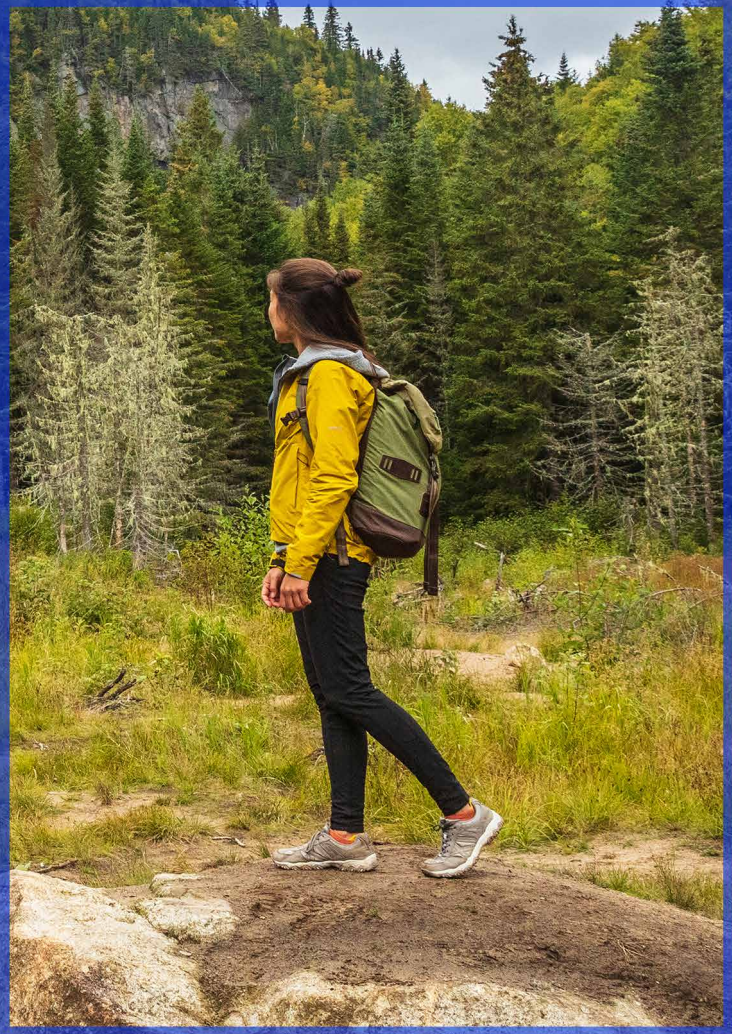
Using transition plans to unlock capital and capital to realize transition plans

Exploring the link between credible transition plans and finance.



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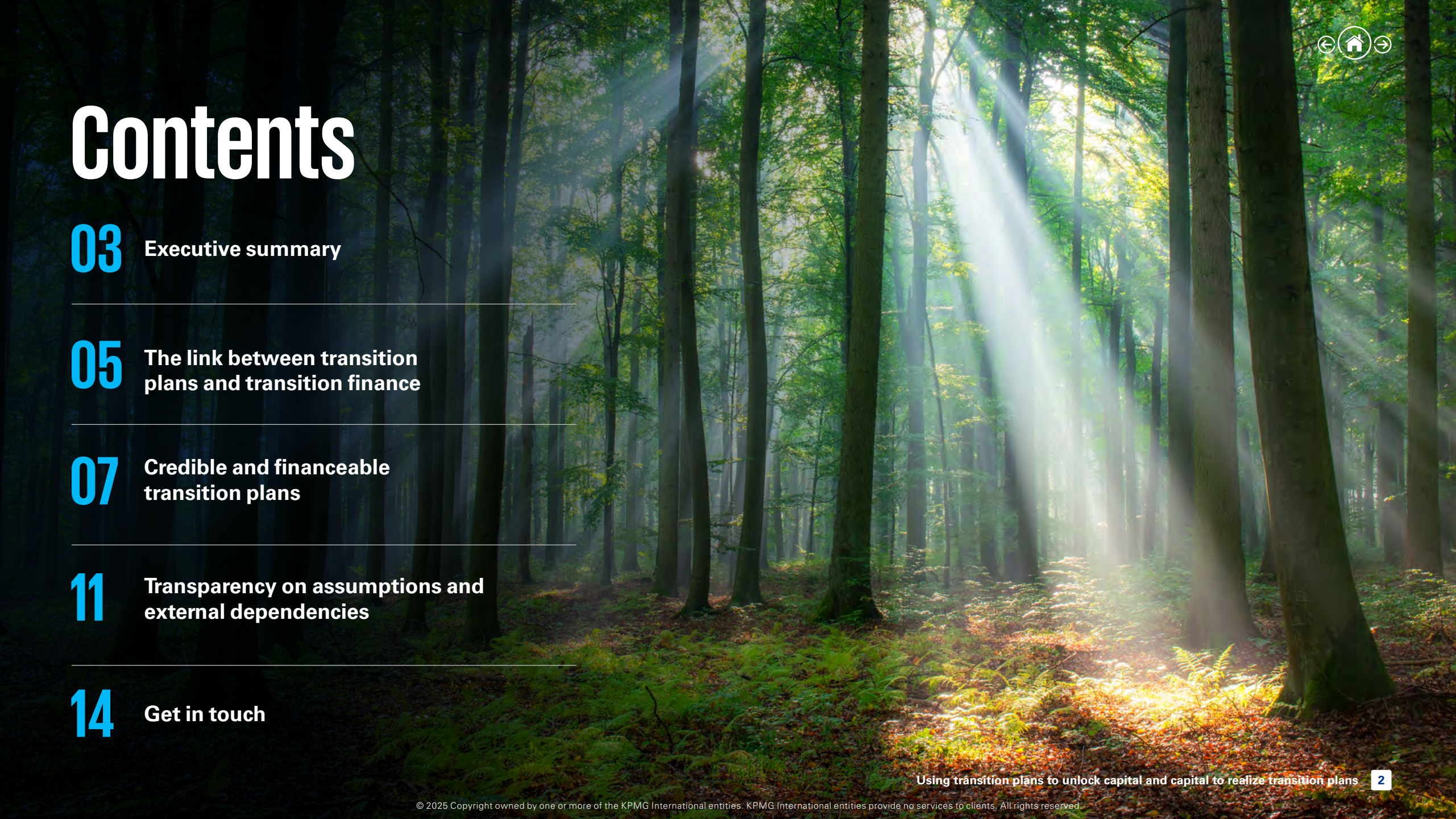
Contents



Executive summary

Achieving a net-zero economy requires not only scaling up of green finance, but also unlocking transition finance: capital directed towards decarbonizing high-emitting, hard-to-abate sectors. Yet, despite growing interest, significant two-way challenge persists:

For investors, these disclosures enable better portfolio alignment, targeted capital deployment, and sector-wide engagement.

For corporates, they unlock access to capital and signal their serious commitment in executing net-zero pathways.

Strengthening this link between credible plans and finance is key to accelerating real-economy decarbonization.

This paper explores three core questions:

01 What is the link between transition plans and transition finance?

02 What makes a transition plan both credible and financeable? With a focus on a vital but often overlooked component, being transparent disclosure of assumptions and external dependencies.

03 Why is disclosing assumptions and external dependencies not just a credibility check, but also a strategic signal to investors about where systemic bottlenecks lie?

01

The link between transition plans and transition finance

Why transition finance matters

Despite the rapid growth of green finance, which surpassed $1.5 trillion in 2023, there remains a chronic investment gap to achieve net-zero especially when it comes to high-impact sectors.[1] While investing in low- and zero-carbon sectors is crucial, it is imperative to also focus on supporting the climate journeys of carbon-intensive sectors. This is where transition finance comes in: the allocation of capital towards the decarbonization of high-emitting sectors such as heavy industries, energy, transport, agriculture and the built environment.

To date, finance has largely flowed into sectors like renewable energy and low-carbon transport, where technologies such as solar, wind, and electric vehicles have reached commercial maturity. Between 2018 and 2022, low-carbon transport alone received 25 percent of total climate mitigation finance.[2] Green finance has also typically targeted projects with well-defined investment boundaries and clearly attributable outcomes, such as energy efficiency retrofits or solar farms. These types of investments and assets support the finance providers in decarbonizing their own balance sheets, demonstrating their climate ambition to regulators and wider stakeholders.

In comparison, high-emitting sectors suffer from a persistent financing gap. For example, heavy industry, which accounts for nearly 30 percent of global emissions, received only 1.4 percent of mitigation finance between 2018 and 2022.[3] Yet a successful climate transition is not possible without the decarbonization of such sectors, which will require substantial amounts of capital. This capital will need to expand beyond project level financing, shifting from isolated decarbonization projects (e.g., installing onsite carbon capture technology) to enabling corporate-level transitions (e.g., supporting a cement company's pathway to net-zero, including a range of decarbonization initiatives). Holding high-emitting sectors on the balance sheets, with the possibility that they may not decarbonize in line with stated ambition, may pose significant value and reputational risk to finance providers, highlighting the importance of credibility in investment approaches.

To bridge the investment gap and deploy capital credibly, finance providers need confidence that the companies they support can transition to net-zero reliably and commercially. This is where a credible transition plan, with clear ambitions and actionable roadmap, serves a key role. It becomes the common ground for finance providers and receivers to meet. A rigorous assessment of investees' and borrowers' transition plans to net-zero can help finance providers allocate transition finance credibly, while also supporting their own climate commitments by decarbonizing their financed portfolios. In return, high-emitting companies can lay out their capital requirements and access capital needed to implement their transitions.

In the next section, we explore what makes a transition plan both credible and financeable, and why today's market conditions demand greater clarity and transparency on assumptions and external dependencies underpinning the transition plans.

A two-way challenge: financiers need confidence, companies need capital

This raises a key challenge, with two sides of the same coin:

Heavy industry, which accounts for nearly 30 percent of global emissions, received only **1.4 percent of mitigation finance** between 2018 and 2022.[3]

[1,2,3] https://www.climatepolicyinitiative.org/wp-content/uploads/2024/10/Global-Landscape-of-Climate-Finance-2024.pdf

02

Credible and financeable transition plans

Defining credible transition plans

A transition plan is a key aspect of an entity's overall strategy, outlining how it intends to manage its exposure to climate-related risks and opportunities. It lays out the entity's targets, actions or resources for its transition towards a lower-carbon economy, including actions such as reducing its greenhouse gas emissions.[4]

Climate transition plans are a way for finance providers to assess how aligned finance recipients are to net-zero and, by extension, how such investment support their own climate commitments. The financial sector faces increasing pressure to demonstrate it is setting and meeting its net-zero targets, and how their capital allocation supports the decarbonization of the real economy. In this context, transition plans serve as a vital tool for finance providers to evaluate the long-term viability and impact of entity-level transitions and can be incorporated as a key metric for financial due diligence. This raises the question: 'What makes a transition plan credible and reliable for decision-making?'

As transition plans become increasingly mandated by jurisdictions, such as the UK's Sustainability Reporting Standards (based on International Financial Reporting Standards S1 and S2) and the EU's Corporate Sustainability Reporting Directive, there is growing convergence around the key elements that contribute to a credible transition plan:

- Science-based, time-bound interim and long-term emissions targets to 2050
- Decarbonization levers within the entity's control, including quantified emissions reduction potential and clear implementation plan
- Decarbonization levers within the entity's influence, detailing the engagement channels used to drive change — including across its value chain, within its sector and the broader real economy
- Integration of climate ambition into financial plans, including OPEX, CAPEX and R&D
- Governance and accountability at both board- and management-levels
- **Transparency in disclosure of external dependencies and assumptions**

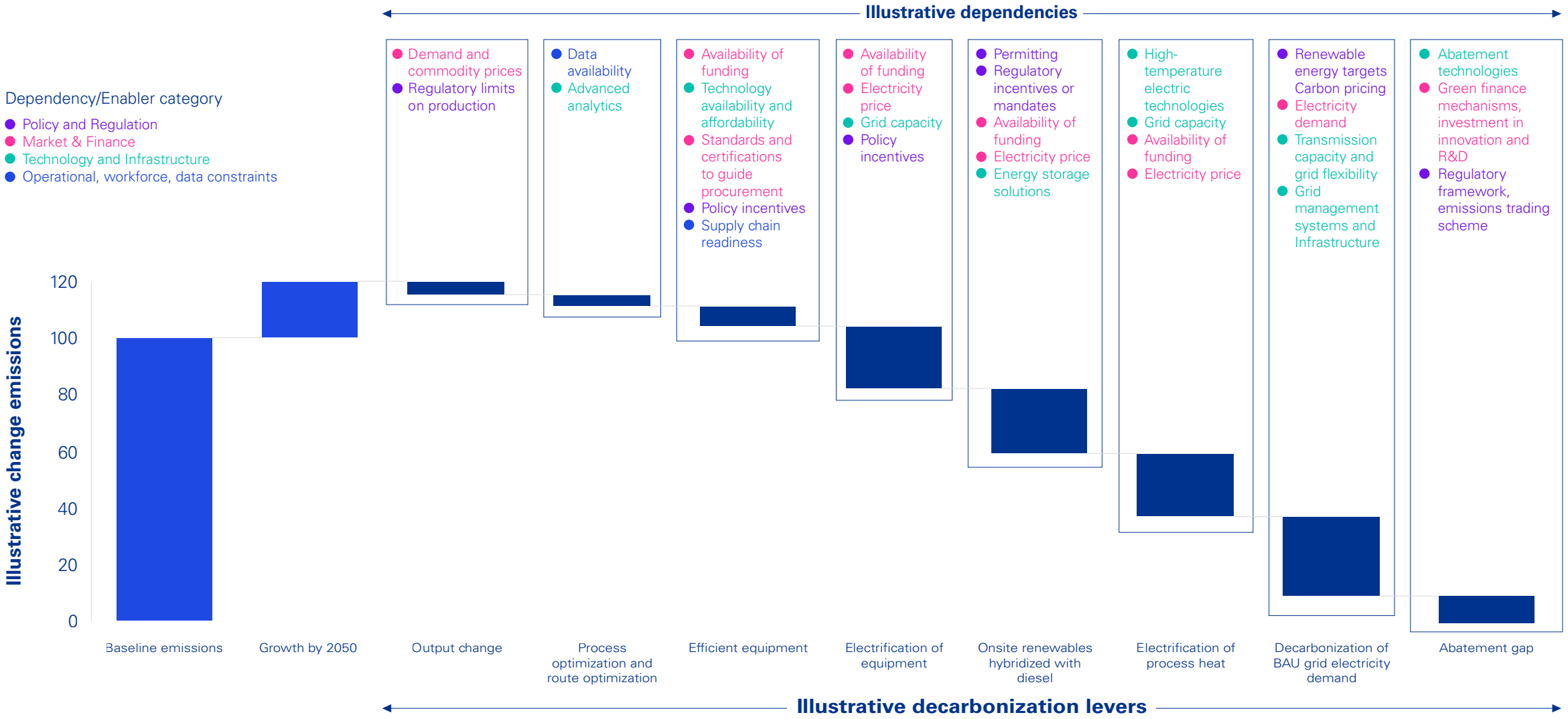
[4] https://www.ifrs.org/content/dam/ifrs/knowledge-hub/resources/tpt/disclosure-framework-oct-2023.pdf

[5] https://finance.ec.europa.eu/document/download/ec293327-af1d-432c-8523-cfe7eec8367e_en?filename=250123-building-trust-transition-report_en.pdf

Assumptions and external dependencies: a missing but vital component of credible transition plans

One of the most overlooked, yet critical, elements of transition plans is transparency on what lies beyond the organization's control. In recent years, as more companies have moved from setting targets to implementation, the practical challenges of transitioning to net-zero are becoming increasingly clear. Even the most ambitious plans and roadmaps face limitations, because companies cannot decarbonize in isolation. Across every sector, external factors such as policy developments, technological or commercial viability of climate solutions and enabling infrastructure, dictate the pace and feasibility of an organization's transition. Noting the limited control sphere of an organization to fully decarbonize, gold standard developers such as the UK Transition Plan Taskforce and the EU Platform on Sustainable finance agree that the disclosure of dependencies and assumptions is crucial to evaluating the credibility of transition plans.[5]

Dependencies identified in an illustrative pathway to net-zero mining and metals sector (KPMG analysis)



Credible and financial transition plans

Finance providers

Disclosing assumptions and dependencies as part of a climate transition plan is a key way for finance receivers to showcase a strong and evidence-based transition plan. Disclosing assumptions such as sector and geographical context of an organization's decarbonization pathway provides a level of granularity and detail that brings credibility and clarity for targets and actionable roadmap. Transparent disclosure of external dependencies typically demonstrates the organization's understanding of their influence and control sphere to develop action and engagement plans.

These disclosures are not just helpful for validating credibility and capital allocation, they are powerful strategic signals. They give finance providers a clearer picture of systemic gaps and opportunities. In the next section, we explore how investors can harness this insight to drive portfolio- and sector-wide impact to enable real economy decarbonization.

Finance providers

Simultaneously, a comprehensive transition plan, which discloses key assumptions and dependencies, clarifies risk exposure of an entity's decarbonization. It helps distinguish robust, realistic plans from vague and ambitious ones, reducing the perceived risk of greenwashing. Furthermore, it helps finance providers develop their narrative for funding high-emitting sectors or entities, setting out the real economy decarbonization impact of their capital allocation.

03

Transparency on assumptions and external dependencies

The limits of organization's control in decarbonization

While credible transition strategy with transparent disclosure on assumptions and external dependencies is the key enabler for finance to flow into high-emitting sector decarbonization, the advantage of this approach does not stop there.

Transparent disclosure of key decarbonization pathway assumptions and external dependencies allows the market to understand the core systemic bottlenecks in decarbonization, such as societies' and business models' dependencies on fossil fuels, high costs and limited maturity or availability of cross-cutting decarbonization technologies such as green hydrogen and carbon capture, workforce and skill gaps, and the lack of robust policy frameworks and regulatory incentives to drive the transition to net-zero. While these type of challenges are dependent on multiple market dynamics and are often not short-term fixes, they are the answer to real economy decarbonization.

To scale impact, both sides of the capital flow, finance providers and corporates, have clear roles to play. The following actions can help embed transition plans more deeply into decision-making and accelerate progress toward a decarbonized economy.

Across portfolio, sectors and geographies, investors are especially and uniquely placed to assess key areas of action resulting from dependencies identified by organizations they provide financing to. This also positions them to act on opportunities, enabling them to play a strategic role in accelerating transition pathways, which they can demonstrate and communicate effectively. Investors can:

- Identify and map out systemic bottlenecks (e.g. reliance on grid decarbonization, lack of low-carbon infrastructure, access to renewable energy)
- Support the harmonization of assumptions underpinning decarbonization pathways across sectors and geographies
- Track the pace of technological innovation and channel capital towards enabling technologies (e.g. battery storage, carbon capture and storage)
- Across geographies, observe how different policy frameworks affect corporate decarbonization strategies and engage with policymakers to build an enabling environment with targeted policy mechanisms
- Identify synergy areas in portfolio and supply chains, identifying cross-cutting and interdependent actions that, if addressed, could unlock decarbonization across the portfolio

Call to action:

Investors

To seize these opportunities and play a role in accelerating the transition, finance providers should develop their approach to assessing their portfolio's alignment to net-zero factoring in dependencies when evaluating the credibility of transition plans.

In addition to that, finance providers should develop new analytical lenses to support a comprehensive understanding of where their emissions are concentrated in the portfolio (e.g. at fund, manager, sector or geography levels), identifying where targeted actions and capital could drive the greatest impact. This may entail assessing current state of data availability and infrastructure, and further integrating climate risk insights into existing processes to support a robust, decision-useful data strategy. By doing so, investors can ensure they are supporting the broader climate transition as well as fulfilling their own climate commitments.

How targeted actions may lead to high impact across sectors

Sectors

Illustrative dependencies	Transport	Energy	Industry	Buildings
Upgrades to grid infrastructure	✓ For widespread EV charging	✓ To integrate renewable energy and ensure grid stability	✓ For electrification of industrial processes and machinery	✓ To support electrified heating and cooling systems such as heat pumps
Battery supply and capacity	✓ For EV production	✓ To store excess renewable energy and balance supply and demand	✓ To provide renewable electricity backups for power	
Green hydrogen availability	✓ For fuel heavy-duty vehicles and long-haul transport	✓ For decarbonization of power production via fuel cells	✓ To replace fossil fuels in high-temperature industrial processes and feedstock	
Charging infrastructure	✓ To scale EV production		✓ For electrification of logistics	

While a dependency may have limited impact on emissions reduction at the individual entity level, when aggregated at the portfolio level, it may play a key role in achieving substantial emissions reductions.

Key dependencies identified by a sector may end up benefitting many other entities in the portfolio.

Beyond capital allocation, investors can also contribute to the acceleration of the transition through active engagement. By convening industry actors across value chains, they can use their influence to share best practices, align efforts and enable collaboration.

Call to action:

Corporates

Corporates should aim to enhance the transparency of their disclosures, notably communicating on the priority external dependencies that may impact their decarbonization, and highlighting their engagement actions with the wider economy to solve these challenges. This includes quantifying the potential impact on their projected emissions reductions, reflecting consequences of carbon pricing $/ton CO_2 or grid decarbonization rates, or disclosing the calculated or estimated probability of this dependency not occurring. Providing this level of detail will help identify where targeted support is most needed from finance providers.

Get in touch

If you'd like to explore any of the topics covered in this guide, or discuss how KPMG can support your organization in developing a transition plan, assessing the credibility of others' plans, or conducting climate data analysis across your portfolio, please contact:

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