Common Statement on Transition Finance and Implications for Africa

We are committed to supporting Africa's just transition as part of a 1.5˚C-aligned pathway to net zero that delivers economic and social development

Ensuring consistency of financial flows with net zero emissions and climate resilient development pathways is a key goal of the Paris Agreement[i] reinforced in the Glasgow Climate Pact at COP26[ii] and is now backed by the pledges of financial institutions who are aligning portfolios worth $130tn with this ambition.[iii]

As financial institutions investing in the key developing markets of Africa, we have a responsibility to unlock capital for the continent's real-economy transition. We reiterate the urgency to increase public and private climate finance flows to Africa[iv], particularly in light of the continent's negligible contribution and disproportionate exposure to the adverse consequences of climate change.

We believe transition finance is critical to accelerate decarbonisation efforts in sectors which are key to economic development, including the hard-to-abate sectors, and to increase access to resources and other enabling inputs for the transition to net zero. Companies need to be able to access the long-term, patient capital that can help them transition to net zero in a 1.5˚C-aligned manner. By doing so, we can help Africa to reap the significant opportunities which the global transition to net zero provides, to deliver the Sustainable Development Goals (SDGs) and avoid locking in a high carbon development trajectory.

Financing the transition will require investing beyond low and zero emissions, into high impact companies where we can actively engage to enable their own transition. We recognise that these investments may add to our portfolios' carbon footprint in the short-term.

We see transition finance as a crucial tool to achieve this commitment

Though green finance is a relatively well understood concept, transition finance is in its nascent stages. Transition finance can be understood as a way of classifying and structuring financial support to activities which are part of the path to net zero, even if these have higher carbon emissions today. This includes dedicated and intentional financing of decarbonisation activities in entities that have or are intent on setting credible transition plans towards net zero. With the appropriate guardrails and guidelines in place, transition finance can help guide financial flows for real economy decarbonisation as part of a 1.5˚C-aligned net zero development pathway. This will be particularly important for financial institutions investing in the African continent[v] where current emissions levels are relatively low but significant finance is needed to decouple economic growth from increased emissions.

Unlocking transition finance at the scale required can be enabled by practical guidance for financial institutions in Africa

Deploying transition finance at scale requires overcoming several challenges that have not yet been resolved in the existing guidance, including the lack of a taxonomy to assess transition-aligned investments, of clear accounting guidance, and recommendations on how transition finance should be pursued by FIs as part of their own decarbonisation and transition strategies.

We welcome the fact that existing guidance has converged on principles for transition finance[vi] and, based on our collective experience, we call for transition finance to be deployed in line with three overarching principles:

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 & 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 & communities

We currently lack an internationally agreed taxonomy – today, only bespoke in-house[vii] tools are available and there will be a long timeline to develop an agreed, formal regulatory approach[viii]. This may prevent us from confidently deploying the financial solutions which are urgently required for the net zero transition to net zero.

Therefore, we propose a practical framework for transition finance. This includes: checks a financial institution can use to evaluate how a transaction aligns with the three overarching principles; recommendations for guidance to help financial institutions perform these checks, and an outline for how different investment structures and financing instruments can be deployed as transition finance.

Our aim is to provide a practitioners' view and input to existing processes to develop transition finance taxonomies and wider approaches which can ensure the consistency of financial flows with the goals of the Paris Agreement.

We collectively commit to:

- **Make financing decisions which support the needs of the real-economy transition in our markets** – and while in some cases this may lead to an increase in our absolute financed emissions over the next few years before reducing in line with our net zero targets, we will continue to prioritise the real-economy transition first and foremost
- **Use this framework and the supporting checklists as a reference point** to develop our own internal approaches to qualifying and deploying transition finance – whilst reflecting our own individual investment policies and exclusions
- **Increase the speed and scale at which we deploy climate and transition finance** and encourage others to do the same

- **Deploy transition finance credibly to affect significant change** in how to invest in higher emitting activities with clear climate impact intention in mind that needs to be evidenced, assessed and monitored

We call on:

- **Academics, researchers and financial 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
- **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
- **Project developers, financial institutions, 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
- **Other investors including those based outside of Africa and development finance institutions to scale their own transition finance commitments in emerging and developing economies** and to use our framework & checklists to inform their investment decisions

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[i] Paris Agreement Decision Text Article 2.1c
[ii] Glasgow Climate Pact – Section V
[iii] Glasgow Finance Alliance for Net Zero (2021), 'Our progress and plan towards a net-zero global economy'
[iv] Of the $250bn needed per year, just $21bn is being delivered, and only $9bn to the least developed markets. Source: Net Zero Financing Roadmap Vivid Economics; Climate Finance Tracker Climate Policy Initiative – annual average for 2019-2020
[v] Africa is particularly in need of more transition finance. South Africa alone will require $850bn in additional transition finance to 2060 to transition to net zero, alongside up to $300bn in Nigeria and $400bn in Kenya. Source: Standard Chartered 'Just in Time: Financing a Transition to Net Zero
[vi] Climate Bonds Initiative Whitepaper ICMA Climate Transition Finance Handbook, Sustainable Market Initiative – A practitioners' guide for banks, , Standard Chartered – Transition Finance Framework, OECD Guidance on Transition Finance
[vii] E.g. Standard Chartered, Actis
[viii] Work has begun towards a formal taxonomy by the South African National Treasury – but timelines are expected to be long