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**Guidance**

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In collaboration with



# Transition Finance for Africa

Accelerating decarbonisation  
efforts in sectors critical to  
economic development



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**Report lead:**  
British International Investment

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## Contents

<b>Purpose</b>	<b>3</b>
<b>Foreword</b>	<b>4</b>
<b>Introduction</b>	<b>5</b>
1.1 Understanding transition finance	5
1.2 Existing transition finance efforts	6
1.3 Current challenges for FIs to deploy transition finance	7
<b>Practitioner's guide</b>	<b>8</b>
2.1 Scope of this guide	8
2.2 How to use this guide	9
2.3 Five building blocks of the guide	9
2.4 Investment thesis and focus	10
2.5 High-level principles	11
2.6 Checklists	12
2.7 Investment structures and financing instruments	12
<b>Examples</b>	<b>14</b>
3.1 Example of Investment Thesis A: Accelerating transition in hard-to-abate sectors	14
3.2 Example of Investment Thesis B: Accelerating the transition in other sectors	15
3.3 Example of Investment Thesis C: Increasing access to resources and other enabling inputs	16
<b>Look ahead</b>	<b>17</b>
<b>Appendix 1: General guidance for checklists</b>	<b>18</b>
Investment Thesis A: Accelerating the transition in hard-to-abate sectors	18
Investment Thesis B: Enabling the transition in other sectors	19
Investment Thesis C: Increasing access to resources and other enabling inputs	20
<b>Appendix 2</b>	<b>21</b>
Overview of existing transition finance frameworks and guidance	21
<b>A selection of key documents reviewed</b>	<b>23</b>
<b>Acknowledgements</b>	<b>24</b>

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## Purpose

This Practitioner's Guide to Transition Finance in Africa reflects the collective efforts of leading financial institutions (FIs), academics and civil society organisations. It intends to build on efforts from others to define transition finance at a high level and to fill a crucial gap before a formal taxonomy is developed. It offers practical guidance which investors can use to accelerate and scale their transition finance efforts.

The guide puts forward a framework for FIs to use as a reference point as they classify and structure transition finance.

However, other members of the financial ecosystem (governments, regulators, FIs and their clients) need to act urgently to enable the net zero transition – by developing the required guidance and, crucially, by deploying the finance needed to enable Africa's net zero transition.

We invite all practitioners to use this guide and hope it will prove helpful to those undertaking further work on this issue. We will continue refining this document until it is superseded by a more formal taxonomy.



## Foreword

Seven years on from the Paris Agreement, delivery of its promise to make finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development has gained momentum. The Glasgow Climate Pact signed at COP26 in 2021 reiterated the urgency of financial flows to help developing markets move onto 1.5°C-aligned trajectories. This was reinforced by the financial sector and formation of the Glasgow Financial Alliance for Net Zero (GFANZ), in which over 450 financial institutions across 45 countries with \$130tn in assets under management commit to net zero emissions portfolios by 2050.

In 2020, British International Investment (BII) committed to align our portfolio with a 1.5°C pathway to net zero by 2050 as part of our institutional ambition to align to Paris Goals. As a development finance institution (DFI), we have particular responsibility to make our contribution towards net zero development pathways and to lead our markets in realising the significant opportunities from the economic and technological transformation this will entail globally. However, as leading [academics](#) and [financial sector practitioners](#) point out, there is no guarantee that financial institutions' net zero goals on their own will lead to real world positive impacts for development or the climate. To deliver climate development pathways to net zero by 2050, we must continue financing to:

- **Sectors key for economic development** even if they have higher emissions today, such as manufacturing, food and agriculture. Rather than simply reallocate our capital to less emissive sectors, we should instead be active in supporting the decarbonisation of the hardest to abate sectors that have strong development impact.

- **Sectors that are key for climate adaptation** even if they have higher emissions today, such as water treatment or desalination.
- **Technologies and sectors that produce inputs which are critical for other sectors to transition**, such as critical minerals, even if they have relatively higher emissions.
- **Companies which have higher emissions today** and actively engage them to influence company practices, set transition plans and facilitate the implementation of decarbonisation measures. This will have more real economy impact than divestment.

We believe transition finance will be a crucial tool for financial institutions to confidently classify and structure financial support for these activities and help accelerate progress to the 1.5°C-aligned transition to net zero. I am delighted BII has worked with leading financial industry and academic partners to co-develop this Practitioner's Guide to Transition Finance in Africa, which puts forward a practical approach for financial institutions to further progress this agenda. We hope this guide can be a useful reference point for developing their own approaches to transition finance, and help advance the goal of the Paris Agreement to align all financial flows for net zero and climate-resilient development.



**Nick O'Donohoe**  
Chief Executive Officer,  
British International Investment



# 01

## Introduction

### 1.1 Understanding transition finance

Transition finance is a means of classifying and structuring financial support for high-carbon activities which are part of the path towards a 1.5°C aligned transition to net zero, so that they decarbonise in a 1.5°C aligned manner. It is a way of supporting clients to align their business and/or operations with a 1.5°C trajectory, even if they have higher carbon emissions today.

Transition finance is not traditional finance – it has clear intentionality, and is structured to enable decarbonisation in the real economy. Furthermore, it is not climate mitigation finance, which supports activities contributing to climate change mitigation as defined by the EU Taxonomy and Multilateral Development Bank Methodology. Most importantly, transition finance is not a free pass for FIs to continue with business-as-usual financing for high-carbon activities.

Given its nature, transition finance comes with the risk of substantially increasing an FI's portfolio emissions. It also presents an opportunity to achieve the decarbonisation of the hardest-to-abate sectors, and, more broadly, a real economy transition, particularly in Emerging Markets. FIs that deploy transition finance should continue to account for attributed emissions using recognised methodologies (e.g. Partnership for Carbon Accounting Financials) as part of their overall emissions footprint – it is not a separate 'emissions account'.



*Africa is in the eye of the storm; it has contributed least to climate change, but it is most affected. The continent needs real-world solutions, and there is only one way to accelerate the transition from brown to green: by providing the means. We have to finance the reduction of greenhouse gases, not just for impact, but for return. This means directing capital to the regions and sectors where a changeover is most needed. Transition finance, as we have scoped it in this framework, can contribute to the quality and robustness of the financial flows that are needed for a sustainable African future.*

**Hendrik du Toit**  
CEO, Ninety One



See *Transition finance: Investigating the state of play: A stocktake of emerging approaches and financial instruments* OECD Environment Working Papers No. 179 August 2021.

## 1.2 Existing transition finance efforts

A wide range of organisations have taken first steps to develop a transition finance approach, including international guidance frameworks from the Organisation for Economic Cooperation and Development (OECD), Net Zero Banking Alliance (NZBA), the Climate Bonds Initiative (CBI), International Capital Markets Association (ICMA), and the Sustainable Markets Initiative (SMI), as well as country-level formal regulatory efforts (e.g., from the South African National Treasury). Bespoke in-house tools developed by practitioners are also available, e.g. Standard Chartered's tool for asset finance or the 'smart olive' methodology used by Actis.

Even though the work done so far is fragmented, existing frameworks agree on common themes from which three high-level principles emerge. Transition finance investments should be:

- 1 **Aligning to Paris Goals** by supporting the transition of the local market and entity towards meeting the 1.5°C objective of the Paris Agreement.
- 2 **Transparently monitored and reported** with performance on climate-related metrics tracked and publicly disclosed to enable an FI to credibly report financing associated with the transition.
- 3 **Aligned to the 'just transition'**, by seeking to ensure minimum social safeguards are met and explicitly considering and seeking to enhance social outcomes for workers and communities.

While there is agreement on high-level principles, practical guidance for investors to deploy transition finance in Africa is lacking, as country-specific decarbonisation pathways and a formal taxonomy have not yet been fully developed.

**In the interim, practical guidance in the form of investor checklists can fill a clear gap in existing approaches and help investors make transition financing decisions. That is the key focus of this guide.**

	Already available		Focus of this guide	Eventual goal	
	Definition	High-level principles	Investor checklists	Country-specific pathways	Taxonomy
<b>International guidance frameworks</b>					
					
					
					
					
					
<b>Country efforts</b>					
					Long-term goal
				Ongoing effort	
<b>Practitioners' tools</b>					
					Asset finance

Sources: [OECD Guidance on Transition Finance](#), [NZBA – Transition Finance Guide](#), [Climate Bonds Initiative Whitepaper](#), [ICMA Climate Transition Finance Handbook](#), [Sustainable Market Initiative – A practitioners' guide for banks](#), [Standard Chartered – Transition Finance Framework](#), [Actis Smart Olive tool](#)

## The lack of sector and country-specific decarbonisation pathways calls for practical guidance for investors

Investments which are considered transition finance should align with science-based, 1.5°C-aligned decarbonisation pathways.

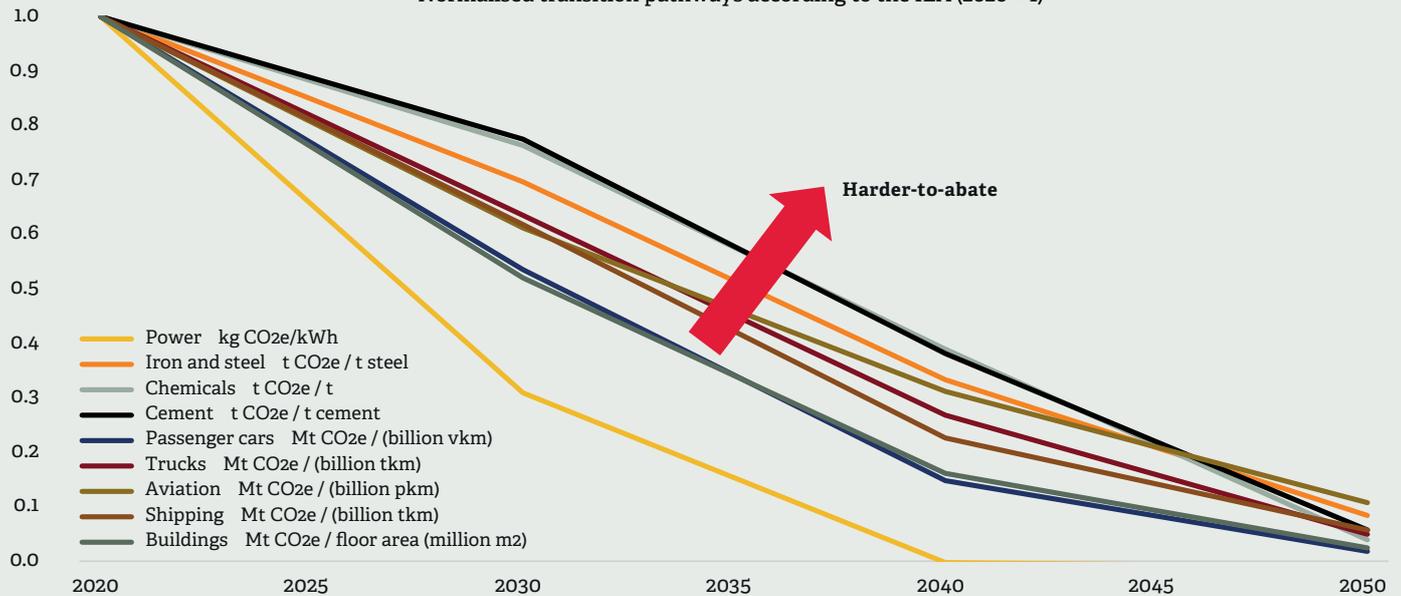
However, these have not yet been fully developed for all sectors and countries. Organisations currently working on decarbonisation pathways (e.g., International Energy Agency, Science Based Targets Initiative, Transition Pathway Initiative) provide sector specificity, but little country or regional granularity.

Sector and country-specific transition pathways will eventually be needed to formally evaluate the required technology mix, and whether investments support the required transition given the specific country context.

A key area of future work for academics, researchers and FI sector groups is to rapidly develop these pathways, which can be translated to technology-mix and financing pathways as the basis for a future transition finance taxonomy.

### Example global transition pathways to 2050 for key sectors

Normalised transition pathways according to the IEA (2020 = 1)



### 1.3 Current challenges for FIs to deploy transition finance

FIs currently operating in Africa face challenges in structuring and deploying transition finance. This is due to a lack of harmonised definitions and investment frameworks which can help ensure transition finance is credibly deployed.

To confidently deploy transition finance, investors require practical tools and, in time, a formal taxonomy. If these challenges are not addressed – as FIs commit to net zero portfolios – there is a risk that investment decisions are shaped by the wrong incentives, such as:

- Not financing those companies that are providing inputs for low-carbon technologies which may have high emissions (e.g., mining of raw materials critical for the energy transition).
- Not financing companies in high-emitting hard-to-abate sectors which are part of the transition (e.g. cement, steel) which present a high level of emissions today but can be reduced over time.
- Divesting or transferring control to less-motivated investors, rather than being stewards of these assets and supporting them to accelerate decarbonisation in line with the required 1.5°C-aligned pathways.



*It is crucial to make transition finance work for Africa. African countries, and the financial institutions operating in their markets, urgently need to direct finance and investment for net zero and climate-resilient development pathways. In collaboration with market players and other stakeholders, we have developed a framework that can be practically deployed by financial institutions as part of their net zero strategies. We look forward to further collaboration for advancing this critical agenda.*

#### Amal-Lee Amin

Managing Director, Climate, Gender & Diversity and Advisory, British International Investment





# 02

## Practitioner's guide

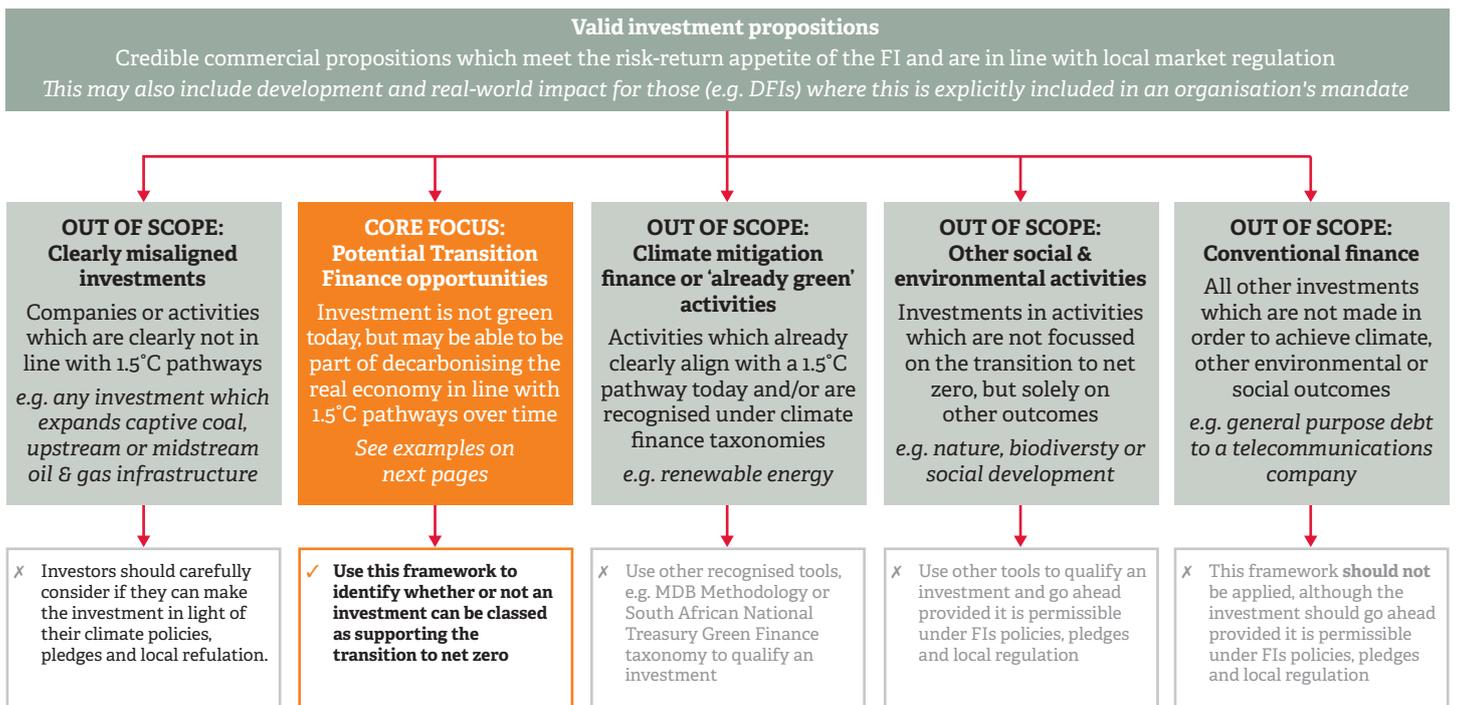
### 2.1 Scope of this guide

While a transition finance taxonomy is yet to be developed, this Practitioner's Guide aims to support investors to confidently deploy transition finance. It provides a framework to assess whether an investment can or cannot be considered as a transition finance opportunity.

This Guide does not cover investments that are clearly misaligned for which financial institutions will base their decisions on their own climate policies and pledges.

Furthermore, it does not cover climate mitigation finance and other social and environmental activities for which green taxonomies and other tools have already been developed.

Finally, it does not cover conventional finance or any other investment that does not aim to achieve a transition to net zero.



## 2.2 How to use this guide

The framework aims to offer practical guidance while transition finance taxonomies are being developed. In using this guide, individual FIs must:

- Apply this framework to specific investment decisions in order to use it most effectively.
- Be comfortable with relying on qualitative indicators to make judgement calls.
- Develop their own processes, practices and policies to ensure that transition finance decisions remain credible and aligned with overall climate commitments.

As this guide is deployed in practice, we hope it will continue to evolve. For instance, quantitative metrics to support the evaluation of specific checks, as well as country specific decarbonisation pathways need to be developed for transition finance to be deployed credibly.

## 2.3 Five building blocks of the guide

The guide has been developed around five core building blocks.

First, it presents three defined investment theses based on the challenges and opportunities that different sectors offer in relation to the transition to net zero.

Second, it outlines the core focus of an investment for each thesis.

Third, it acknowledges the three overarching principles which all transition finance investments must meet, in line with other reference frameworks.

Fourth, it provides a set of checklists for each investment thesis to ensure robustness and credibility, as well as recommendations on how to perform these checks.

Finally, the guide provides recommendations on financing structures.

### 1 Investment thesis

What transition challenge will the investment address that makes it an attractive case for our investment?

### 2 Investment focus

How and with what objectives can capital best be deployed in support of the investment thesis?

### 3 High-level principles

Does the investment align with commonly understood themes which transition finance should reflect?

### 4 Checklists

What practical steps do investors need to take to ensure that the investment credibly meets the high-level principles?

### 5 Investment structures

What kind of financing can be offered to support the investment?



*As a purpose driven bank, we are constantly looking at ways to address the climate challenge and leave a positive impact. Therefore, we have developed our own transition finance framework to address a growing need for an urgent acceleration in the amount of finance for the net zero transition. Developing the tool was challenging because the global thinking around transition finance is still nascent and will need to evolve over time to ensure we remain in alignment with the latest science-based thinking. Now, as more financial institutions in Africa are looking to address these challenges, we need to find a common approach to make sure we can credibly deploy transition finance at scale.*

### Lina Osman

Head, Sustainable Finance, West  
Standard Chartered Bank



*We must cover new ground as we deploy transition finance. Each FI working on this topic needs to develop their own approach and to undertake detailed work to ensure transactions can be credibly classed as transition finance. For BII, this document will be an invaluable reference point, and we hope others will use it as they develop their own internal approaches.*

### Nicola Mustetea

Director, Climate Change  
British International Investment



## Framework at a glance

<b>1 Investment thesis</b>	<b>A. Accelerating the transition in hard-to-abate sectors</b>	<b>B. Accelerating the transition in other sectors</b>	<b>C. Increasing access to resources and other enabling inputs</b>
<b>2 Investment focus</b>	Helping an entity to transition	Achieving a sector/country transformation	Enabling transition elsewhere
<b>3 High-level principles</b>	1. Aligning to Paris Goals		
	2. Transparently monitored and reported		
	3. Considers the Just Transition		
<b>4 Checklists</b>	A1. Size of decarbonisation opportunity given technology context	B1. Size of the decarbonisation opportunity	C1. Validate no significant harm
	A2. Ensure risk of carbon lock-in is avoided	B2. Ensure risk of carbon lock-in is avoided	C2. Ensure local economic contribution
	A3. Assess the company transition plan:	B3. Assess the company transition plan	C3. Validate company disclosure
	A4. Assess potential for the just transition	B4. Assess implications for the just transition	C4. Validate the role of the resource in the global transition
	A5. Validate company disclosure	B5. Validate company disclosure	
<b>5 Investment structures and instruments</b>	<p><b>Use of proceeds</b> if there is a decarbonisation opportunity (A1, B1, C4), have or intend to develop a transition plan (A3 or B3)</p> <p><b>KPI-linked</b> if possible to utilise key metrics on emission performance under checks A3 &amp; A5 or B3 &amp; B5 or C3</p> <p><b>General purpose</b> – typically not applicable due to risks involved</p>		
	Range possible of financial instruments e.g. equity, debt (direct loans, bond issuance, project financing), trade finance		

### 2.4 Investment thesis and focus

Given the diverse opportunities and challenges that transition finance is seeking to address, three investment theses are identified. Each thesis requires a specific focus to ensure its value in supporting the transition to net zero.

<p><b>A. Accelerating transition in hard-to-abate sectors</b></p> <p>Providing financial support to high-emitting entities in sectors where there is no clear decarbonisation pathway to fully achieve net zero due to a lack of proven technologies. These sectors require breakthrough technologies for full decarbonisation. However, it is possible to invest in interim measures which can lower emissions intensity.</p>	<p><b>B. Accelerating the transition in other sectors</b></p> <p>Providing financial support to high-emitting entities in sectors with a clear decarbonisation pathway to achieve net zero. These sectors have commercially viable propositions for decarbonisation but progress on transition is limited by lacking the right kind of capital with sufficient patience and risk appetite.</p>	<p><b>C. Increasing access to resources and other enabling inputs</b></p> <p>Providing financial support to sectors providing inputs to the transition, including those which are currently high emitting.</p>
<b>Examples:</b> Cement, steel or chemicals manufacturing	<b>Examples:</b> Power, mobility (ZEVs), and buildings (energy efficiency)	<b>Examples:</b> Mining of critical raw materials needed for the transition to net zero (cobalt, lithium, etc.)
<p><b>Focus is on helping an entity transitioning</b></p> <ul style="list-style-type: none"> <li>Objective is to facilitate the transition via project-specific incremental technological improvements</li> <li>Choice of instruments determined by project characteristics and the maturity of the company's transition plan</li> <li>Priority is addressing the technological challenge</li> </ul>	<p><b>Focus is achieving a sector/country transformation</b></p> <ul style="list-style-type: none"> <li>Objective is to facilitate a sector transformation given specific country context</li> <li>Choice of instrument based on complementarity of different FIs to better address the capital needs</li> <li>Priority is ensuring the additionality of capital provided</li> </ul>	<p><b>Focus is enabling the transition elsewhere while doing no harm</b></p> <ul style="list-style-type: none"> <li>Objective is to access resources for the transition globally, with a substantial focus on doing no harm and supporting local development</li> <li>Choice of instrument determined primarily by project characteristics</li> <li>Priority is balancing global and local impacts</li> </ul>

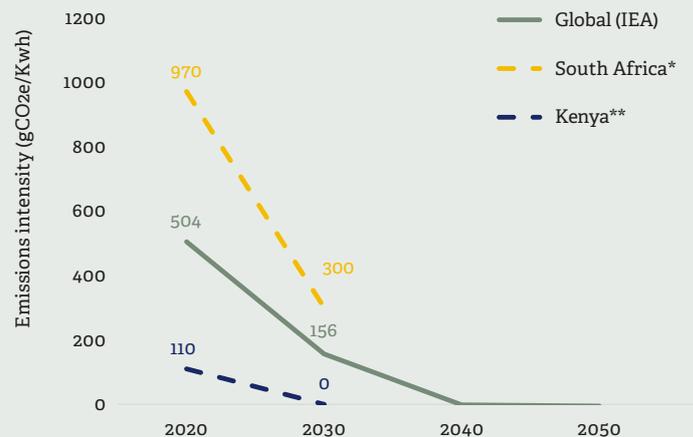
## Explanation: Specific country contexts will determine the required focus for transition finance investments

The low-carbon transition in each country will be a function of its domestic economic structure, long-term emissions targets, envisaged economic composition post-2050, priorities, and capabilities. As a result, the main target sectors for transition finance in each country will vary depending on economic relevance and emissions contribution\*.

For example, South Africa is heavily reliant on coal for power generation (~80%). Achieving 2030 decarbonisation involves a rapid deployment of solar and wind capacity to replace old coal-fired assets, which is estimated to cost ~\$32bn. Other investments – such as plants to provide baseload which can run as gas/renewables hybrid today and convert to green hydrogen over time – may also be required to enable the transition and could be a key focus for transition finance in the years ahead.

By comparison, in Kenya, most power is already generated through renewables (~90% from hydro and geothermal). However, there is an estimated \$3bn needed to decarbonise the last mile while maintaining grid resilience. Here, therefore, the role for transition finance in the power sector would be much more limited.

Power generation decarbonisation pathway



\* Eskom (2018), contraction based on IEA rate of change.

\*\* Climate Analytics.

\*\*\* Transition finance: Investigating the state of play: A stocktake of emerging approaches and financial instruments, OECD Environment Working Papers No. 179 August 2021.

## 2.5 High-level principles

Existing work on transition finance agrees at the level of three fundamental principles.†

First, all transition finance frameworks highlight the importance of supporting investments that are aligned and compatible with the 1.5°C objective, via pathways established by science. Second, the guidance from the OECD, NZBA, ICMA and the Sustainable Market Initiative underscores the importance of transparency in monitoring and reporting. Third, in line with OECD guidance, and especially relevant to the African context, securing just development for local communities and the people in the countries in which we are active is key.

Beyond these three core principles, different work brings forward additional elements such as ensuring minimum social environmental safeguards, the need to avoid carbon lock-in or the role of offsets. This guide further explores these elements at the level of the checklists.

## Three common principles for transition finance

### 1 Aligning to Paris Goals:

investment supports the transition of the local market and entity towards meeting the 1.5°C objective of the Paris Agreement.

### 2 Transparently monitored and reported:

performance on climate-related metrics is tracked and publicly disclosed to enable an FI to credibly report financing associated with the transition.

### 3 Considers the just transition:

Investment does no harm and explicitly considers, seeks to enhance social outcomes and offers support for local communities as required.

† See Appendix 2 for a full overview of initiatives and related high level principles.

## 2.6 Checklists

While the high-level principles are broadly agreed upon, they risk being of limited use unless FIs can check whether a given investment meets them. To assist, we have defined checklists that support alignment. The Appendix features an overview of existing, well-recognised guidance which FIs can use as a starting point to perform each of these checks.

A. Accelerating transition in hard-to-abate sectors	B. Accelerating the transition in other sectors	C. Increasing access to resources and other enabling inputs
<p><b>A1. Size of decarbonisation opportunity given technology context:</b> Assess and, if possible, quantify and monitor over time how the investment supports real-world transition to net zero (e.g., by displacing higher carbon activity). Assess technological challenge and test whether the investment provides best available solution for real-world transition.</p> <p><b>A2. Ensure risk of carbon lock-in is avoided:</b> Evaluate whether investment structure and technology choice enable use of best available technology today and do not prevent further decarbonisation measures in future.</p> <p><b>A3. Assess the company transition plan:</b> Identify whether the counterparty has a transition plan in place which aligns as best possible to Paris Goals, evaluate its quality using recognised assessment tools and validate that any use of offsets is limited and credible; validate that the plan has management buy-in.</p>	<p><b>B1. Size decarbonisation opportunity:</b> Assess and, if possible, quantify and monitor over time how the investment supports real-world transition to net zero (e.g., by displacing higher carbon power generation or facilitating the integration of more renewables).</p> <p><b>B2. Ensure risk of carbon lock-in is avoided:</b> Evaluate whether investment structure and technology choice enable use of best available technology today and do not prevent further decarbonisation measures in future.</p> <p><b>B3. Assess the company transition plan:</b> Identify whether the counterparty has a transition plan in place which aligns to a Paris Goal, and evaluate its quality using recognised assessment tools and validate that any use of offsets is limited and credible; validate that the plan has management buy-in.</p>	<p><b>C1. Validate no significant harm:</b> Identify social and environmental risks and ensure that safeguards have been taken to avoid adverse effects.</p> <p><b>C2. Ensure local economic contribution:</b> ensure that opportunities for local development are harnessed and benefits are maximised.</p>
<p><b>A4. Assess potential for the just transition:</b> Identify risks and opportunities of the investment for social outcomes (e.g. local socio-economic development, support re-skilling).</p>	<p><b>B4. Assess implications for the just transition:</b> Identify implications of the investment for social outcomes (e.g. explicit support re-skilling).</p>	<p><b>C3. Validate company disclosure:</b> Ensure that the investment actively monitors and reports practices and performance on climate-related metrics.</p>
<p><b>A5. Validate company disclosure:</b> Ensure that the investment actively monitors and reports practices and performance on climate-related metrics.</p>	<p><b>B5. Validate company disclosure:</b> Ensure that the investment actively monitors and reports practices and performance on climate-related metrics.</p>	<p><b>C4. Validate the role of the resource in the global transition:</b> Assess how the activity the investment will support the real-world transition to net zero, and ensure that greenfield activity is pursued only after reuse and recycling is exhausted.</p>

1. Aligning to Paris Goals

2. Transparently monitored and reported

3. Considers the Just Transition

## 2.7 Investment structures and financing instruments

At this stage, use of proceeds and KPI-linked instruments are deemed the most suitable to deploy transition finance, as they can help FIs to ensure decarbonisation plans are developed and implemented at the pace required.

At this stage, general purpose instruments are not recommended, given the challenges related to tracking the actual use of proceeds once the investment is made and the limited tools available to an FI if decarbonisation does not take place at the pace required. If these tools are not available to an FI, transition finance risks being a label for investments that may not ultimately result in real-world decarbonisation.

## Financing instruments

### Use of proceeds\*

Finance provided is ringfenced to specifically identified transition projects.

These are typically deployed as fixed income or other debt instruments.

### KPI linked\*

Finance provided has a rate of interest that is variable dependent on specific actions or outcomes which support transition being achieved.

These are typically deployed as fixed income products (e.g. loans and bonds)

### General purpose

Finance is provided to a firm or project as a whole (equity or corporate debt).

*Not recommended at this stage*

\* Use of proceeds and KPI-linked investment structure are not always mutually exclusive.

\*\* KPIs should be material, quantitative, ambitious and time-bound.

Each project will require a highly specific financing mix dependent on factors such as the stage of maturity, capital needs and investors involved.

Commercial FIs can play an important role by backing projects in sectors that already have commercially viable propositions for decarbonisation and well-established technological roadmaps. DFIs and other providers of concessional finance can play a significant role in helping investees with the development of robust and credible

## Requirements

- Projects or activities can be identified within an entity which align to the net zero transition.
- Investment structure and legal agreement can be developed to ensure finance is not fungible to other activities.

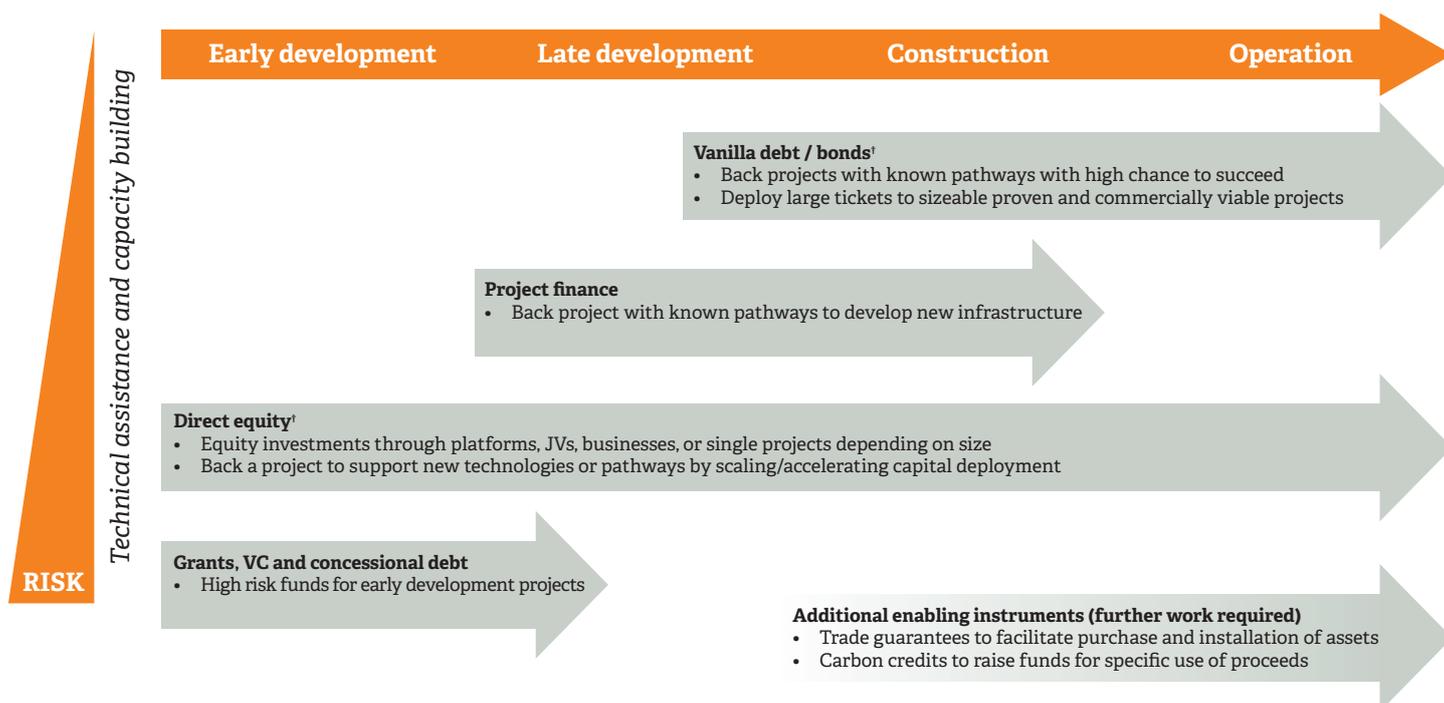
- Well-defined KPIs\*\* can be identified which represents a material improvement beyond a business as usual trajectory.
- Access to sufficient public or private information to set a baseline and validate the achievement of the KPI.

- Corporate debt structures without appropriate KPI-linked measures should not be considered transition finance.
- Equity could be considered but further work required on how to ensure transition outcomes.

transition plans (e.g., through technical assistance), or by providing risk-bearing capital.

Blended financing, concessional structures (such as longer tenors, different seniority, first-loss guarantees) and Public Private Partnerships (PPPs) can enable different investors to support a single entity or projects.

**In deploying these instruments, FIs can ensure the required financing is available to support the net zero transition.**



<sup>†</sup> Equity and general purpose conventional debt not linked to KPIs or to specific use of proceeds is out of scope of transition finance at this stage due to the significant risks of doing so if a transition plan is not of sufficient quality. Visual adapted from BII Investment model infrastructure finance.

## Examples

## 3.1 Example of Investment Thesis A: Accelerating transition in hard-to-abate sectors

The investment intends to provide financial support to a high-emitting entity in the cement sector. The cement sector has no clear decarbonisation pathway to fully achieve net zero due to a lack of proven technologies, and the investment aims to support the company in taking first incremental steps, such as increasing energy efficiency. By supporting a cement manufacturer, the investment has the potential to contribute to the overall socio-economic development of the country.

Deal description	✓ A1: Decarbonisation opportunity given technology context	✓ A3: Company transition plan	✓ A4: Just transition considerations																		
<p>A cement manufacturer is committed to transitioning but the transition plan does not yet outline all the measures needed.</p> <ul style="list-style-type: none"> <li>A DFI takes an equity stake to fund a business plan targeted at decarbonisation opportunities.</li> <li>Commercial FIs provide use of proceeds and/or KPI-linked financing to fund decarbonisation measures.</li> </ul>	<ul style="list-style-type: none"> <li>Full decarbonisation of the cement sector requires use of high capex/immature technologies, such as use of H<sub>2</sub> or CCS. In the short/medium term, reduction levers for the cement sector include improvement in energy efficiency, switching to alternative fuels, reducing clinker-to-cement ratio, or use of alternative binders.</li> <li>The company intends to improve the energy efficiency of its production facilities and start using alternative clinkers for production. The combined impact of these two measures would result in a X% decrease in carbon intensity by 2025, which is in line with the rate of decrease from the sectoral benchmark.</li> </ul>  <table border="1" data-bbox="571 778 1108 1045"> <caption>Carbon Intensity (MtCO<sub>2</sub>/Mt) by Year</caption> <thead> <tr> <th>Year</th> <th>Investment</th> <th>IEA Net Zero scenario</th> </tr> </thead> <tbody> <tr> <td>2020</td> <td>0.60</td> <td>0.60</td> </tr> <tr> <td>2025</td> <td>0.55</td> <td>0.50</td> </tr> <tr> <td>2030</td> <td>-</td> <td>0.45</td> </tr> <tr> <td>2040</td> <td>-</td> <td>0.25</td> </tr> <tr> <td>2050</td> <td>-</td> <td>0.00</td> </tr> </tbody> </table> <ul style="list-style-type: none"> <li>✓ A2: Risk of carbon lock-in</li> <li>No major risk of carbon lock-in is identified related to the energy efficiency measures, as they do not increase the capex requirements if advanced technologies are introduced in the future.</li> <li>✓ A5: Disclosure</li> <li>The company discloses or is willing to disclose progress on its decarbonisation plan, in line with TCFD recommendations.</li> </ul>	Year	Investment	IEA Net Zero scenario	2020	0.60	0.60	2025	0.55	0.50	2030	-	0.45	2040	-	0.25	2050	-	0.00	<ul style="list-style-type: none"> <li>Net zero emissions by 2050/Long/Medium/Short-term targets: a clear short-term target is available, linked to the investment under consideration. The company has a plan for further decarbonisation but has not yet publicly committed to net zero due to the fact the sector is hard-to-abate.</li> <li>The company is committed to increase ambitions over time as more technologies become available.</li> <li>The company decarbonisation strategy supported with the investment does not present contradictions or tensions with its business and financial plans, but rather becomes integral part of its business model, and the company will increase its ambition over time as new technologies become available and cost-effective.</li> <li>The governance structures related to climate-related issues within the company proves management's commitment and shared roles and responsibilities throughout the organisation.</li> </ul>	<ul style="list-style-type: none"> <li>The company plans to offer technical trainings to its employees to ensure capacity and skills evolve as changes in operations are implemented. No other major risks at the level of other companies stakeholders are identified (e.g. suppliers, communities, customers).</li> <li>The company contributes to the country's socio-economic development, as it employs local workforce and generates economic value-add.</li> </ul>
Year	Investment	IEA Net Zero scenario																			
2020	0.60	0.60																			
2025	0.55	0.50																			
2030	-	0.45																			
2040	-	0.25																			
2050	-	0.00																			

\* Reduction percentages specific to the investment are provided exclusively for illustration purposes only. Sources for decarbonisation pathways and technology roadmaps: IEA NZE Scenarios, [Technology Roadmap – Low-Carbon Transition in the Cement industry IEA](#), [Global Cement and Concrete Association Roadmap](#).

### 3.2 Example of Investment Thesis B: Accelerating the transition in other sectors

A power utility is financing the decommissioning and repowering of a coal power plant with gas, and then longer-term conversion to Green H<sub>2</sub>. The investment intends to provide financial support to a high-emitting power utility. The power generation sector has a clear technology roadmap to fully achieve net zero, yet the right kind of capital with sufficient patience and risk appetite is lacking.

Deal description	✓ B1: Decarbonisation opportunity given country context	✓ B3: Company transition plan	✓ B4: Just transition considerations
<p>A power utility is financing the decommissioning and repowering of a coal power plant with gas, and then longer-term conversion to Green H<sub>2</sub>.</p> <ul style="list-style-type: none"> <li>Project finance to fund conversion to gas is provided primarily by commercial FIs.</li> <li>Longer-term conversion to Green H<sub>2</sub> is de-risked for other investors by a DFI taking a first-loss or subordinated debt position or providing highly concessional structures (e.g., contingent debt or 0% loans).</li> </ul>	<ul style="list-style-type: none"> <li>The project is consistent with the roadmap outlined in the country's NDC and long-term decarbonisation plan and/or with a power generation decarbonisation pathway specific to the country's context, where available.</li> <li>The investment clearly defines which decarbonisation pathway is taken as reference.</li> <li>In the specific case of decommissioning and repowering of a coal power plant, the assessment points to an emission intensity reduction taking place within the boundaries of the project.<sup>i</sup></li> <li>The volume of carbon avoided is estimated by comparing baseload coal emission intensity to generation technologies envisioned by the project (e.g., short-term new gas, and longer-term renewables/H<sub>2</sub> use).</li> </ul> <p>✓ B2: Risk of carbon lock-in</p> <ul style="list-style-type: none"> <li>Gas-related contractual agreements are linked to well-defined timelines (e.g., PPA ends before 2050, and no "take or pay" terms)</li> <li>The company has a long-term vision of how interim technologies such as Green H<sub>2</sub> can be retrofitted to new purposes.</li> </ul> <p>✓ B5: Disclosure</p> <ul style="list-style-type: none"> <li>The company discloses or is willing to disclose progress on its decarbonisation plan, in line with TCFD recommendations.</li> </ul>	<ul style="list-style-type: none"> <li>Short/Medium/Long-term targets: in the short-term a clear target is available, linked to the investment under consideration; in the longer-term there is a clear plan to net-zero by 2050, which is aligned with the decarbonisation pathway referenced in B1.</li> <li>The company decarbonisation strategy supported with the investment does not present contradictions or tensions with its business and financial plans.</li> <li>Given that interim measures are a core part of the strategy, the company makes explicit how the risk of carbon lock-in will be avoided.</li> <li>The governance structures related to climate related issues within the company proves management's commitment and shared roles and responsibilities throughout the organisation.</li> </ul>	<ul style="list-style-type: none"> <li>As the project combines decommissioning and repowering of a coal power plant, there are no major negative implications to be expected at the country level, form a socio-economic development perspective.<sup>ii</sup></li> <li>The major social risk identified is related to retaining and reskilling of employees, and avoiding any job losses at the company level. To mitigate this risk the company plans to offer technical trainings to its employees to ensure that capacity and skills evolve as new technologies are developed.</li> </ul>

<sup>i</sup> This might play out differently in case of development of greenfield infrastructure, where the emission reduction would take place outside of the investment boundaries, in which case the carbon avoided is estimated at the country level

<sup>ii</sup> Projects related exclusively to decommissioning (without repowering) should assess socio-economic implications at the country level to ensure a Just Transition.

### 3.3 Example of Investment Thesis C: Increasing access to resources and other enabling inputs

A range of technologies are needed to support the decarbonisation of the global economy. For example, the development of wind turbines, solar photovoltaics, electric vehicles, energy storage and hydrogen fuel cells requires minerals and other resources. Nickel, cobalt, rare earths and lithium are examples of much-needed minerals. Mining projects need financial support to ensure the flow of these resources.

Deal description	✓ C1: Just transition: validate no significant harm	✓ C4: Global and local decarbonisation opportunity
<p>A mining company raises commercial debt and issues shares in order to fund expansion at a new site for lithium extraction and processing, which is a key input for low carbon technology. Financing is provided conditional to specific KPIs on emissions intensities of the company's operations.</p>	<ul style="list-style-type: none"> <li>Given that the investment purpose is facilitating the transition elsewhere, thorough analyses of local implications is crucial.</li> <li>Development of mining activities is in line with the highest environmental and social standards (e.g., IFC Performance Standards) and safeguards are in place to avoid adverse impacts.</li> </ul>	<ul style="list-style-type: none"> <li>Lithium is a key resource for the energy transition as it is a key input for the development of energy storage technologies. Lithium demand is increasing rapidly and is expected to increase further in the next decades.</li> <li>At the level of the company's operations, the expansion of lithium extraction and processing operations will have implications on the direct emissions of the company (for example, Scope 1-2).</li> <li>The decarbonisation opportunity is challenging to quantify. However, it is expected that the emission gains will significantly outgrow the additional emission related to such expansion.</li> <li>To ensure this remains the case over time, the company makes active efforts to optimise the carbon efficiency of its operations, based on best available technologies.</li> <li>It can clearly be evidenced that a large share of the lithium will be used for low carbon technologies.</li> </ul>
	<p>✓ C2: Risk of carbon lock-in</p> <ul style="list-style-type: none"> <li>Beyond ensuring no harm to local in environmental and social terms, the investment has a clear impact thesis on how it contributes to the socio-economic development at the level of the specific site where the project is implemented (via e.g. local employment and social infrastructure development) as well as at the level of the overall country economy.</li> </ul>	
	<p>✓ C3: Disclosure</p>	
	<ul style="list-style-type: none"> <li>The company discloses or is willing to disclose progress on its decarbonisation plan, in line with TCFD recommendations.</li> </ul>	



## 04

### Look ahead

Looking ahead, we hope this work can contribute to ongoing initiatives advocating for climate investments in Africa.

- We call on academics, researchers and FI sector groups to rapidly develop sector and country-specific decarbonisation pathways, which can be translated to technology-mix and financing pathways, to form the basis of a transition finance taxonomy.
- We call on other initiatives to develop formal taxonomies which build from these pathways and to use our framework and checklists as a practical input to their work. In particular, we welcome the formation of the GFANZ Africa Network and the start of South African National Treasury work on a Taxonomy.
- We call on project developers, FIs, and other relevant actors to enhance data collection, pooling, and sharing practices to enable better risk assessments, and to make this information available to others where possible.
- We call on other investors, including those based outside of Africa, and DFIs to scale their own transition finance commitments in emerging and developing economies, and to use our framework and checklists to inform their investment decisions.



We anticipate future work coming forward from the Glasgow Finance Alliance for Net Zero (GFANZ) to further define transition finance and provide guidance to FIs. We welcome the formation of the GFANZ Africa Network, which we hope can ensure this is translated in a way that supports the continent to transition. We invite GFANZ to make use of the transition finance investment theses, checklists and guidance on financing instruments as they develop their advocacy, capacity-building and future publications.



We welcome the work by the South African National Treasury to develop a formal taxonomy for transition finance, which can be used alongside its existing Green Finance Taxonomy. We invite the South African National Treasury to ensure this work is practical for the needs of financial institutions, and to use the investment theses, checklists and guidance outlined here as a reference point in doing so.

## Appendix 1: General guidance for checklists

### Investment Thesis A: Accelerating the transition in hard-to-abate sectors

In practice, compliance with all elements of the checklist can be challenging. For hard-to-abate sectors, a full, credible transition plan may be challenging given the strong dependency on external technological progress and the availability of sufficient baseline data. These limitations should not prevent the investment, but should be clearly identified and addressed, for instance via technical assistance support to enhance the transition plan and collect appropriate data.

Checklist	Core elements	External references and guidance (not exhaustive)
<p><b>A1. Evaluate the sector context and decarbonisation opportunity:</b> Assess technological challenge, test whether investment provides best available solution for real-world transition and quantify the decarbonisation opportunity.</p>	<ul style="list-style-type: none"> <li>Identify sectoral decarbonisation pathway.</li> <li>Identify technological roadmaps.</li> <li>Estimate expected reduction emission intensity.</li> <li>Assess current and future gap between the investment and the decarbonisation pathway.</li> </ul>	<ul style="list-style-type: none"> <li>To benchmark current and future companies' emissions intensities, and to understand the technological challenges hampering decarbonisation, sector-specific decarbonisation pathways and related scenarios are a key starting point. References with pathways that could be used include <a href="#">IEA</a>, <a href="#">IPCC</a>, <a href="#">SBTI</a>, <a href="#">TPI</a> and <a href="#">MPP</a>. Note: these are not yet developed for all countries and sectors.</li> </ul>
<p><b>A2. Ensure risk of carbon lock-in is avoided:</b> Ensure no significant harm is done by evaluating whether investment structure and choice of technology makes use of best available technology today and does not prevent further decarbonisation measures in future.</p>	<ul style="list-style-type: none"> <li>Evaluate capital and operational costs of introduced technology.</li> <li>Assess potential alternative uses for the asset under consideration now and in the future.</li> <li>Evaluate related cost of conversion/retrofitting.</li> </ul>	<ul style="list-style-type: none"> <li>The Department for International Development published a <a href="#">carbon lock-in toolkit</a>. This provides a framework for assessing the risk of carbon lock-in among developing countries.</li> </ul>
<p><b>A3. Assess the company transition plan:</b> Identify whether the counterparty has a transition plan in place which aligns as best as possible to Paris Goals, evaluate its quality using recognised assessment tools, and validate whether any use of offsets is credible.</p>	<ul style="list-style-type: none"> <li>Review company long, medium and short-term plan.</li> <li>Assess company decarbonisation strategy.</li> <li>Assess alignment of decarbonisation strategy with business plan.</li> <li>Assess company's climate-related governance.</li> </ul>	<ul style="list-style-type: none"> <li>The <a href="#">GFANZ guidance on real-economy transition plans</a> offers guidance on dimensions to assess transition plans via evaluation tools such as <a href="#">CA100+</a>, <a href="#">Transition Pathway Initiative</a>, and <a href="#">Assessing Low Carbon Transition</a>.</li> <li>The <a href="#">OECD Guidance on Transition Finance</a> provides ten criteria which credible transition plans should meet.</li> <li>The <a href="#">Transition Plan Taskforce</a>'s forthcoming sector-neutral framework will also set out expectations for key elements (in a UK context).</li> </ul>
<p><b>A4. Assess potential for the just transition:</b> Identify implications of the investment for social outcomes, such as explicit support for re-skilling or to the broader country's socio-economic development.</p>	<ul style="list-style-type: none"> <li>Identify material socio-economic risks, at the level of the company workforce, suppliers, customers and communities.</li> <li>Identify material socio-economic opportunities.</li> <li>Develop action plans to mitigate risks and harness opportunities.</li> </ul>	<ul style="list-style-type: none"> <li>If decarbonisation processes bring significant operational change within a company, social risks and opportunities need to be identified and acted upon. The <a href="#">Institute for Human Rights and Business</a>, <a href="#">ILO</a> and the <a href="#">Grantham Institute / London School of Economics</a> have developed guidance on integrating the just transition in investment processes.</li> <li>The South Africa Climate Finance Taxonomy sets out expectations for <a href="#">Minimum Social Safeguards</a>.</li> <li>More broadly, investments in hard-to-abate sectors can be crucial for a country's economic development. Frameworks detailing the concept of justice (e.g., <a href="#">Framework for a Just Transition in South Africa</a> by the Presidential Climate Commission) may serve as inspiration.</li> </ul>
<p><b>A5. Validate company disclosure:</b> Ensure the investment actively monitors and reports practices and performance on climate-related metrics.</p>	<ul style="list-style-type: none"> <li>Review company disclosure on governance, strategy, risk management, metrics and targets.</li> </ul>	<ul style="list-style-type: none"> <li>Guiding reference framework for climate-related company disclosure are the <a href="#">TCFD recommendations</a>.</li> <li>CDP disclosures and publicly available sustainability report can also be used as relevant sources.</li> </ul>

## Investment Thesis B: Enabling the transition in other sectors

Checklist	Core elements	External references and guidance (not exhaustive)
<p><b>B1. Size of the decarbonisation opportunity given country context:</b> Assess and, if possible, quantify and monitor over time how the investment supports real-world transition to net zero – for example, by displacing higher carbon power generation or grid improvement.</p>	<ul style="list-style-type: none"> <li>Identify sectoral decarbonisation pathway, preferred country-specific if available, and country NDCs and long-term decarbonisation plans.</li> <li>Assess whether the emission reduction would take place within the boundaries of the investment or more broadly at the country level.</li> </ul>	<ul style="list-style-type: none"> <li>To benchmark current and future companies' emission intensities, and understand the technological challenges hampering decarbonisation, sector specific decarbonisation pathways and related scenarios are a key starting point. References with pathways that could be used include <a href="#">IEA</a>, <a href="#">IPCC</a>, <a href="#">SBTI</a>, <a href="#">TPI</a> and <a href="#">MPP</a>. Note: these are not yet developed for all countries and sectors.</li> <li>To the extent possible, country-specific frameworks should be prioritised over international reference frameworks as challenges strongly differ on a country-by-country basis. Limited guidance exists specific to the African countries (e.g., <a href="#">NBI</a>, <a href="#">WEF</a>).</li> </ul>
<p><b>B2. Ensure risk of carbon lock-in is avoided:</b> Ensure no significant harm is done by evaluating whether investment structure and choice of technology makes use of best available technology today and does not prevent further decarbonisation measures in future.</p>	<ul style="list-style-type: none"> <li>Evaluate capex and opex of introduced technology, and conversion/retrofitting to future alternatives.</li> <li>Evaluate technical, economic or institutional factors if an asset will continue to operate in a way inconsistent with country/sector pathway and lower carbon alternatives exist.</li> </ul>	<ul style="list-style-type: none"> <li>The Department for International Development published a <a href="#">carbon lock-in toolkit</a>. This provides a framework for assessing the risk of carbon lock-in among developing countries.</li> <li>Within the specific context of gas investments, <a href="#">BI's Gas Guidance Note</a> sets out an assessment framework for how a project may be considered aligned or misaligned with Paris Agreement Goals in a given country context (e.g., look at expected lifetime, contractual arrangements, technical and commercial adaptability and readiness for low-carbon use, long-term emissions profile, market structures).</li> </ul>
<p><b>B3. Assess the company transition plan:</b> Identify whether the counterparty has a transition plan in place which aligns as best as possible to Paris Goals, evaluate its quality using recognised assessment tools, and validate whether any use of offsets is credible.</p>	<ul style="list-style-type: none"> <li>Review company long, medium and short-term plan.</li> <li>Assess company decarbonisation strategy.</li> <li>Assess alignment of decarbonisation strategy with business plan.</li> <li>Assess company's climate-related governance.</li> </ul>	<ul style="list-style-type: none"> <li>The <a href="#">GFANZ guidance on real-economy transition plans</a> offers guidance on dimensions to assess transition plans via evaluation tools such as <a href="#">CA100+</a>, <a href="#">Transition Pathway Initiative</a>, and <a href="#">Assessing Low Carbon Transition</a>.</li> <li>The <a href="#">OECD Guidance on Transition Finance</a> provides ten criteria which credible transition plans should meet.</li> <li>The <a href="#">Transition Plan Taskforce's</a> forthcoming sector-neutral framework will also set out expectations for key elements (in a UK context).</li> </ul>
<p><b>B4. Assess potential for the just transition:</b> Identify implications of the investment for social outcomes, such as explicit support for re-skilling or to the broader country's socio-economic development.</p>	<ul style="list-style-type: none"> <li>Identify material socio-economic risks, at the level of the company workforce, suppliers, customers and communities.</li> <li>Identify material socio-economic opportunities.</li> <li>Develop action plans to mitigate risks and harness opportunities.</li> </ul>	<ul style="list-style-type: none"> <li>If decarbonisation processes bring significant operational change within a company, social risks and opportunities need to be identified and acted upon. The <a href="#">Institute for Human Rights and Business</a>, <a href="#">ILO</a> and the <a href="#">Grantham Institute / London School of Economics</a> have developed guidance on integrating the just transition in investment processes.</li> <li>The South Africa Climate Finance Taxonomy sets out expectations for <a href="#">Minimum Social Safeguards</a>.</li> <li>More broadly, investments in hard-to-abate sectors can be crucial for a country's economic development. Frameworks detailing the concept of justice (e.g., <a href="#">Framework for a Just Transition in South Africa</a> by the Presidential Climate Commission) may serve as inspiration.</li> </ul>
<p><b>B5. Validate company disclosure:</b> Ensure the investment actively monitors and reports practices and performance on climate-related metrics.</p>	<ul style="list-style-type: none"> <li>Review company disclosure on governance, strategy, risk management, metrics and targets.</li> </ul>	<ul style="list-style-type: none"> <li>Guiding reference framework for climate-related company disclosure are the <a href="#">TCFD recommendations</a>.</li> <li>CDP disclosures and publicly available sustainability report can also be used as relevant sources.</li> </ul>

## Investment Thesis C: Increasing access to resources and other enabling inputs

Checklist	Core elements	External references and guidance (not exhaustive)
<p><b>C1. Validate no significant harm to affected communities:</b> Identify risks of the investment for local communities, validate local benefit and ensure that all reasonable safeguards have been taken to avoid adverse effects.</p>	<ul style="list-style-type: none"> <li>Ensure the company has standard systems in place to mitigate environmental and social risks (such as environmental and social assessment, stakeholder engagement, grievance mechanism, monitoring and reporting practices).</li> </ul>	<p><b>Note that given the significant social risks involved in extractive industries and reputational risks for FIs involved, we encourage setting a high bar when reviewing guidance and performing diligence here.</b></p> <ul style="list-style-type: none"> <li>For safeguards on project finance check for example <a href="#">Equator Principles</a> and <a href="#">IFC Performance Standards</a>.</li> <li>The South Africa Climate Finance Taxonomy sets out expectations for <a href="#">Minimum Social Safeguards</a>.</li> <li>Countries signed up to the <a href="#">Extractives Industry Transparency Initiative</a> have committed to strengthening transparency and accountability of their extractive sector management.</li> <li>Labour standards and rights should be in line with the <a href="#">ILO's Conventions and Recommendations</a>.</li> <li>Extractive industry activity should take place in line with the <a href="#">UNHCR's Guiding Principles on Business and Human Rights</a>.</li> </ul>
<p><b>C2. Ensure local economic contribution:</b> Identify risks of the investment for local communities, validate local benefit and ensure that all reasonable safeguards have been taken to avoid adverse effects.</p>	<ul style="list-style-type: none"> <li>Assess whether the company makes a significant contribution to local economic development.</li> </ul>	
<p><b>C3. Validate company disclosure:</b> Ensure the investment actively monitors and reports practices and performance on climate-related metrics.</p>	<ul style="list-style-type: none"> <li>Review company disclosure on governance, strategy, risk management, metrics and targets.</li> </ul>	<ul style="list-style-type: none"> <li>Guiding reference framework for climate-related company disclosure are the <a href="#">TCFD recommendations</a>.</li> <li>CDP disclosures and publicly available sustainability report can also be used as relevant sources.</li> </ul>
<p><b>C4. Validate the role of the resource in the global transition:</b> Assess how the investment will support the real-world transition to net zero, and ensure that greenfield activity is pursued only after reuse and recycling exhausted.</p>	<ul style="list-style-type: none"> <li>Assess the contribution of the specific resource to the global transition and evaluate the scale of the benefit for the transition (e.g., Scope 3) against its direct emissions (e.g., Scope 1-2)</li> <li>Validate whether other alternatives can be used, such as reused or recycled materials as a preference to new extraction.</li> </ul>	<ul style="list-style-type: none"> <li>Guidance on an 'inclusion list' of crucial sectors and minerals, and an exclusion list of minerals and resources that by definition are out of bounds for transition can be obtained from external sources such as the World Bank <a href="#">report</a> on The Growing Role of Minerals and Metals for a Low Carbon Future, or IRENA's <a href="#">technical paper</a>. Furthermore, the European Commission has developed a <a href="#">Raw Materials Information System</a> and several <a href="#">studies</a> to track different dimensions of which raw materials are critical to the energy transition.</li> </ul>

## Appendix 2

## Overview of existing transition finance frameworks and guidance

	What it is	High-level principles
OECD	Sets out elements of credible corporate climate transition plans, which aim to align with the temperature goal of the Paris Agreement.	<ul style="list-style-type: none"> <li>• Setting temperature goals, net-zero and interim targets.</li> <li>• Using sectoral pathways, technology roadmaps and taxonomy.</li> <li>• Measuring performance and progress through metrics and KPIs.</li> <li>• Providing clarity on use of carbon credits and offsets.</li> <li>• Setting out a strategy, actions, and implementation, including on preventing carbon-intensive lock-in.</li> <li>• Addressing adverse impacts through the DNSH Principle and due diligence for RBC.</li> <li>• Supporting a just transition.</li> <li>• Integrating with financial plans and internal coherence.</li> <li>• Ensuring sound governance and accountability.</li> <li>• Transparency and verification, labelling and certification.</li> </ul>
NZBA	A guide which aims to provide non-binding guidance and recommendations to financial institutions and the public sector on transition financing.	<ul style="list-style-type: none"> <li>• Clients must have a credible, feasible, and sufficiently ambitious transition plan (including ambitious targets and implementation strategy, net-zero-aligned KPIs to monitor progress, comprehensive and transparent disclosure, clear governance mechanisms and accountability processes).</li> <li>• Transition finance must meaningfully advance a client's net-zero journey.</li> </ul>
Climate Bonds Initiative	A starting point for the market to see a credible brown to green transition as ambitious, inclusive and aligned with the Paris Agreement, thereby avoiding greenwash.	<ul style="list-style-type: none"> <li>• In line with 1.5°C trajectory: All goals and pathways need to align with zero carbon by 2050 and nearly halving emissions by 2030.</li> <li>• Established by science: All goals and pathways must be led by scientific experts and be harmonised across countries.</li> <li>• Offsets don't count: Credible transition goals and pathways don't count offsets, but should count upstream Scope 3 emissions.</li> <li>• Technological viability trumps economic competitiveness: Pathways must include an assessment of current and expected technologies. Where a viable technology exists, even if relatively expensive, it should be used to determine the decarbonisation pathway for that economic activity.</li> <li>• Action not pledges: A credible transition is backed by operating metrics rather than a commitment/pledge to follow a transition pathway at some point in the future. In other words, this is NOT a transition to a transition.</li> </ul>

<b>ICMA</b>	<p>Provides guidance and common expectations to capital markets participants on the practices, actions and disclosures to be made available when raising funds in debt markets for climate transition-related purposes. Does not provide definitions or taxonomies of transition projects.</p>	<ul style="list-style-type: none"> <li>• Issuer's climate transition strategy and governance: The financing purpose should be to enable an issuer's climate change strategy. Such a strategy should aim to transform the business model in a way which effectively addresses climate-related risks and contributes to alignment with the goals of the Paris Agreement.</li> <li>• Business model environmental materiality: The planned climate transition trajectory should be relevant to the environmentally-material parts of the issuer's business model, considering potential future scenarios which may impact on current determinations concerning materiality.</li> <li>• Climate transition strategy to be 'science-based' including targets and pathways: An issuer's climate strategy should reference science-based targets and transition pathways. The planned transition trajectory should be measurable, aligned with science-based trajectories, publicly disclosed and supported by independent assurance or verification.</li> <li>• Implementation transparency: Market communication should also provide transparency to the extent practicable, of the underlying investment programme, including capital and operational expenditure.</li> </ul>
<b>Sustainable Market Initiative</b>	<p>Offers recommendations on key choices banks face when developing robust, methodologically sound strategies with positive climate impact.</p>	<ul style="list-style-type: none"> <li>• Commit to support clients in their net zero transition journeys.</li> <li>• Commitment to help achieve the greenhouse gas reductions required for Paris targets in both banks' operations and financing activities.</li> <li>• Ground actions in scientific pathways and the best available economic and technological knowledge of what it will take for the real economy to transition to net zero.</li> <li>• Aim for convergence among multiple pathways where it aids comparability and use judgement, and disclose the rationale for those judgements.</li> <li>• Seek to disclose with transparency, allowing stakeholders to understand and compare the impact of activities.</li> <li>• Will revisit choices in time.</li> </ul>
<b>Standard Chartered</b>	<p>Practitioner's tool for decision making.</p>	<ul style="list-style-type: none"> <li>• Be compatible with a 1.5°C trajectory, established by science.</li> <li>• Not hamper the development and deployment of low-carbon alternatives or lead to a lock-in of carbon-intensive assets.</li> <li>• Meet the minimum safeguards as defined in our Environmental and Social Risk Management Framework.</li> </ul>

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## A selection of key documents reviewed

- GFANZ (2022),  
Towards a Global Baseline for Net-zero Transition Planning
- GFANZ (2022),  
Recommendation and Guidance on Financial Institution Net-zero Transition Plans
- GFANZ (2022),  
The Managed Phaseout of High-emitting Assets
- NZBA (2022),  
[NZBA Transition Finance Guide](#)
- Climate Bond Initiative (2020),  
[Financing credible transitions](#)
- GFMA (2021),  
[Global guiding principles for developing climate finance taxonomies](#)
- ICMA (2020),  
[Climate Transition Finance Handbook](#)
- Sustainable Market Initiative (2021),  
[A practitioners' guide for banks](#)
- Climate Policy Initiative (2022),  
A rulebook for Coal Transition Mechanisms
- Climate Policy Initiative,  
Climate Finance Tracker
- National Business Initiative (2021),  
[Decarbonising South Africa's Power system](#)
- South Africa National Treasury (2022),  
[South African Green Finance Taxonomy](#)
- Presidential Climate Commissions (2022),  
[Just Transition Framework](#)
- Standard Chartered (2022),  
[Just in Time](#)
- Actis (2021),  
[Smart Olive Framework](#)
- First Rand (2021),  
[Climate-related Financial Disclosures](#)
- Africa Finance Corporation (2022),  
[Roadmap to Africa's COP: A Pragmatic Path to Net Zero Whitepaper](#)
- McKinsey (2021),  
[Green Africa – A Growth and resilience agenda for the continent](#)
- McKinsey (2021),  
[Africa's Green Manufacturing crossroads](#)
- BCG (2021),  
[Net-Zero South Africa – It all hinges on Renewables](#)

## Acknowledgements

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<sup>iii</sup> A larger group of attendees from other DFIs and commercial FIs joined a hybrid roundtable in October 2022 to review and provide feedback on a working version of the Practitioner's Guide



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