



# Transition finance in practice

Guidance for emerging markets



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## Guidance

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**Report leads:**

Ellen Brookes and Helena Holter,  
British International Investment

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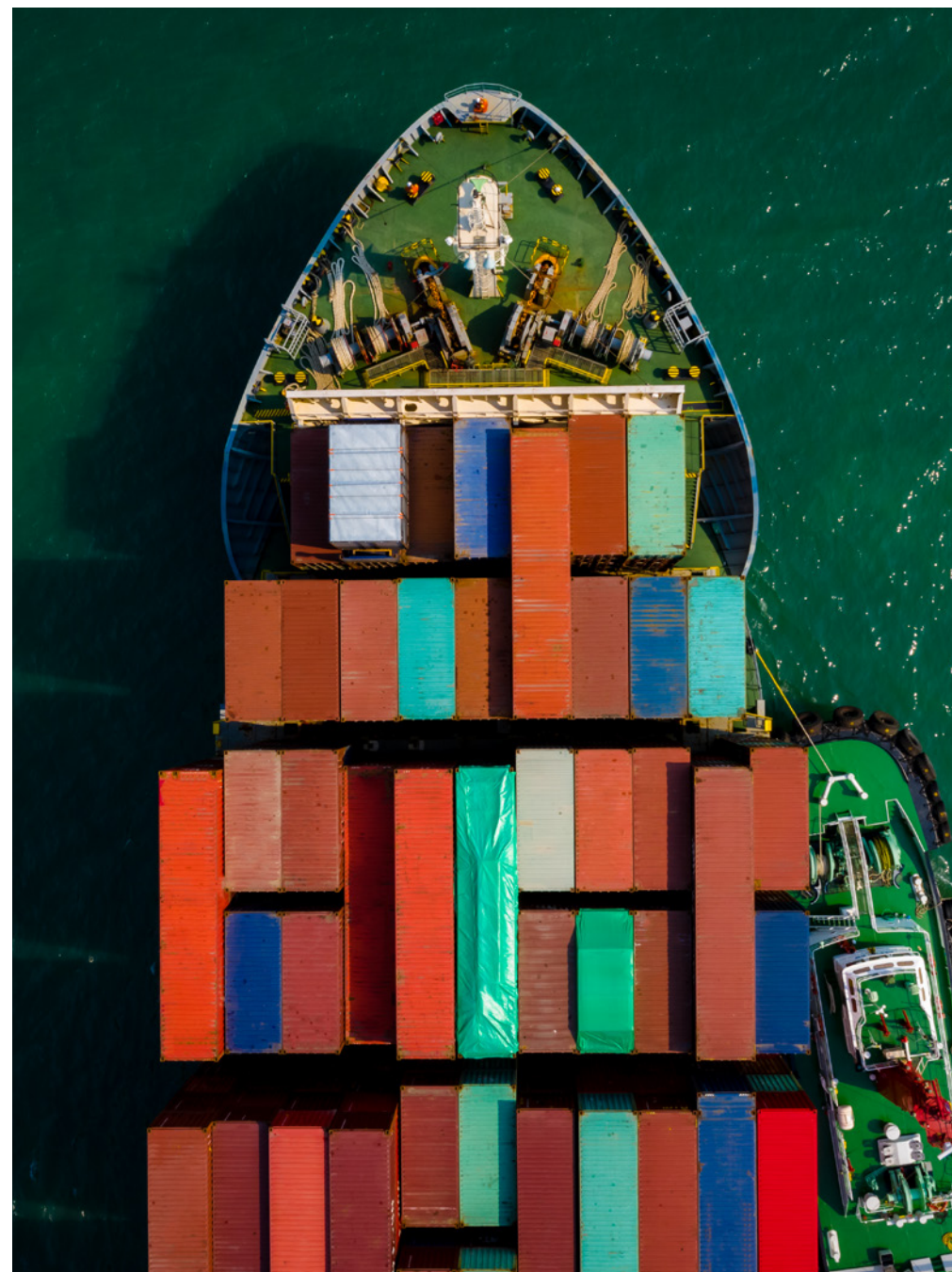
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## Foreword

The transition to net zero is reshaping every sector. Nowhere is that more evident than in the industries with the highest emissions today.

For emerging markets and developing economies, the challenge is particularly acute; these economies must continue to grow, create jobs and expand new industrial capacity in a way that responds to the climate crisis, as well as decarbonising existing systems. Doing so is critical to delivering both development and climate goals, and presents a significant opportunity for sustainable economic growth.

As development finance institutions (DFIs), we invest to support this transition, by working with companies and financial institutions to support a just and resilient path to net zero. In recent years, transition finance has emerged as a new area of sustainable finance. We are excited about its potential to accelerate climate action.

This paper sets out a practical approach to transition finance. It is grounded in existing frameworks and in our experience of investing in the real economy. We focus on how this approach can be applied in practice for companies in emerging markets and developing economies (EMDEs), recognising that opportunities and constraints can differ from those in more developed economies. By aligning with existing market-leading transition finance frameworks and private sector examples, we aim to support greater consistency between DFIs and private sector investors, and help mobilise private capital into this promising space.

We also outline how transition finance complements climate finance within our broader development finance toolkit, and how a similar approach may help us tackle related challenges, including nature loss, adaptation and resilience.

There is certainly more to learn, and we are at the beginning of our journey, but given the urgency of the climate crisis, it is important to act now. We see this guidance as a starting point that we will continue to develop as the market evolves and as we learn from experience. We hope it is useful, particularly to other investors focused on emerging markets, and we look forward to continuing the conversation.



Leslie Maasdorp  
Chief Executive Officer  
**BII**



Tellef Thorleifsson  
Chief Executive Officer  
**Norfund**



Françoise Lombard  
Chief Executive Officer  
**Proparco**

## What is transition finance?

Transition finance focuses on investing in the decarbonisation of companies in sectors that have high greenhouse gas (GHG) emissions today, qualified by their strategic intent and commitment to transition in line with the temperature goals outlined in the 2015 Paris Agreement. Transition finance complements climate finance to drive real-world climate action but, unlike climate finance, transition finance adopts a dynamic view rather than focusing on what is already 'green'. While crucial to accelerating the path to net zero, this approach carries an inherent risk of endorsing an activity as 'sustainable' finance, which is polluting today and ultimately does not transition to net-zero emissions as planned.

The key safeguard against this risk is to adopt a strong, market-recognised transition finance definition and investment structure which enforces credibility, accountability, and time-bound change at the entity level. For this reason, we have reviewed many of the leading transition finance definitions and guidance documents in the market to date (see the Annex for more details). Transition finance terminology differs, but there are emerging themes that set out the elements required to structure credible transition finance investments. These standards, as well as our previous work (such as [BII's 2022 report](#), which predates many of these publications but is built on the same principles), have helped shape our understanding of and approach to transition finance.

There is no universal consensus as to how to define transition finance activities. For the purposes of this report, and based on our review of the guidance available, we define transition finance as:

***“Financial solutions that support economy-wide transition towards lower and net-zero emissions, in alignment with the goals of the Paris Agreement. Transition finance supports ongoing decarbonisation – especially in hard-to-abate sectors – while avoiding long-term carbon lock-in and ensuring other environmental and social goals are not compromised. At the entity level, transition finance investments are anchored in transition plans which have clear interim targets, metrics and implementation actions consistent with their credible Paris-aligned pathway.”<sup>1</sup>***

The following sections lay out the key considerations for understanding transition finance, what the core elements are, and how we will apply them as DFIs. We also include case studies to demonstrate how we operationalise this approach in practice.

<sup>1</sup> We define a Paris-aligned pathway as one that supports the temperature goals of the Paris Agreement to hold the increase in the global average temperature to well below 2°C above pre-industrial levels and pursue efforts to limit the temperature increase to 1.5°C.

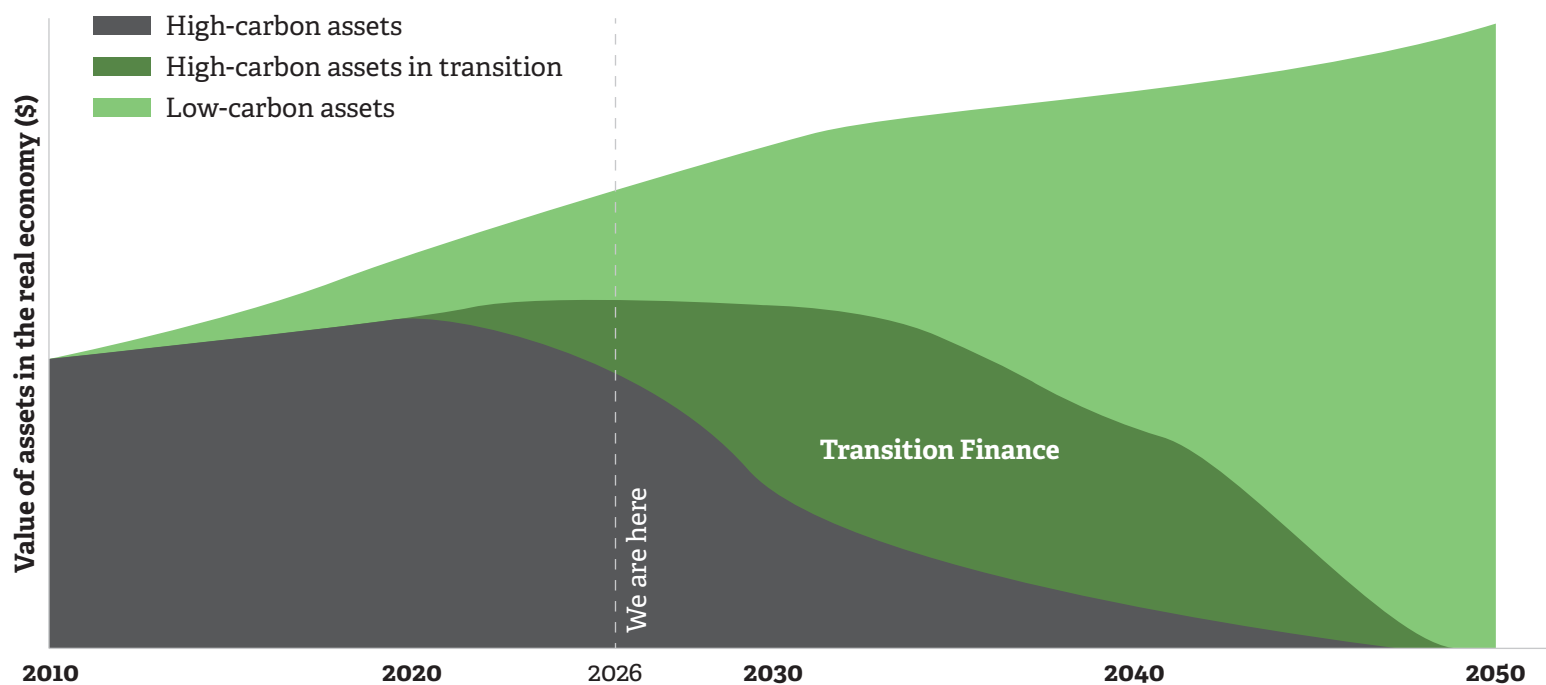


Transition finance can have two important benefits for investors on a journey to net-zero emissions.

**1. Create new investment opportunities:** Decarbonisation for real economy businesses often requires large capital expenditure (capex) interventions, which creates new investment opportunities. The benefits for high-emitting companies receiving transition finance for adopting cleaner production methods include lower energy or input costs, reduced transition risk, and the ability to sell into new climate-focused markets.

**2. Reduce the carbon intensity of their portfolio:** Financial institutions can use transition finance as a tool to support their customers to decarbonise and so bring down their portfolio's carbon intensity over time, although there may be short- to medium-term carbon intensity increases during the transition period. This tool benefits both parties' progress towards their own net-zero targets. For example, BII's recent [Pathways to Paris report](#) details the role transition finance can play in this journey to a net-zero-aligned portfolio, as demonstrated in Figure 1. Increasing transition finance is also a key pillar of Norfund's net-zero strategy and a core focus for Proparco too.

Figure 1: The role of transition finance in the path to net zero by 2050



## Understanding transition finance

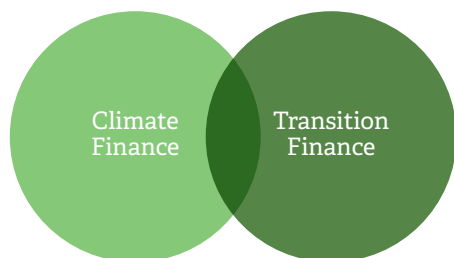
To inform our definition of transition finance, we address four key themes: (1) the distinction between transition and climate finance; (2) the eligibility of brownfield and greenfield investments for transition finance; (3) the difference between direct and intermediated transition finance investments; and (4) the need for system-level analysis.

### Transition finance vs climate finance

Climate-focused investors, including DFIs, are already investing in climate solutions at scale for financial returns and development impact outcomes. This raises two questions: what is the difference between climate and transition finance, and how can investors utilise both types of finance to accelerate the transition to net-zero economies?

We see transition finance and climate finance as complementary, with both essential for climate action.

**Figure 2:** The overlap of transition and climate finance under MDB and IDFC Methodology



We see potential for some of our investments to qualify as *both* climate and transition finance. For example, this may occur where the company operates in a high-emitting sector, but takes a loan with proceeds ringfenced to an activity included in the [Common Principles for Climate Mitigation Finance Tracking](#). This is a broad climate finance taxonomy designed for developing economies and includes a 'transitional category' applicable to some high emissive sectors, where significant emission reductions can be demonstrated by funding a specified use of proceeds.

We are aware that other investors see climate and transition finance as distinct categories, and we welcome further work and discussion with like-minded investors to explore this topic. While labelling is important, and further clarity will help to mature and catalyse transition finance as an investment approach, the most important consideration is to ensure these investments result in real-world climate impact.



## Comparing climate finance and transition finance

	Climate finance	Transition finance
<b>Definition</b>	Investment in projects or companies which have negative or very low emissions today, or support climate mitigation and resilience in a manner consistent with the temperature goals of the Paris Agreement.	Investment in entities that have high emissions today but a strategic ambition to transition towards a Paris-aligned trajectory over the course of the investment and have a future in a net-zero economy, without locking in high carbon emissions.
<b>Objective</b>	To scale existing climate solutions by avoiding, reducing or sequestering emissions, or improving resilience.	To support the entity to implement its transition strategy, particularly in hard-to-abate sectors, and contribute to economy-wide decarbonisation.
<b>Approach</b>	<p><b>Taxonomy based.</b> For climate mitigation finance, we follow the <a href="#">Common Principles for Climate Mitigation Finance Tracking</a> developed by the Joint Climate Finance Tracking Group of multilateral development banks (MDBs) and the International Development Finance Club (IDFC). Other bodies such as the European Union (EU) and Climate Bonds Initiative (CBI) have alternative taxonomies.</p> <p>Typically assessed at the point of commitment (static).</p>	<p><b>Principle based.</b> Assessment is based on expected decarbonisation, progress towards a Paris-aligned trajectory, credible targets and transition plans. Some Transition Finance Frameworks also include a list of eligible activities (see Annex), although that is not the approach taken here.</p> <p>Assessed on an ongoing basis by monitoring transition progress (dynamic).</p>
<b>Instruments</b>	<p><b>Use-of-proceeds instruments:</b> Proceeds are ringfenced for activities eligible for climate finance. These may include labelled instruments such as green bonds and green loans.</p> <p><b>General purpose finance:</b> Debt or equity to companies providing climate solutions based on an assessment of their activities or revenue streams vs a climate finance taxonomy.</p>	<p><b>Use-of-proceeds instruments:</b> Proceeds are ringfenced for activities eligible for transition finance. These may include labelled instruments such as transition bonds and transition loans.</p> <p><b>General purpose finance:</b> Transition-linked structures such as general-purpose equity or debt finance with transition key performance indicator (KPI)-linked investment structures.</p> <p>In addition, entity level transition financing is addressed by the draft <a href="#">Transition Finance Guidelines</a> published by the Transition Finance Council (TFC) in 2026. We see this as a welcome addition to extending the breadth of transition finance scope.</p>
<b>Examples</b>	Investments in renewable energy, zero-tailpipe-emission vehicles and climate-smart agriculture.	Investment in a company operating in a high-emitting sector, such as cement or agriculture, with a transition plan and a KPI-linked financing structure, where interest-rate reductions are tied to the company's interim decarbonisation targets.

## Greenfield vs brownfield investments

Transition finance guidance has often focussed on brownfield investments, for example retrofitting existing industrial equipment. In contrast to retrofitting, construction of new high-emissive assets increases atmospheric GHG emissions, even when built to the highest carbon efficiency standards.

We propose that such greenfield investments may also be eligible for transition finance if they demonstrate ongoing alignment with Paris pathways; however, typically they would face higher scrutiny to mitigate the significant risk of carbon 'lock-in'. This consideration is particularly relevant to the investment strategy of DFIs, given many EMDEs need to expand their industrial base, while decarbonising to meet their sustainable development goals.

Under our approach, eligible greenfield assets must be constructed to the highest feasible efficiency, avoid carbon lock-in,<sup>2</sup> and incorporate clear decarbonisation milestones into their transition plans to remain aligned throughout the lifetime of the investment. This may include:

- (a) *New assets* that are clearly embedded in a sectoral or regional Paris-aligned transition pathway. This category includes industrial processes designed as a stepping stone to the adoption of nascent technologies. For example, a direct reduced iron steelmaking plant that currently uses grey hydrogen produced from natural gas, with a plan to convert to green hydrogen when it becomes available.
- (b) *Transition-enabling activities*, which have higher emissions today but provide critical inputs to the transition in other sectors and can be decarbonised over time. Examples include infrastructure supporting lower-carbon fuels for long-distance transport and the development of carbon capture and storage (CCS) technologies.
- (c) *Financing for new entities* created for the purpose of retrofitting or decommissioning high-emissive assets, such as a fossil fuel power plant.

## Direct vs intermediated investments

Transition finance can be deployed through either direct or intermediated investments. Direct investments include a DFI investing directly in a transitioning company. Intermediated investments include lending to or investing in a financial institution or investing in a transition-focused fund. In these intermediated scenarios, we would expect the financial intermediary to have the intention and capacity to apply the same credible transition finance definition that we would use in a direct investment.

### System-level analysis

An understanding of the available sector and country-level decarbonisation plans and Nationally Determined Contributions (NDCs) can help investors assess whether an investment is genuinely contributing to a country's transition. This approach is particularly relevant when assessing transition finance in sectors where certain technologies must be phased out by 2050 to align with a 1.5° pathway, such as the fossil-fuel value chain, or when evaluating investments that support the decommissioning of existing infrastructure.

Many of the companies we seek to finance will not be able to achieve Paris-aligned emissions reductions on their own. Their progress may depend on the policy and regulatory environment, technological feasibility and the availability of clean technologies, and the decarbonisation of electricity grids. Investors therefore need to understand these dependencies so they can support their investee companies to implement transition plans in a way that is appropriate to their market context.

Looking beyond transition finance, a related concept for investors focused on systems-level change is *transformational finance*, as described in guidance from the UN Environment Programme Finance Initiative (UNEP FI). Transformational finance presents a systemic view that highlights the dependencies between companies, sectors, and markets. It goes beyond focusing on the project level to help shift entire systems and deliver lasting, economy-wide transformations aligned with national priorities and the Paris Agreement, for both decarbonisation and resilience<sup>3</sup>.

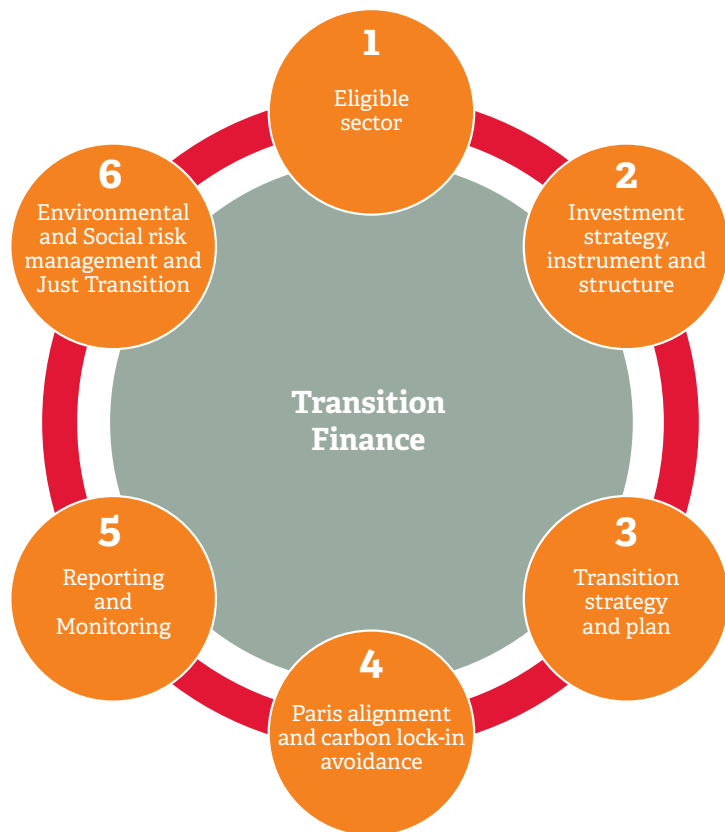
<sup>2</sup> Taken from the EBRD [Methodology to determine the Paris Agreement alignment of EBRD investments](#) 2024: "Carbon lock-in occurs when technical, economic or institutional factors mean an asset will continue to operate, even though there are economically preferable, lower-carbon options to replace it."

<sup>3</sup> UNEP FI, [Transformational Finance for Climate: A systemic approach to deliver Paris-aligned finance at scale](#) (2025)

## Summarising the transition finance guidance reviewed: key elements

In building our transition finance approach, we have reviewed a wide range of transition finance definitions and guidance documents (see Annex for more details).<sup>4</sup> Several common elements have emerged as core components of a credible transition finance investment. We view these as requirements for any investment seeking a transition finance label.

**Figure 3:** The key elements of a transition finance investment



<sup>4</sup> Our literature review is extensive but not comprehensive. We have focussed on market-leading institutions and definition-setters who have published relevant transition finance frameworks at the date of this publication but acknowledge that this analysis is not exhaustive.





Element	Description	Rationale
<p><b>1 Sectors</b></p>	<p>Entities with high emissions today, which can include:</p> <ol style="list-style-type: none"> <li><b>Hard-to-abate sectors</b> such as glass, cement, chemicals, pulp and paper, aluminium, iron and steel, heavy-duty trucking, shipping and aviation, and agriculture.</li> <li>Other sectors including <b>energy and energy-intensive sectors</b>, such as desalination and data centres.</li> <li><b>Sectors enabling the net zero transition</b>, for example, infrastructure for lower carbon fuels.</li> </ol>	<p>Transition finance can apply in any sector or entity which has a material emissions base.</p>
<p><b>2 Investment Strategy, Instruments &amp; Structure</b></p>	<p>The two types of eligible instrument are:</p> <ol style="list-style-type: none"> <li>Dedicated use-of-proceeds instruments such as transition loans</li> <li>KPI-linked instruments such as transition-linked loans<sup>5</sup></li> </ol> <p>(Expected in future) Entity-level general purpose transition finance.<sup>6</sup></p> <p><b>Investor-level governance:</b> Transition finance investors themselves should have strong internal governance, escalation and independent review mechanisms supporting their ongoing classification and monitoring of their transition finance portfolios.</p>	<p>Both instrument types can support an entity to transition meaningfully, either by financing transition activities such as fuel switching directly through use-of-proceeds funding, or by providing general-purpose capital linked to financial incentives or penalties based on the achievement of Paris-aligned GHG-reduction targets.</p>
<p><b>3 Transition Strategy and Plan</b></p>	<p>The borrower has produced, or is legally committed to producing and, ideally, disclosing within a reasonable timeframe, a transition strategy or plan aligned with the goals of the Paris Agreement.</p> <p>A transition plan set out in a single document and publicly disclosed is preferred but is not mandatory under many of the frameworks we reviewed.</p>	<p>A transition strategy is crucial because it articulates how decarbonisation is integrated into the entity's financial and strategic planning and related governance. Such a strategy includes Paris-aligned targets and KPIs, and is disclosed to the market for transparency and accountability. It should also include capital expenditure, asset development and business expansion decisions that are consistent with the entity's Paris-aligned targets.</p>

<sup>5</sup> For more information, please see the LMA's [Guide to Transition Loans \(2025\)](#).

<sup>6</sup> Subject to the TFC's guidelines on entity-level finance being finalised and any relevant other market standards or developments.



Element	Description	Rationale
<b>4 Paris Alignment &amp; high carbon 'lock in' avoidance</b>	<p>Investments should align, or show potential to align, with Paris-aligned decarbonisation pathways based on internationally recognised frameworks, such as 1.5° or well below 2°-aligned pathways from the Science Based Targets initiative (SBTi), the International Energy Agency (IEA), or others. High carbon lock-in risk should be assessed and avoided.</p> <p>Some of the frameworks reviewed discuss the flexibility that might be needed for EMDEs, such as longer decarbonisation timeframes, and use of proxy data where full data for a quantitative Paris-alignment assessment is not available.</p>	<p>Transition finance should not be issued to activities that merely improve energy or carbon efficiency, while remaining structurally misaligned to the goals of the Paris Agreement. For example, energy efficiency interventions in a new coal mine (where a Paris-aligned pathway excludes new extraction of fossil fuels) would not be eligible.</p> <p>Furthermore, transition finance is a temporary tool to drive decarbonisation on the journey to net zero by 2050. Eligibility of investments with the transition finance label requires regular review to assess for ongoing alignment. This approach is also fundamental to avoiding carbon lock-in.</p>
<b>5 Reporting and Monitoring</b>	<p>Transition finance requires ongoing reporting of emissions reductions achieved and progress against Paris-aligned targets, including interim targets and impact-linked KPIs.</p> <p>Second party opinions of both transition plans and ongoing reporting are encouraged.</p>	<p>Consistent reporting allows quantification and monitoring over time of how the investment supports a real-world transition to net zero. Validating decarbonisation achieved is important for demonstrating eligibility, credibility and impact, thereby creating financial value for the company.</p>
<b>6 Environmental and Social risk management and Just Transition</b>	<p>Companies and investors should manage material environmental and social risks associated with the transition and, where relevant, consider Just Transition impacts on workers and communities that are consistent with good industry practice.</p>	<p>There is consensus across the frameworks reviewed about the need for environmental and social risk management. In addition, some frameworks include Just Transition considerations, such as jobs created or lost, workforce skills that are required, and the impact of the energy transition on local communities.</p>

## Our approach to transition finance focused on EMDEs

The following section provides more detail on how we as a group of DFIs will implement transition finance in practice, particularly bearing in mind the EMDE market nuances such as differing data availability, policy and regulatory uncertainty, technology availability, capital constraints and skills and capacity gaps. Our approach is principle-based, not activity- or list-based, given there is not yet an equivalent to the MDB Common Principles for mitigation finance for transition finance.

Our approach is grounded in the available transition finance guidance summarised above and our practical, on-the-ground experience in EMDEs through our partnerships. One example is BII's work with FirstRand Bank Limited (FirstRand) in South Africa on the first Transition Finance Framework (TFF) issued by an African bank (see page 17 for more detail).

Our implementation approach reflects our role as DFIs investing in EMDEs to support sustainable development. Transition finance remains a newer area of sustainable finance, particularly in EMDEs, and we expect it to continue to evolve.

### 1 Sectors

Eligible activities fall into one of the high-emissive sectors laid out on page 11<sup>7</sup>. As part of our origination and due diligence processes, we assess whether the potential investee has high emissions at the start of the investment and can, at least for the length of the investment period, demonstrate significant decarbonisation potential. Our investments cannot be in a sector that is excluded by our respective fossil fuel policies.

### 2 Investment strategy, instruments and structure

**Investment strategy:** We assess eligibility for both direct and intermediated investments at the point of commitment and formally label qualifying investments as transition finance. We then reassess that designation through our regular impact assessment process, based on the reporting received.

Where we are investing in a labelled Transition Bond issued by a corporate or financial institution, we require them to publish a TFF based on market-leading standards such as ICMA's Climate Transition Bond Guidelines and to verify the framework's credibility through a second-party opinion.

**Instruments and structure:** We use either KPI-linked or use-of-proceeds instruments for our transition finance investments, and these must be accompanied by a transition strategy or a commitment to develop one and ideally disclosed as a formal 'transition plan'. General-purpose lending without a KPI-linked structure may be eligible in future. We await the TFC's guidance on this topic.

Investment structures include consequences if emissions targets or transition commitments are missed, such as interest rate increases, tranching of loans – so that subsequent tranches are only released once the first KPIs and interim targets are achieved – or triggering an event of default when targets are consistently missed. They can also include incentives such as interest-rate reductions when GHG-reduction targets are met.

We propose that equity investments can also be eligible for transition finance if they have a distinct use of proceeds or strong enough structural levers that can be linked to transition KPIs, such as management incentives based on achieving the transition strategy, preferential entry pricing, or increased profit participation. We suggest it is up to the investor to decide on a case-by-case basis whether an equity investment is eligible for transition finance based on the strength of the proposed structure.

### 3 Transition Strategy and Plans

We see transition strategic planning as essential to a credible transition finance investment and an integral process to set the company up for success in its transition. Transition planning is still relatively nascent and as DFIs we work closely with our investees on value-addition initiatives.

We would therefore consider labelling an investment that does not yet have a finished transition plan as transition finance provided the investee makes a legal commitment to develop a transition strategy in a reasonable timeframe following investment closing. Ideally, we would also like the entity to disclose its transition strategy as a transition plan in line with the [Transition Plan Taskforce guidance](#). An example of how we might incentivise this is through a KPI-linked structure where the disclosure or second-party review of a drafted transition plan is the first milestone.

More information on what we would like to see in a transition plan can be found on page 16.

<sup>7</sup> Not every investment we make in these sectors would meet the transition finance definition. Some will also have other impact lenses, such as climate, gender or inclusive finance.

#### 4 Paris alignment and 'lock-in' avoidance

**Paris alignment:** We assess each potential transition finance investment for Paris alignment and lock-in risk according to the approaches of each of our institutions at the entity level. This can be based on a transition risk and opportunity assessment and is likely to include:

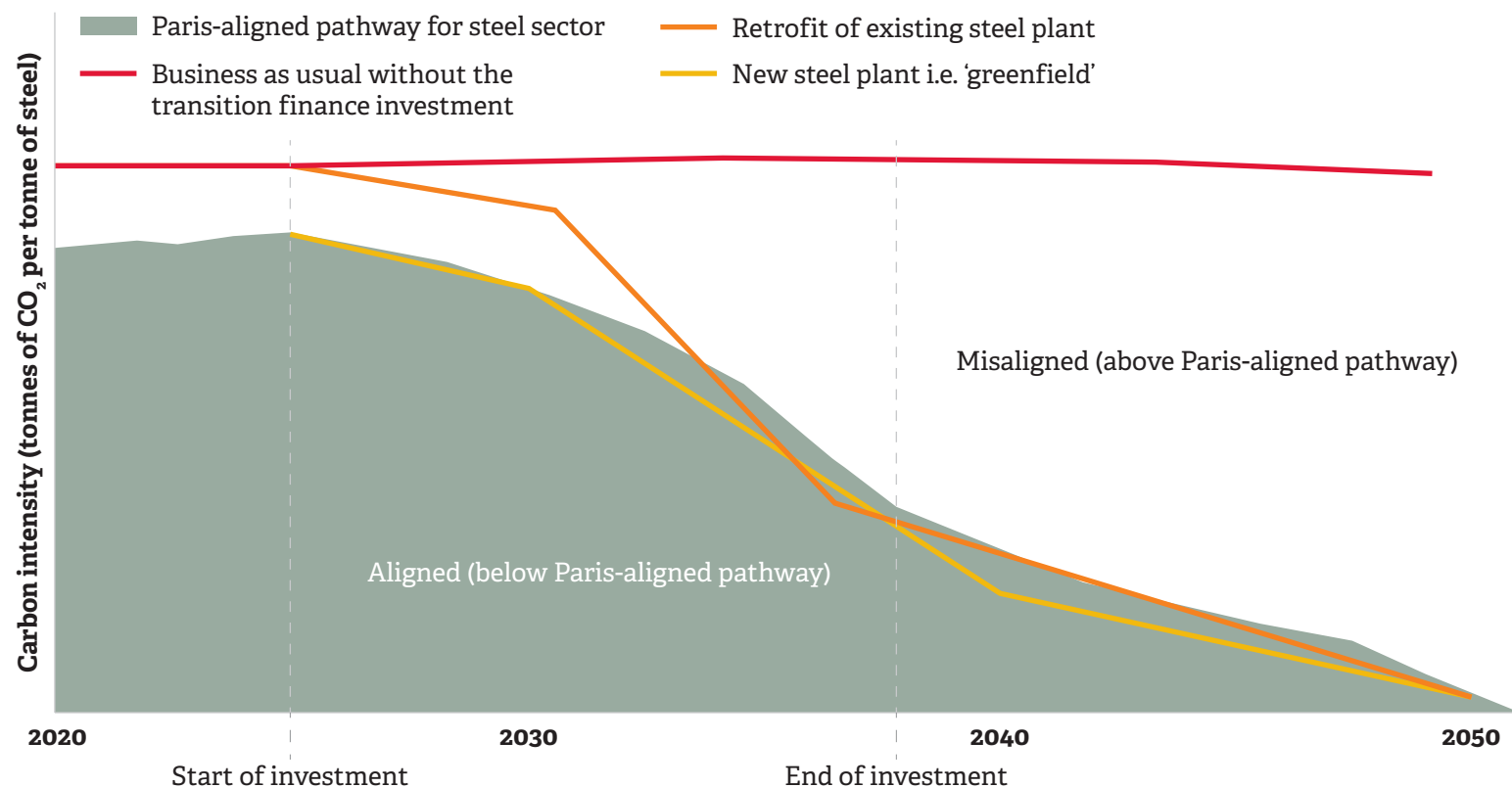
1. *Sectoral pathway alignment:* Comparison of the company trajectory with relevant science-based, Paris-aligned decarbonisation pathways, e.g. 1.5°- and well-below-2°-aligned pathways of SBTi, IEA, TPI etc., for that sector or region, and NDCs.
2. *Ambition and intentionality:* An assessment of the entity's transition strategy or plan and decarbonisation targets (if available) and/or climate and sustainability strategy.

For both use-of-proceeds and KPI-linked structures, we will assess how the proposed decarbonisation would enable the entity receiving transition finance to make progress towards its Paris-aligned decarbonisation pathway. An illustrative example of the kind of emissions trajectory and assessment we would conduct is below.

**Carbon lock-in:** An effective carbon lock-in assessment is often tailored to the investment context. It should assess if there are any technical, economic or institutional factors that mean an asset will continue to operate, even though there are economically preferable, lower-carbon options to replace it.

This consideration is particularly relevant for long-lived assets and infrastructure, such as financing new, more efficient, fossil-fuel energy sources in an existing manufacturing facility. If the proposed technology cannot plausibly exist in a net-zero scenario and lock-in risk cannot be avoided, then the investment would not be eligible.

Figure 4: Example Paris-alignment assessment of two fictional transition finance steel projects



## 5 Reporting and monitoring

Frequent and granular reporting and monitoring plays an essential role in credible transition finance. As DFIs, we receive regular impact reporting from our investees.

**Direct investment reporting**, such as lending to or investing in a corporate entity, would depend on the instrument.

*Reporting for KPI-linked instruments* would include, but not be limited to:

- At least annual and ongoing reporting on i) GHG reductions achieved, ii) performance against Paris-aligned GHG-reduction targets, and iii) other impact indicators as relevant to the sector; and
- Updates on their transition plan development and disclosure process, if the transition plan is not already finalised and disclosed.

*In addition, reporting for use-of-proceeds instruments* would include, but not be limited to:

- Details of the transition activities to which the transition loan proceeds have been allocated;
- Allocation reporting, for example, the total amount of proceeds dedicated to each activity; and
- The expected and, where feasible, achieved impact of each transition activity, including its contribution to the borrower's transition strategy and the volume of GHG emissions reduced or avoided.

**Indirect investment reporting** through a financial institution or fund would include, but not be limited to:<sup>8</sup>

- At least annual and ongoing reporting on: i) GHG reductions achieved; ii) performance against Paris-aligned GHG-reduction targets for each sub-borrower/investee; and iii) other sector-relevant impact indicators;
- Regular line-by-line reporting showing eligibility vs agreed criteria included in the TFF and loan agreement, for both pipeline and committed deals, including information about transition plan development; and
- Allocation reporting, including the total amount of proceeds committed and growth of the transition finance loan book over time.

In addition, any material updates or amendments to GHG-reduction targets or the transition plan should be reported. Investors must be made aware of any changes in the strategic direction of the company, such as rescinding net zero targets, which may then disqualify the investment as transition finance.

**Reviewing eligibility:** Reporting provides the basis of periodic reassessment of transition finance labelling for transactions. When emissions targets or transition commitments are missed, penalties included in the investment structure should be triggered.

**Verification of reporting:** For both types of investment, second-party opinions of transition plans and ongoing reporting are encouraged. Our teams will also engage with investees directly to build capacity on detailed GHG reporting and transition plan development where needed. This support is core to our role as development-finance-focused investors.

## 6 Environmental and social risk management and the Just Transition

**Environmental and social risk management:** We ensure all our investments meet Environmental, Social and Governance (ESG) standards, such as BII's [Policy on Responsible Investing](#), which is based on International Finance Corporation (IFC) Performance Standards. We expect our investees to implement and maintain a dynamic risk management system proportionate to their business activities, supported by our investment.

**Just Transition:** The Just Transition is a separate concept that may be applicable in the context of transition finance. It requires that no one is left behind in the transition to net zero and climate-resilient economies. In certain sectors and markets, the concept may be particularly relevant because of business changes articulated in the transition plan. These could include job creation, job losses or job transformation, changes in workforce responsibilities or skills required. Where applicable, strong transition planning will include consideration of the support that workers and communities require for a Just Transition. As part of our impact and ESG assessments we review the job creation and job quality opportunities and action planning required for each investment.

<sup>8</sup> See the ICMA Climate Transition Finance Handbook (2025) for more details on recommended disclosures for transition loans and transition-linked loans.

## Transition Plans

There are several widely used standards that define what constitutes a strong and credible transition plan, including the [Transition Plan Taskforce guidance](#), the [ISSB S2 disclosure guidance](#), and other market frameworks (see Annex).

Transition planning and net zero target setting is a journey. Achieving the goals of a transition plan depends not only on the actions of companies and investors, but also on broader market and regulatory developments. For companies in any market, transition planning requires leadership from the top of the organisation and coordination across many departments to ensure it is embedded in financial and strategic planning.

Companies in EMDEs may face constraints such as lack of data, policy and regulatory uncertainty, technology gaps, capital constraints and skills shortages. Therefore, in markets where the concept of transition planning is still nascent, DFIs can be most effective when they engage with companies early in the process and provide them with tailored support.

We are at an early stage of this journey and will continue to learn and collaborate on both transition finance and transition planning in ways that are effective and appropriate for companies in EMDEs. Where transition plan progress must be phased, we would work with investee companies to prioritise the essential elements within their transition strategy. These commitments could then be included in legal agreements and environmental and social action planning, supported where appropriate through technical assistance.

### Suggested minimum requirements where a full transition plan will be developed over time:<sup>9</sup>

Priority elements	What we look for when working with investees
1. <b>Strategic ambition</b>	The plan should demonstrate strategic ambition to be Paris-aligned and articulate how it supports a net zero, climate-resilient economy. It should consider the business model and value chain and articulate any assumptions or dependencies, for example on policy, technology or skills, where possible.
2. <b>Implementation strategy</b>	The practical operations and financial planning actions to be taken, with details on products and services where relevant and possible. Detailed capital expenditure plans and relevant technological and financial implications should be considered.
3. <b>Metrics and targets</b>	The plan should include metrics and targets that track delivery of the transition, particularly GHG-related metrics and how carbon credits will be used, that is, not as a substitute for abatement. Targets must be science based, Paris-aligned and country-context appropriate. Interim targets and KPIs are required for the lifetime of the investment.
4. <b>Governance</b>	The plan, particularly its decarbonisation levers, metrics and interim targets, must be integrated into corporate governance and business planning. Board oversight and senior management accountability are required, as well as an articulation of any skills, competencies and training necessary.

<sup>9</sup> This summary was based on a prioritisation of the [Transition Plan Taskforce guidance](#).

## Case Studies

### BII and FirstRand's \$150 million financing facility

In 2025, BII and FirstRand launched a \$150 million financing facility to accelerate transition finance projects across Africa. Through this partnership, BII provides both capital and technical assistance to deploy under FirstRand's TFF, as well as to grow its respective portfolio within its corporate and commercial banking arms, Rand Merchant Bank (RMB) and First National Bank.

This facility was the first of its kind launched by an African bank and was also the first TFF verified by a second-party opinion provider to be aligned to the recently published guidelines of the Loan Market Association (LMA) Transition Loan Task Force and the International Capital Market Association (ICMA) Climate Transition Finance Working Group. The facility follows the approach we have laid out in this document.

Element	Description
<b>Sectors</b>	<p>Eligible sectors include:</p> <ol style="list-style-type: none"> <li>1. Hard-to-abate sectors such as glass, cement, chemicals, pulp and paper, aluminium, iron and steel, heavy-duty trucking, shipping and aviation, and agriculture.</li> <li>2. Other sectors such as energy.</li> <li>3. Sectors enabling the net zero transition, such as critical minerals.</li> </ol>
<b>Investment strategy, instruments and structure</b>	<p>Transition finance is a useful tool to support implementation of <a href="#">FirstRand's climate change strategy</a>, which includes a goal of net zero emissions from its South African operations by 2030 and from financed emissions by 2050. The investment is aligned to <a href="#">First Rand's Transition Finance Framework</a>.</p> <ul style="list-style-type: none"> <li>• The two types of eligible instrument are transition loans and transition-linked loans.</li> <li>• FirstRand, with the support of the RMB Sustainable Finance Advisory, has strong review mechanisms enabling their ongoing classification and monitoring of their transition finance portfolio.</li> <li>• Moody's published a second party opinion – its first on a transition-labelled framework – which gave it a Sustainability Quality Score (SQS) of 'Good'.</li> </ul>
<b>Transition plans</b>	<p>As part of qualification, FirstRand identifies whether the counterparty has implemented, or is in the process of implementing, a credible and Paris-aligned transition strategy and plan. If support is needed, BII's technical assistance may be used to accelerate transition plan development, and the borrower will commit to producing and disclosing within a reasonable timeframe.</p>
<b>Paris alignment and high carbon lock-in avoidance</b>	<p>FirstRand's approach to Paris alignment and high carbon lock-in assessments is detailed in their <a href="#">Transition Finance Framework</a>. All financing under the BII facility adheres to UK government policy for financing fossil fuels overseas.</p>
<b>Reporting and monitoring</b>	<p>BII receives ongoing eligibility and allocation reporting, including on emissions reductions achieved, progress against transition actions and transition plan development, progress against Paris-aligned targets, and relevant impact indicators.</p>
<b>Environmental and social risk management</b>	<p>The bank uses an environmental and social risk assessment (ESRA) transactional due diligence process integrated into its credit risk governance process. The ESRA is aligned to internationally accepted best practices, including the UNEP FI, the Equator Principles (to which the group is a signatory) and others, such as the IFC Performance Standards on Environmental and Social Sustainability and World Bank Guidelines. More details are in <a href="#">FirstRand's Environmental and Social Risk Assessment Process 2025</a>.</p>

## Proparco's investment in a cement company (anon.)

This anonymised example provides an indicative application to a transition-linked loan for a manufacturing business in a hard-to-abate sector in Mexico.

Element	Description
<b>Sector</b>	Cement products (all types).
<b>Investment strategy, instruments &amp; structure</b>	<p>Transition finance is used to support the client's decarbonisation strategy while strengthening resilience in water-stressed operational areas. The financing takes the form of a ten-year sustainability-linked loan for a Mexican cement business, with the following KPIs:</p> <ol style="list-style-type: none"> <li><b>Global emissions factor of cement products</b> – two Sustainability Performance Targets (SPTs) (–5bps or +5bps if achieved; +25bps if not achieved).</li> <li><b>Freshwater usage per tonne of product in Mexican concrete operations</b> – two performance thresholds (–5bps and +5bps).</li> </ol> <p>Expected financial gains from achieving both –5bps targets are set aside upfront in a privately held reserve. Moody's provided a second party opinion that assigned an SQS2 'Very Good' sustainability score, indicating alignment with best practices and a significant contribution to sustainability.</p>
<b>Transition plans</b>	The client had already publicly disclosed SBTi Net Zero 2050 commitments, along with interim targets for 2030 covering both emissions reduction and water usage. As part of the loan qualification, KPI targets were extended to 2035, adding five additional years of ambition.
<b>Paris alignment &amp; high carbon 'lock-in' avoidance</b>	Both upper and lower SPTs are aligned with a well-below 2°C pathway, based on Moody's Implied Temperature Rise (ITR) model and IEA cement sector benchmarks (Scope 1 and 2). Failure to remain aligned with this pathway triggers a +25bps margin step-up.
<b>Reporting and monitoring</b>	Proparco receives ongoing reporting on eligibility and allocation, including emissions reductions linked to Paris alignment, progress on water resilience initiatives, and other relevant impact indicators.
<b>Environmental and social risk management</b>	The transaction included comprehensive environmental and social due diligence, supported by a Lenders' Environmental and Social Advisor. The process aligns with international best practices, including IFC Performance Standards and World Bank Guidelines. MSCI recently upgraded the client's ESG rating to AAA, placing it among the top <1 per cent of rated companies.



## Conclusion

Scaling transition finance is crucial for accelerating the transition to net zero and prosperous economies. As DFIs, we are committed to supporting this effort through partnering with others, with the goal of deploying capital where it can drive real economy decarbonisation.

Transition finance is an evolving field. As the market develops, the principles of a credible transition finance investment will also mature. We will continue to refine our approach as we learn more.

## Looking ahead

We look forward to working with partners as we expand our transition finance activities and continue to build our understanding of how these approaches can be applied in EMDEs. Areas for development include:

- Applying these principles to adaptation, resilience and nature-related outcomes.
- Translating guidance on credible transition plans into practical implementation.
- Investing in the technologies with the greatest potential impact for each sector, while encouraging technology transfer between markets.
- Structuring transition instruments with meaningful KPI incentives and penalties set at the right level.

- Using the DFI capital toolkit to mobilise private investors alongside climate finance.

We see an opportunity to apply the principles set out in this paper to other sustainability challenges too.

Companies in our markets face additional climate risks and dependencies, including physical risk and nature risk, which could be managed and financed in similar ways. Transition plans that integrate adaptation and nature-positive transition planning, or 'resilience finance' structures that include adaptation and resilience use-of-proceeds or KPI-linked structures, would be particularly appropriate in EMDEs that are highly vulnerable to climate change.

The need for climate action is increasingly urgent. Investors and companies must be bold and go beyond financing climate solutions alone. Therefore, we hugely welcome the ongoing work to develop market standards and popularise transition finance in EMDEs to accelerate decarbonisation and sustainable development together.



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## Annex

### Key documents reviewed

British International Investment (BII), [Transition Finance for Africa \(2022\)](#)

FirstRand, [Transition Finance Framework \(2025\)](#)

Proparco, [transition finance framework and related guidance](#)

ICMA, [Climate Transition Finance Handbook \(2025\)](#)

ICMA, [Climate Transition Bond Guidelines \(2025\)](#)

LMA, [Guide to Transition Loans \(2025\)](#)

UK TFC, [Draft Transition Finance Guidelines \(2025\)](#)

UK TFC, [Draft Transition Finance Guidelines \(2026\)](#)

IFRS Foundation, [TPT Disclosure Framework \(2023\)](#)

Barclays, [Transition Finance Framework \(2026\)](#)

CBI, [Climate Bonds Standard Version 4.0 \(2024\)](#)

EU Platform on Sustainable Finance, [SFDR Categorisation Proposal \(2024\)](#)

OECD, [Guidance on Transition Finance \(2022\)](#)

RMI, [Defining Transition Finance \(2021\)](#)

GFANZ, [Net-zero Transition Plans Guidance \(2022\)](#)

G20, [Transition Finance Framework \(2023\)](#)

### Further resources

CBI, [Financing Credible Transitions \(2020\)](#)

CBI, [Transition Finance Mapping \(2023\)](#)

CBI, [Guidance to Assess Transition Plans \(2023\)](#)

UK TFC, [Draft Implementation Handbook \(2025\)](#)

UK TFC, [Sector Transition Plans: The Finance Playbook](#)

IFRS Foundation, [Transition Planning in accordance with IFRS S2 \(2023\)](#)

NGFS, [Tailoring Transition Plans \(2024\)](#)

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### Authors

<b>Ellen Brookes</b>	British International Investment
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<b>Helena Holter</b>	British International Investment
----------------------	----------------------------------

### Contributors

<b>Fredrik Fogde</b>	Norfund
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<b>Salome Laviolette</b>	Proparco
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<b>Djedjiga Kachenoura</b>	Proparco
----------------------------	----------

### Reviewers

<b>Amal-Lee Amin</b>	British International Investment
----------------------	----------------------------------

<b>Nicola Mustetea</b>	British International Investment
------------------------	----------------------------------

<b>Dania Siddiqui</b>	British International Investment
-----------------------	----------------------------------

<b>Hannah Sibanda</b>	British International Investment
-----------------------	----------------------------------

<b>Radi Ivanova</b>	British International Investment
---------------------	----------------------------------

<b>Daniel Hanna</b>	Barclays
---------------------	----------

<b>Nicolo Ceruti</b>	International Finance Corporation
----------------------	-----------------------------------

<b>Lonwabo Mgoduso</b>	FirstRand Bank
------------------------	----------------

<b>Tshepo Ntsane</b>	FirstRand Bank
----------------------	----------------

<b>Jonathan Dul</b>	FMO
---------------------	-----

<b>Eric Kaleja</b>	DEG
--------------------	-----

<b>Adhiti Gupta</b>	FinDev Canada
---------------------	---------------

<b>Mirko Dal Maso</b>	Impact Fund Denmark
-----------------------	---------------------

<b>Martin Edthofer</b>	OeB
------------------------	-----

<b>Amanda Koppang Willfors</b>	Swedfund
--------------------------------	----------

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## For further information:

▶ **British International Investment plc:**

123 Victoria Street  
London SW1E 6DE  
United Kingdom

T: +44 (0)20 7963 4700

E: [enquiries@bii.co.uk](mailto:enquiries@bii.co.uk)

[bii.co.uk](http://bii.co.uk)

