Executive summary

To achieve the Paris Agreement goals, all sectors of the global economy, and in particular hard-to-abate industries, must rapidly decarbonise. Recognising the contribution of finance to these goals, the Paris Agreement calls for "making finance flows consistent with a pathway towards low greenhouse gas (GHG) emissions and climate-resilient development". This has given rise to several tools and initiatives in sustainable finance, and more recently, in transition finance.

Transition finance focuses on the dynamic *process of becoming sustainable,* rather than providing a point-in-time assessment of what *is already sustainable*, to provide solutions for a whole-of-economy decarbonisation, and to decarbonise the most polluting and hard-to-abate industries today. While defining what is already sustainable has traditionally been the focus of sustainable finance initiatives, this approach is criticised by some corporates and financial market participants as being insufficient to facilitate the GHG emission reductions necessary to achieve the temperature goal of the Paris Agreement. Transition finance, on the other hand, can run the risk of sacrificing environmental integrity for inclusiveness, thus leading to greenwashing.

Based on existing initiatives and good practices, this Guidance proposes that transition finance must be grounded in credible corporate climate transition plans, in line with the temperature goal of the Paris Agreement, to be effective in mobilising investments for the net-zero transition and ensuring environmental integrity. Credible corporate climate transition plans are necessary to provide confidence to investors that corporates raising transition finance are on a credible path to net zero. This is reflected in the increasing focus on corporate transition planning as part of existing transition finance initiatives.

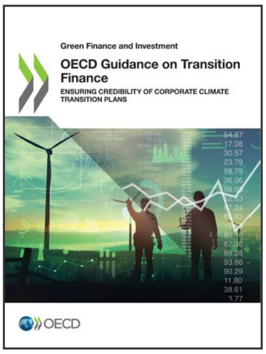
Existing frameworks on corporate climate transition plans share several common elements, which they cover with varying degrees of detail, prescriptiveness, and stringency, notably: setting of net-zero and interim targets, use of metrics and Key Performance Indicators (KPIs), use of carbon credits and offsets, internal coherence with a company's business plan, guidance on governance and accountability, as well as issues surrounding transparency and verification. The Guidance draws on these existing frameworks and initiatives when presenting elements of credible corporate climate transition plans.

Other important elements are not yet present or largely underdeveloped in existing approaches to corporate climate transition plans, such as: the consideration of non-climate-related sustainability impacts in transition planning; the use of specific sustainable finance tools like taxonomies as well as tools for Responsible Business Conduct (RBC) to inform transition planning; the inclusion of just transition aspects, additional mechanisms for preventing carbon-intensive lock-in; and tailored approaches for micro, small and medium-sized enterprises (MSMEs) and certain companies operating in emerging markets and developing economies (EMDEs). They may require more flexibility because they operate under challenging enabling conditions. The Guidance elaborates on these additional points when presenting elements of credible corporate transition plans.

The Guidance suggests that credible transition plans should integrate and make use of existing tools in the areas of sustainable and transition finance and responsible business conduct. The Guidance highlights areas where tools such as taxonomies, company-level metrics and targets, methodologies to assess climate alignment, sustainability reporting standards, and others can play an important role in increasing the credibility of corporate transition plans. Similarly, the Guidance proposes that the OECD Guidelines for Multinational Enterprises and associated Due Diligence Guidance for RBC can act as a useful anchoring framework to help corporates develop different elements of their transition plans, including with respect to the assessment of adverse climate impacts.

The Guidance recognises that credible corporate transition plans, as well as transition and sustainable finance tools more broadly, are only part of the solution to reach the temperature goal of the Paris Agreement. It outlines some of the key feasibility challenges, notably in emerging markets and developing economies, but also beyond, which have broader implications for policymakers and require the use of complementary tools, and the involvement of development finance actors (including concessional financing) to support necessary improvements in the applicable enabling conditions. The Guidance suggests country platforms as one important approach to coordinate government strategies, donors, development banks, and private investors to bring about the changes that are needed in the policy and institutional environment and spur investments in low-carbon technologies and projects.

The Guidance was reviewed by the OECD Environment Policy Committee (EPOC) and Working Party on Climate, Investment and Development (WPCID). It was shared with the Committee on Financial Markets (CMF) for information. The Guidance was also submitted as an input to the work of the G20 Sustainable Finance Working Group (SFWG), to support and inform the development of its Framework for Transition Finance. Considering expected ongoing evolution of best practices and views relating to transition finance, the Guidance is intended to be revisited, revised, and expanded based on subsequent work. Elements of the Guidance could also be reflected in future OECD work and instruments on responsible business conduct, as appropriate.



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