Summary of Climate Week NY workshop – September 25, 2024

Transition planning: Moving from principles to practice

As the global economy transitions to a just, low-emissions, climate-resilient and nature-positive future, every sector of the economy will need to transform. But systemic transformation – at the scale and pace required – won't simply "happen". It will require intervention from governments to manage the change, identify opportunities for catalytic intervention, and set incentives and constraints for private actors.

In turn, private sector actors will need to build robust and credible transition plans – moving beyond simply answering calls for disclosure. By setting a strategic vision and identifying capital needs, external factors, and dependencies, transition plans provide the roadmap to transformation at entity level and across the economy – while supporting resilient business models, inclusive growth, job creation and energy security.

On 25 September, during Climate Week NYC, Columbia Center on Sustainable Investment (CCSI), Centre for Economic Transition Expertise (CETEx; London School of Economics and Political Science), Climateworks Centre, World Benchmarking Alliance, and World Business Council for Sustainable Development brought a group of public and private sector practitioners together to join an interactive, workshop-style event to brainstorm around:

- The case for integrated transition planning across the ecosystem
- The need to leverage new approaches, frameworks, tools and metrics that can enhance the credibility of transition planning and transition plans across the economy, and accelerate progress

1. Opening presentations

To set the scene, the session opened with a series of presentations:

- Taking stock of developments in transition planning and transition plan disclosure in the corporate sector (with reference to the work of the Transition Plan Taskforce, which has now handed over its disclosure-specific materials to the IFRS Foundation; Ira Poensgen)
- Making the policy case for government leadership to steer a whole-of-system response to climate change and sustainable development through national transition planning (with reference to *Taking the Lead*, a policy report (and accompanying Handbook) which was launched by the Centre for Economic Transition Expertise, LSE, to coincide with the workshop; Mark Manning)
- Introducing work on assessing the credibility of transition plans (with reference to the framework and guidance developed by the ATP-Col – the Assessing Transition Plans Collective, convened by the World Benchmarking Alliance – which was also launched to coincide with the event)

Presentations attached.

2. Panel insights

Participants then heard from a panel (all acting in their individual capacity as independent experts) about the challenges of scaling up private finance and investment for sustainable development, covering perspectives from the financial sector, transition plan preparers, policymakers, and civil society. The panel comprised:

- Riona Bowhay, Senior Macro Stewardship Analyst, Aviva Investors,
- Stephanie Chow-Ashton, Managing Director, Transition Finance, GFANZ
- Harriet Cullum, Global Head of ESG Insights, Diageo

- Nicolas Pickard Garcia, Transition Plans Project Manager, EU Joint Research Centre
- Tom Wainwright, System Lead - Sustainable Corporates, Climateworks Centre

Panelists were asked what was working well and where more focus was needed.

Panelists discussed various recent progress reports which show both increasing momentum in adoption and disclosure of transition plans, and convergence of global standards on transition plan disclosure (particularly through the adoption of ISSB and TPT). Importantly for implementation, there is also an increasing understanding of the interaction between real economy and financial institution transition plans, partly because of the focus on transition finance and the data that can now be provided from transition plans to inform capital allocation decisions.

Insights and case studies were shared about the importance of developing localised pathways and considering the local context to make transition plans truly credible. Based on Climateworks Centre's decade of experience of developing country-specific pathways, the discussion highlighted the importance of 'fair share' when determining the appropriate pace of transition for regions with different resources and capacity, as well as the nuances of aligning corporate transition planning with national sectoral policy and how more granular country-level data can more readily inform entity or asset level decision-making. New work by the EU-JRC was introduced that factors in external dependencies, such as the availability of natural resources or enabling infrastructure in particular regions, to both inform corporate and national transition planning.

Given the uncertainty of climate and the need for greater business agility, it was observed that the finance sector relies on robust governance and controls, including accountability mechanisms, structures for delivery, as well as metrics and ongoing monitoring to measure progress. As plans change, transparency and timeliness in updating investors are important, and it is important to understand if this is due to controllable or non-controllable factors.

Some perspectives were also shared from capacity building and influencing work about the value of government engagement by finance and corporates to unblock barriers, particularly when done in a collaborative, constructive, and opportunity-focused way that creatively seeks to identify policy solutions as well as financial gaps. After all, blended finance can be even more effective when deployed alongside a wider suite of policy levers.

To help tilt the economics and provide clearer market signals and guidance for the private sector, all panelists agreed on the need for greater coordination of transition planning at a national level, in consultation with non-state actors, which helps bridge the gap between state, entity and asset-level planning, and provides clarity on how NDCs will be implemented. National transition planning provides clarity on a country's unique strategy and pathway, with associated investment needs and opportunities, allowing for the integration of economic growth considerations. Then real-economy companies can build net zero transition plans that line up with this and commit appropriate resources for execution, which also gives the finance sector a basis against which to track deployment and impact over time.

The session ended with a call to arms to adopt and scale the work of ATP-Col with stakeholders beyond just the attendees of this event, and a renewed focus on engagement and capacity building across key enabling sectors of the economy like finance and audit. This will help achieve what all panelists identified as important to support the different actors in the system to play their role, which is more decision-useful information.

References relevant to the panelists' remarks:

GFANZ: Technical note on the four key transition financing strategies and the Expected Emissions Reduction concept: https://assets.bbhub.io/company/sites/63/2023/11/Transition-Finance-and-Real-Economy Decarbonization-December-2023.pdf

GFANZ: Transition finance case studies: https://assets.bbhub.io/company/sites/63/2024/09/Case-Studies-on-Transition-Finance-and Decarbonization-Contribution-Methodologies-Sep-2024.pdf

EU Joint Research Centre 2024: Credible company transition plans for climate change mitigation: a geographical dependency assessment https://publications.jrc.ec.europa.eu/repository/handle/JRC139084

Climateworks Centre's 2023 Decarbonisation Scenarios: Australia can still meet the Paris Agreement https://www.climateworkscentre.org/resource/climateworks-centre-decarbonisation-scenarios-2023-australia-can-still-meet-the-paris-agreement/

Australian Climate Leaders Coalition: The Credible Transition to Net Zero Insights Report (2023) https://www.climateleaders.org.au/publications/credibletransition/

Breakout discussions

The second half of the workshop was devoted to interactive breakout discussions. Splitting into small groups, participants discussed three questions, with the objective of:

- Demonstrating what is already possible, inspiring and encouraging companies and financial institutions to "get started" with transition planning
- Exploring how we can build momentum behind national transition planning, driving actors across the ecosystem to use their agency to inform and support strategic and ambitious government action at the center of a system response
- Identifying priority areas for further work – to be taken forward jointly by governments, private sector actors, NGOs and academics – to build a vibrant ecosystem for whole-of-system transition planning

Takeaways

Discussion Question 1. Do we now have the core building blocks in place for companies and financial institutions to "get started" with transition planning? Can participants share examples of good practice to showcase what is achievable and to inspire and encourage others?

The first discussion question centered around whether the core building blocks are now in place for companies and financial institutions to "get started" with transition planning. Several groups recognised that many independent building blocks were now in place, but emphasised the need to build a "wrapper" around them to create a coherent narrative that might tie them together. Here, some groups identified a tension in crafting transition plans between the importance of ensuring plans leave companies the flexibility to adapt, while also not being so loose as to allow companies to not commit anything tangible. There was also a common view of the need for careful translation of these transition plan building blocks into emerging economies. Some mentioned the still-limited availability of sectoral transition plans anchored in regional contexts. Such regionally tailored plans would ideally provide detailed pathways, not only for abatement of GHG emissions, but also for technologies and necessary investments and policies.

Many of the discussions centered around issues of financial incentives and profitability, observing that the perceived "unprofitability" of accelerated climate action remained a blocker. Groups identified the need for legal and policy frameworks to support companies, shift the economics and create consistency across sectors. These frameworks must ensure that companies are not being asked to produce plans premised on unrealistic long-term targets, and are also not restricting ambition by enforcing outcomes rather than "best endeavors". These frameworks would also hopefully encourage collective action, which can help temper free-rider and first-mover disadvantage concerns.

This question also prompted discussions of how companies could be more targeted in their engagement activities by focusing on where they have strongest dependencies, and partnering with those that have the agency to address them, such as their value chain counterparts, policymakers, and industry peers.

It was, however, highlighted that companies could still be more proactive and creative in their business model solutions (e.g., productive processes, plant size, co-location solutions, efficient design) to help support accelerate transition. After all, the economic transition is about deep transformation.

Discussion Question 2. What can actors across the system do to encourage and support comprehensive, strategic national transition planning by governments - to make NDCs investible and to steer, incentivise, finance and support transition planning across the system?

Discussion groups examined this question at several levels. At the highest level, multiple groups discussed the importance of inter-governmental coordination in national transition planning. Scope 3 and value chains between countries must be included in transition plans, since net-zero is a global imperative. This is particularly salient with regard to dependencies across countries. These issues will require international governments to come together in international forums.

That said, groups generally agreed that the primary mover in this space remains national governments — as we cannot expect certain industries to put themselves out of business, nor can we expect all companies with transition plans to add up to a national or global transition. Instead, the national government must create the right policy and macroeconomic environment, but allow companies to be free to choose within that guiding environment. This enabling environment should include, for example, some sort of performance and accountability system, while also giving private actors room to be honest and transparent. Especially given the extensive external dependencies in transition plans, it must be "okay" to be wrong.

Policy support through measures such as the IRA were seen to be crucial, though striking the balance between carrots and sticks is important (i.e. removing fossil fuel subsidies). Other groups emphasized the need for clear policy aims *by sector* that are inclusive, objective, and evidence-based. As one group put it, credible national transition planning requires "political bravery and policy certainty." It also requires significant intra-governmental coordination between the numerous state agencies that all have impacts on the climate.

At the private sector level, groups discussed how private actors could pro-actively engage governments on identified policy, technology, and financial constraints to accelerate climate action. This could take the form of lending expertise to the government, designing structured, mission-oriented and trusted mechanisms for cross-system engagement, and calling out bad/conflicted actors that lobby against climate action.

Discussion Question 3. How can we build on the tools, frameworks and resources now in place to improve the credibility and effectiveness of transition planning across the system? What are the priority areas for future work?

Answers to this question varied the most between groups. Some took an overarching approach that emphasizes the need for a global, economy-wide transition. This makes it important to not create additional barriers to capital flowing to emerging markets, and to build on these tools to reduce systemic risks and ensure finance drives outcomes in the real economy.

Others emphasized that the new tools and frameworks must establish new connections across teams within organizations, (such as the risk management and front office teams of banks) as well as between organizations, to make sure the importance of transition plans is clear to all. Enriching the narrative on challenging aspects of transition planning was also highlighted as important, such as using the new tools to increase the acceptance of uncertainties in transition planning.

Another group mentioned the importance of making sure companies are aware of technical guidance available regarding transition plans, and the importance of demonstrating to companies that there is consensus around creating these plans so that they do not worry that they are the first mover. Multiple groups discussed the importance of making sense of credible information using these tools and frameworks, and the need for cost-effective access to data.

Some groups cautioned against the rapid expansion of some of these tools. Some argued that we are in a phase of over complexity with the sheer number of tools and frameworks, and that we need to move to harmonization. International standards can help.

3. Keynote: Charlotte Gardes Landolfini, IMF

Charlotte opened her remarks with the observation that the debate around transition planning has gained significant traction in recent years – from a policy standpoint, a technical standpoint, and in practice. However, fundamentally, capital is not yet aligned with net zero goals, and the continuing investment gap presents substantial environmental, humanitarian, socio-economic and financial stability risks. Capital must therefore be both reallocated and scaled, supporting mitigation, adaptation and climate-resilient growth in both advanced economies and emerging market and developing economies (EMDEs). Transition plans can help to underpin this.

Characterising transition plans as both a strategic tool and a transparency tool, Charlotte highlighted the value of transition plans to multiple users – for instance, as a tool for companies to transform their businesses, for financial institutions to manage risk while scaling finance for the transition, and for policymakers and supervisors. Appropriately analysed, transition plans can be used as a proxy for long-term risk, including both microprudential and macroprudential risks.

Turning to some specific focus areas for the IMF, Charlotte highlighted 3 points:

1. *Regulators and policymakers need to track transition finance flows to ensure they align with net zero goals – and thereby mitigate financial stability risks*. Transition plans are central to this, providing the evidence base for the credibility of transition finance and whether the funds raised will indeed be deployed in a manner consistent with net zero goals. As part of this, regulators can take steps to ensure that the climate information architecture integrates transition plans, transition taxonomies and decarbonisation pathways, disclosures and data.
2. *We need a constructive feedback loop between government, corporate and financial institutions' transition plans*. A clear policy roadmap from governments is critical – both domestically and regionally – to help give corporates and financial institutions the confidence to commit capital. This will entail a mix of macrostructural reforms, and both price-based and non-price-based policies. Importantly, policy must be coordinated across the whole of government, and informed by countries' NDCs, long-term strategies and sectoral decarbonisation targets.
3. *EMDEs cannot be left behind*. A third of the investment needed to meet net zero goals will need to flow to EMDEs. But today most of the tools and frameworks underpinning transition planning and transition finance are being developed by, and often for, countries in advanced economies. We need to tailor these tools and frameworks for the EMDE context, recognising their different starting points and circumstances. For instance, many of these economies are resource-rich and home to important carbon sinks.

4. Bringing it all together: An action plan

The discussions revealed five key priorities, on which the organisers propose to engage further with workshop participants and others in the community:

1. **A coherent "wrapper".** There is demand for a coherent narrative for the work that has been done to demonstrate how the pieces fit together and what credible and decision-useful plans across the system look like. Such a narrative could potentially be informed by the "whole-of-system" approach in *Taking the Lead*.
2. **Safe harbours.** In the evolution towards mandatory disclosure of transition plans, and recognising their forward-looking nature and the inevitable need to revise and adapt them, policymakers should be encouraged to provide 'safe harbours' in the event that targets are missed or planned actions are revised – as long as actions are genuine and can be demonstrated to align with the stated strategic ambition.
3. **Systemic oversight.** The international policy community could be encouraged to establish mechanisms for systemic oversight, with the aim of monitoring the global allocation of capital and resources to support the transition, and the alignment of global transition finance flows with net zero goals. The question remains as to which institution should take this role: could it be the IMF

or OECD, building on the IEA's energy systems data and linking with the FSB and others, or would it require a new international institution?

4. **Inclusive climate and transition finance**. An important element of (3), above, is to ensure that EMDEs are not "shut out" of international climate and transition finance. Locally tailored decarbonisation pathways, taxonomies and tools are imperative, such that EMDE sovereigns and corporates are not assessed against benchmarks that are inappropriate for their circumstances. Further work to identify and manage potential trade-offs and complementarities between different transition plan use cases – e.g., disclosure, market conduct/functioning, transition finance, and prudential – would also be beneficial – for instance, how to manage prudential risks while scaling transition finance to EMDEs.
5. **A constructive feedback loop**. To deliver on the promise of an integrated transition planning ecosystem, and to ensure that both public and private actors are responding to the right signals and incentives, structured mechanisms for healthy and pro-climate action public-private collaboration and data flow must be established as a priority. Deleterious lobbying should be called out consistently until its impact weakens significantly.

5. Acknowledgment and next steps

The organisers of the workshop are grateful to all of the speakers and facilitators for their invaluable contribution to the success of the event. We warmly thank all of the participants for their active participation in the workshop, both in person and online. The takeaways from this event will inform actions and research workstreams to support the work of the transition plans across the international community.

The ATP-Col group stayed on after the workshop to debrief and plan next steps for 2025. As part of wider international efforts, ATP-Col will support capacity building and the dissemination of good practice for transition plan credibility assessments, using ATP-Col guidance.