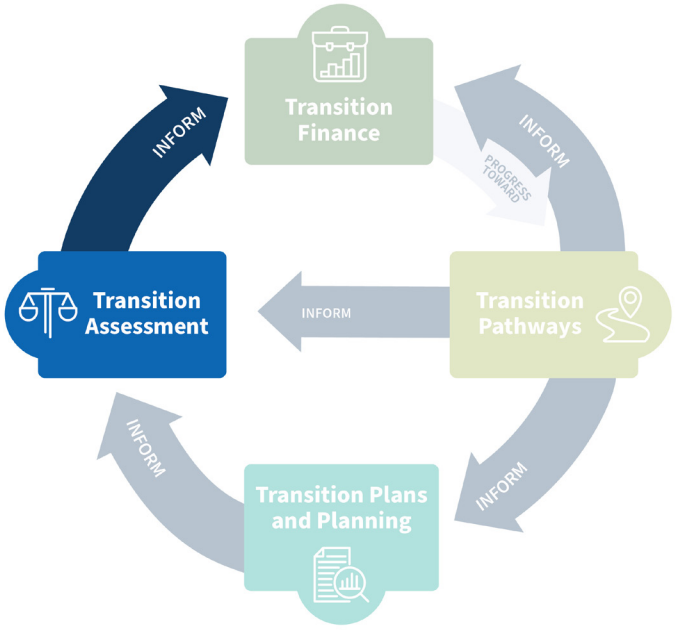
- Banks should encourage clients to develop credible entity-level transition plans in line with industry guidance, including decision-useful, forward-looking data that can inform transition finance and related activities.

- In the short term, banks should request greater transparency around where transition-relevant data and evidence of transition planning exists within client disclosure in the absence of a stand-alone published transition plan.

- Market guidance should be developed to identify sector- and region-specific challenges or assumptions, so that banks can proactively set expectations for transition-relevant information.

Transition Assessment

A transition assessment should help banks understand their clients' transition-related investment plans, business strategies, and dependencies in context and can be done even in the absence of a perfect transition plan.[v] While several banks we interviewed are designing their own transition assessment approaches, these often build on existing offerings from NGOs and service providers. The *Additional Resources* section offers a summary of guidance available for this and other elements of the nexus.



Today, transition assessment processes across financial institutions are not standardized or necessarily straightforward.

To be effective, client assessments should provide banks with decision-useful information on a client's transition readiness, which — depending on a bank's own goals and strategy — can be integrated into different core banking functions that support a range of transition finance decisions and functions, including regulatory compliance, investment screenings, transaction labeling, investment strategy development, credit risk assessments, client engagement, and advisory services. Yet, various challenges exist to the effective implementation of transition assessments, and there is often a trade-off between the depth of the assessment process and how practical it is to implement.

Role in the transition finance nexus

The transition assessment of a client is where the rubber meets the road: where banks weigh the readiness of a client to transition, including but not limited to assessing what is included in a transition plan — if one exists — against transition pathways and other relevant criteria.

Actionable evidence of credible and feasible transition planning and progress can help guide a bank's transition finance decisions. Therefore, while processes that assess entity-level policies and strategies along broader categories, like emissions, governance, targets, and investments, are an important starting point to assessing a client, those outputs can also be high level and can miss key information that could unlock opportunities for transition finance.

v For more details on RMI's ongoing work on transition assessments, please contact Estefanía Marchán at **emarchan@rmi.org**.

A transition assessment that unpacks which sectors are material for a client, which technologies are being deployed and where, and which maps the age of operating assets and their dependencies can provide a bank with more relevant information for decision-making. Comparing these criteria against an envelope of sectoral and regional climate scenarios, where available, can give banks a specific understanding of a client's potential for transformation.

Currently, many banks rely on public or subscription-based approaches to implement transition assessments, which unlock actionable client data to varying degrees. In practice, few of these approaches are used off-the-shelf, with banks adapting the guidance or offerings to meet their own criteria and requirements. Due to the nascent nature of assessments, their implementation is considerably resource-intensive for banks. For example, banks said that understanding whether a counterparty's disclosure is aligned with existing frameworks may require deep analyst expertise and weeks to perform the assessment, which made it difficult to scale across entire portfolios. Furthermore, given the complexity and nascency of client assessment processes, there is still currently no consensus among those banks interviewed on if or when a bank should deploy transition finance or divest from a client based on a poor transition assessment score.

Banks interviewed took different approaches to assess clients, but many ended up scoring clients on a 3- to 5-point scale. One bank, for example, has developed a 5-point scale to score clients and proposes providing GCP to clients at the high end of the scale while offering asset/activity-based use-of-proceeds (UOP) financing to lower-ranking clients. This proposed internal framework — nine months in the making — still needs bank-wide alignment on when and how to differentiate between offering GCP or UOP financing to clients at different maturities and whether transition financing replaces some labeled products, such as sustainability-linked bonds. This mirrors where most banks are and how nascent transition finance remains.

For most banks, transition assessments remain more a tool for external client–specific engagement rather than something that is integrated into strategy, capital allocation decisions, and other core business functions. Banks are using various other tools and frameworks to measure their own progress toward their targets. In part, this is because all parts of the transition finance nexus need strengthening, and because high-emitting corporate clients form only a portion of banks' overall exposure. As transition assessments become easier to perform and result in increasingly more decision-useful intelligence, we expect that their findings will become more embedded across banking functions.



Key findings

- Corporate client transition assessment is arguably the most important process for enabling bank transition finance activity. Yet there is a trade-off between the depth of the assessment process and how practical it is to implement.
- To be effective, client assessments should provide banks with decision-useful information on a client's transition, which — depending on a bank's own goals and strategy — can be integrated into different core banking functions that support a range of transition finance decisions and functions.
- A transition assessment that also unpacks which sectors are material for a client, which technologies are being deployed and where, and which maps the age of operating assets and their dependencies can provide a bank with more relevant information for decision-making.
- There is still little consensus on when and how to differentiate between offering GCP or UOP financing to clients based on results of assessment, and if or when a bank should deploy transition finance or take other actions based on a poor transition assessment score.

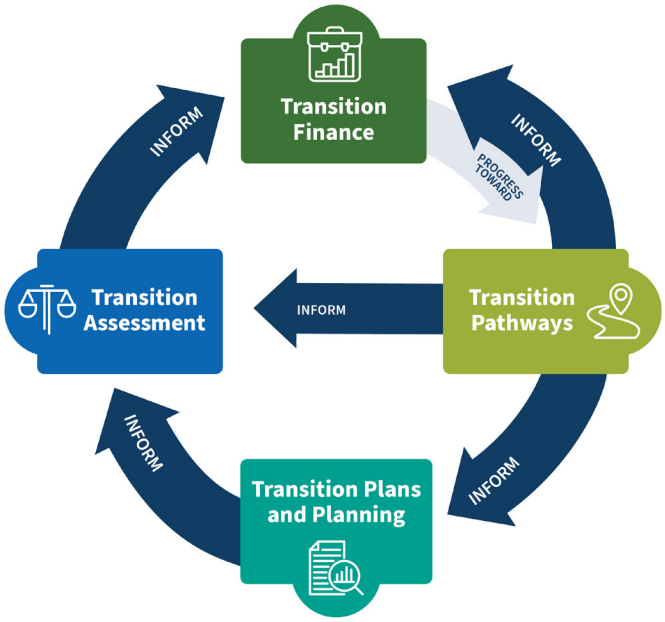
Recommendations for future work

- Deriving decision-useful intelligence from transition assessments and integrating this information into core business functions has high up-front costs for banks because the effort required to do this well is high. Effort from NGOs, service providers, corporations, and banks themselves is needed to ensure that banks can systematize and scale effective client transition assessments.
- Banks should train staff and allocate sufficient resources to facilitate assessment. While client assessments are resource-intensive, they illuminate valuable insights for front-office bankers, as well as strategy, advisory, and risk teams.
- More guidance is needed on how to account for regional differences in assessing clients based on credible pathways.

Conclusion

Transition finance guidance has surged in the past few years, yet there is a lack of research on how banks are implementing it in practice. In this primer, we outlined how transition finance is being enabled (and hindered) by a nexus of interconnected processes and approaches.

This primer presents evidence from the banking sector, examining how the key components of transition pathways, transition planning, and transition assessment today will shape the transition finance deals of tomorrow. Notably, it highlights the interconnected nature of these elements, leading to four key insights:



Transition pathways offer a critical starting point for informing plans/planning, assessment, and financing.

Corporate transition plans are important, but the *process* of transition planning is the critical element. A published plan is not sufficient by itself or currently necessary for the allocation of transition finance, but it can offer helpful information for decision-making.

Client transition assessment is the crucial intermediate step between plans/planning and deploying financing or advancing related offerings (e.g., client engagement, advisory services, etc.).

Transition finance is enabled by other elements in the nexus and should, in turn, enable progress toward pathways, plans, and assessments over time. The nexus can therefore be a circular process for banks to deploy and scale transition finance.

Strengthening the transition finance nexus is essential for unlocking capital at scale and supporting real-economy emissions reductions. Success will rely on banks' ability to derive insights and financing decisions based on transition pathways, transition planning, and rigorous client assessments.

This primer underscores the need for more transparent, scalable, and practical solutions to support the banking sector in deploying transition finance effectively. Recommendations for improving each element were noted throughout, but we conclude that four areas of focus could have outsize benefits for enabling transition finance, given their connectivity across the nexus. Banks, policymakers, and industry leaders should collaborate to:

- **Enhance transition pathway granularity** with regional and sector-specific insights to improve corporate transition planning and assessments.
- **Encourage corporate transition planning** by developing clear guidance on decision-useful disclosures that support financing decisions.
- **Standardize and streamline transition assessments** to reduce cost and complexity for banks while ensuring credibility.
- **Support transition finance deployment** by developing clear, actionable solutions for barriers to implementation and questions of credibility.

Additional Resources

Transition Pathways

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