Guidelines for Developing a Credible Transition Plan

Practical step-by-step roadmap

Dear reader,

21st century has presented the humanity with a completely new type of challenge – the climate change.

Although climate change is not unique in the history of the Earth, it presents radically new challenges and threats in the modern world where in our everyday lives we all rely on thousands of technologies, functionality of built infrastructure, and wide availability of diverse resources.

That makes us ask – what can we do to mitigate these threats and better adjust to what is happening around us. The key answer is – minimise our own impact on climate change and adapt to the already occurring environmental transformation. That requires us being able to transition from current "business as usual" approach in our industries or individual companies to more sustainable and resilient business models.

That is what a transition plan is about.

Having a sound transition plan in place also plays an increasingly important role in financing decisions. Therefore we, the Lithuanian Banking Association consider it our responsibility to support you in this path and give you the necessary background and tools for you to be ready for any transition plan discussions with your financial counterparties – banks, investors, and others.

These guidelines are intended to provide you with an understanding what a credible transition plan should contain and how you can develop one in your business.

Sincerely,
Baltic banking associations

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Summary

These guidelines provide a practical, sequential method for building a credible transition plan. Regardless of the size of your company and experience with developing transition plans, these guidelines will give you clear instructions tailored to your experience and industry.

Developing a transition plan might help you to identify a new angle for your business strategy and operational decisions and be able to communicate efficiently with your external partners – key clients, financial institutions, sector peers, and others. As an increasing number of companies around the world define their climate targets and transition plans, having your own plan in place becomes a significant prerequisite for new business relations and partnerships. That includes large manufacturing chains, real estate developers, leading business centres, financial institutions, and investors. Through these guidelines, we want to support you in establishing and developing such business relations, thus contributing to your growth.

This document provides you with:

- **An overall explanation** of the transition plan essence and its use;
- **Maturity matrix** which you can use as a reference to identify your company's position in relation to climate change issues and the most relevant action items for your situation;
- **Detailed guidance** broken-down into four structured steps which help defining a credible transition plan;
- **Practical tools**, useful information sources, and basic templates for each of the steps.

Before deep-diving into this content, we want to remind you that the guidelines describe the desired approach to developing a credible transition plan, however, in practice you may adjust the scope and sequence of actions and apply a step-by-step approach according to your capabilities and ambition.

At the same time, in the end you should be able to answer these simple questions:

- What is your company's impact on climate?
- What climate risks do you encounter?
- What are you going to do about it and how (including timeframes, specific actions, and financing)?
- How will that improve your situation?
- How do you integrate these actions with your business strategy?

Let's find out how you can get to these answers!

What is a Transition Plan and why a company needs it?

A transition plan is a company's strategic roadmap for how it will align its business model with a low-carbon future. It sets out the decisions, investments, and operational changes needed to **reduce emissions** in line with global and EU climate goals and maintain long-term competitiveness. That requires understanding your company's current situation, defining relevant targets, and actively implementing them. Ideally, the targets should be science-based – i.e., aligned with the global **Paris Agreement** commitment to limit global temperature increase to well below 2°C and achieve **net zero emissions** by 2050. However, specific actions and approaches depend on the sector a company is operating in and its business model.

Companies need a transition plan because the global economy is committed to moving toward climate neutrality, and every business will be affected by that shift. By having a credible transition plan in place, you will be able to pursue:

1) Operational resilience – transition planning enables companies to identify climate risks and adapt business models, products, and processes to new market realities, energy prices, and technologies;

2) Access to finance – most banks and investors use transition plans to assess eligibility for green or sustainability-linked financing, determine client's exposure to climate risks, and to assess future sustainability of their own portfolios. Without a clear plan, companies may face higher borrowing costs or limited access to capital;

3) Competitiveness in the market – many large buyers and partners are demanding emissions data and reduction plans from their suppliers. By having a transition plan and implementing relevant actions, you will gain increased credibility and improve your competitive advantage in cooperation with such partners;

4) Compliance with regulatory expectations – under the EU Corporate Sustainability Reporting Directive (CSRD), certain companies must disclose how their strategy aligns with the transition to a sustainable, low-carbon economy. Supervisors, investors, and banks expect evidence that a company has a credible pathway consistent with the Paris Agreement. Even if your company is not subject to the CSRD, your partners and clients might be exposed to it and therefore require relevant information from you;

5) Improved reputation and stakeholder trust – a transparent plan shows accountability and foresight, improving trust among regulators, customers, employees, and a wider society.

A transition plan does not necessarily have to be a single document. It is a documented set of business choices which may be included in multiple other documents across the company – strategy, investment plan, supplier selection, risk management, and others. Those choices affect product or service design, investment priorities, supplier selection, and partnerships.

In short, a transition plan is the company's practical proof to multiple stakeholders that it can adapt, remain profitable, and create value in the low-carbon economy that the EU and global markets are already building. As such, it takes not only certain commitment and strategic approach but also engagement of a wide array of internal stakeholders – transition plan usually requires building a cross-functional group of experts within the company which may deal with the related issues. For example, it is a good idea to include at least business development, finance, procurement / sourcing, quality management, risk management, environmental / energy management, and technological experts in the transition plan working group.

Key steps for building a transition plan

The guidelines follow **four steps** described in Figure 1. Each of them contains multiple elements – you may use them to start from scratch or assess your current approach if you have already completed certain steps.

Figure 1. Key steps to build a credible transition plan

1

Establish the Baseline

- GHG emission accounting across relevant scopes
- Climate risk analysis
- Baseline setting
- Assessment of current actions and capabilities

2

Define the Direction

- Setting, preferably, science-based targets or at least sufficiently grounded targets
- Defining transition vision – a strategic pathway and key governance cornerstones

3

Translate Strategy into Action

- Key decarbonisation levers
- Financial feasibility and integration into investment plan
- Funding strategy
- Implementation roadmap

4

Monitor, Govern and Communicate Progress

- Specific KPIs
- Monitoring procedures and cycles
- Progress reporting and management review
- External communication on the company’s climate commitments

Step 1
Establish the Baseline – Understand your Emissions, Risks, and Capabilities

This step helps answering the questions “What is your company’s impact on climate?” and “What climate risks do you encounter?”. In the relevant section, you will find guidance on how to measure your company’s current GHG emissions across three scopes covered by the most widely used emission accounting framework – the GHG Protocol methodology. The result will help you calculate current emissions, identify key emission hotspots and set a clear baseline for future comparison.

In parallel, the section guides you through climate risk analysis – based on the provided information, you will be able to analyse key transition risks (policy and legal, technology, market, and reputational) and physical climate risks (heat, floods, storms and other hazards) which may affect your company. The proposed risk analysis is based on global, EU and national projections.

Finally, in this step you will also assess your company’s current capabilities, policies, data quality and internal readiness for governance of climate issues. This assessment will highlight evident gaps, help engage relevant internal stakeholders, and serve as the basis for the next steps.

Step 2
Define the Direction

This and the following steps help gradually getting the answers to questions on your plans to manage and transform the situation identified in the previous step. In the relevant section, you will find guidance on how to set emission reduction targets and how to understand if they are ambitious and credible enough. We suggest using the globally set science-based emission reduction pathways as a reference point. They include near-term (short- and medium-term) and/or long-term targets for absolute emissions and relevant intensity metrics. The EU and mostly national emission reduction pathways are also defined based on the global pathways and can be used to define your ambition.

Consequently, after setting the overall targets, the company defines a transition vision that explains how its business model, operations and product portfolio must evolve to meet these targets. At the same time, the company identifies key dependencies such as renewable electricity access, supplier and other stakeholder readiness and technology availability which may hinder achievement of the set targets or require their adjustment.

Ideally, climate ambition is integrated into corporate strategy, financial planning and governance. Thus, you will demonstrate to your key stakeholders that you really mean it and that the climate targets are not a separate domain. Once again, at this stage you will definitely need engagement of multiple internal stakeholders to contribute to this strategy.

Step 3
Translate Strategy into Action

Once you have defined the overall strategy of your transition journey, you will need to identify specific actions that help you implement it. Those are called decarbonisation levers – i.e., certain directions of combined actions that you take to implement the defined strategy. Those levers should be based on the emission hotspots you identified in Step 1. These may include energy efficiency, renewable and low carbon energy, logistics optimisation, raw material choices, supplier engagement and digital tools. To make an informed decision, these levers should be assessed for impact, cost and feasibility.

From cost perspective, the company may link each lever to financial planning by estimating CapEx, OpEx, cost per tonne of emissions avoided, payback period and long-term value. It further helps build a funding strategy using internal capital, external loans, grants or other instruments.

After identifying the key actions, the company develops an implementation roadmap that assigns responsibilities, defines projects, sets timelines and identifies resource needs. At this stage, the company also adds climate adaptation measures based on previously identified risks and opportunities, establishes systems for data, procurement and skills, and considers social and workforce impacts where relevant.

In practice, some companies may change the sequence of Steps 2 and 3 and start with identifying and assessing specific actions to further define their overall target. However, we do not advise doing that as such an approach poses a risk of defining low-ambition targets which do not encourage you for bolder action.

Step 4
Monitor, Govern and Communicate Progress

At this stage, you will need to define the process for keeping track of your actions and ensuring that the company moves towards the targets it has initially set. The company defines a focused set of KPIs to track emission trends, project progress and ensure financial alignment. It establishes monitoring cycles for the management to review progress regularly and take corrective action when needed.

Governance and accountability should be formalised to avoid unnoticed diversions from the set targets. Leadership roles are defined, and climate performance is integrated into decision making. The plan is updated when conditions change, but ambition should remain stable – you can switch from one type of decarbonisation lever to another or postpone some actions which require longer implementation or technology accessibility, but you should not change the overall targets unless there is a very strong basis for that. For example, major changes in your business scope or model may prompt changes to the transition plan too.

Considering that the transition plan and its implementation is significant both for internal operations and external stakeholders, at this stage you also communicate transparently and regularly to both stakeholder categories. The information on your transition plan and its implementation progress is preferably available in public domain – e.g., your website as some stakeholders tend to start their due diligence assessments with public information and largely rely on the information they can find there. If for some reason, the information is not public, it is available upon request to banks, cooperation partners, clients, etc.

In the next section you will see how actions described in each of the four steps can be implemented depending on the maturity level of your company. Use a reasonable step-by-step approach – do not try to aim for the most advanced level immediately, develop yourself gradually from one level to the next adding the missing elements on your way.

Company maturity and step-by-step approach to transition planning

The content of these guidelines is focused around four key steps and underlying actions listed in the previous sections which may be adjusted according to the specific company's maturity level. Ideally, a company should build a full science-based transition plan, but using a step-by-step approach is also acceptable – especially, if a company has not faced climate-related questions before.

Figure 2 provides descriptions of maturity levels the companies may have depending on their previous experience with climate-related topics. Have a look at them and see which level your company mostly represents. The matrix provides a general understanding and highlights key areas of a transition plan (interlinked with the four steps for building a credible transition plan). Note that your company may find itself in between two levels if it has, for example, calculated its carbon footprint but has not assessed its climate risks yet.

Further, in Table 1 you will see more specific maturity-adjusted actions a company may take depending on its readiness level, existing capabilities and ambition.

Considering that a company may fall, for example, into Level 3 for emission calculation, Level 2 for target setting, and Level 1 for climate risk assessment (or any other combination of maturity levels), in Table 1 we have split the four steps for transition plan development in more detailed actions and outlined gradual implementation of each of these actions. Take a look and assess how you would like to move forward in your company. Remember that you can always move another step forward – even when you have built the first version of your transition plan.

Figure 2. Company maturity levels

Level 1

- The company has no emissions calculation, no transition plan and no climate risk assessment yet.
- Climate actions are disconnected from the business if present at all.
- There is no structured data, no targets and no processes for climate-related actions.
- Most elements across Steps 1 to 4 covered by these guidelines are not present.

Level 2

- The company calculates emissions but does not have a transition plan or only has partial elements of it in place and/or does not have a climate risk assessment.
- Certain data exists and some initiatives are in place, but there is no strategic direction or long-term roadmap.
- Multiple elements listed across Steps 1-4 are partly present or inconsistently present.

Level 3

- The company has a transition plan and is now focused on improving it.
- The plan is often high level and needs refinement and stronger alignment with science, national targets, financial requirements and/or sectoral pathways.
- Most elements listed across Step 1-4 are present but incomplete or not fully embedded in strategy and operations of the company.

Table 1. Transition plan development – maturity-adjusted

Activity	Level 1	Level 2	Level 3
STEP 1			
Establish your carbon footprint (GHG accounting)	Start with calculating Scope 1 and 2 emissions. Refer to Scope 1 and 2 calculations section for more guidance on scopes and their calculation approaches. Use publicly available tools, such as the GHG calculator available on the website of the Lithuanian Banking Association.	Improve accuracy for Scope 1 and 2 calculations. Add relevant Scope 3 categories. Refer to section Scope 3 categories and considerations section and Annex A: General considerations on Scope 3 categories for more guidance.	Improve the accuracy for all three scopes. Ensure that the calculations are suitable for external review, potentially – verification. Refer to section 1.1.4 Do you have to externally verify the calculations? and further sections for more guidance.
Define baseline	Choose the first GHG accounting year as the initial baseline (i.e. against which you will measure any progress). Include Scope 1 and 2 emissions.	Update the baseline (the last year for which you have conducted full emission inventory) and add Scope 3 if relevant and achievable.	Define one baseline for all three scopes and validate it against the sectoral or national targets. Update the baseline every five years.
Identify and assess climate risks which may affect your business	Review the national climate-related legislation and identify key obligations and related risks stemming from them and potentially affecting your business (transition risks). Refer to Identify climate risks and opportunities section for more guidance. Review the national climate projections (refer to Annex B – Climate projections for the Baltics) and identify key weather-related future risks which may affect your business (physical risks). Refer to Climate projections for Baltics section for more guidance.	Review the existing risks in your risk management system to identify climate risks already indicated there. Review for any gaps and map the potential risks based on their probability and your vulnerability towards them and identify which are the most significant risks for you. Identify activities you can take to mitigate the risks and prevent your losses if those risks occur.	Do a thorough climate risk analysis, assess "value at risk", plan short-, medium- and long-term adaptation measures. Include climate risk in your business risk management framework, investment planning, and financing strategies.

STEP 2			
Set your climate targets	Set Scope 1 and 2 reduction targets in absolute numbers (each scope separately) for the nearest 5 years. Refer to Decide on an ambition level (trajectory) and set targets section for more guidance. NB! Preferably, targets should be set to achieve net zero by 2050*. However, if you cannot do that – start with a lower ambition but move for reduction.	Add Scope 3 targets where relevant and you can have an impact. Refer to Decide on an ambition level (trajectory) and set targets section for more guidance. NB! Preferably, targets should be set to achieve net zero by 2050*. However, if you cannot do that – start with a lower ambition but move for reduction.	Include Scope 3 emission reduction targets across all categories where emissions constitute at least 5% of all Scope 3 emissions. Update targets once per five years, each time recalculating emission reduction pathway to achieve net zero by 2050*. Assess potential external validation of your targets (e.g. by the Science-Based Targets Initiative) to provide more credibility to external stakeholders.
Identify key enablers, dependencies, and constraints	Identify your emission hotspots (where you create the highest emissions) and what you would need to do to reduce them. Refer to Identify dependencies and key enablers to decarbonise section for more guidance.	Assess other, less obvious emission reduction opportunities – change of technological processes, use of materials, purchasing habits, logistics routes, etc. which create significant emissions. Identify collaborations you would need to explore to address those opportunities.	Identify structural constraints such as infrastructure limits, long-term energy supply, sectoral dependencies or national requirements which limit your decarbonisation efforts and plan for the mitigation measures.
Integrate your climate strategy with business strategy	Identify which activities in your current business strategy would need to be altered or changed due to your freshly defined climate plans. Assess how you can do that and what investment it requires.	Integrate climate considerations into business development and financial planning (including investment planning and financing strategies).	Incorporate climate considerations in future business strategy setting, operational planning, risk management, financial planning and control, employee development, etc. processes.

STEP 3			
Identify specific decarbonisation levers	Depending on your business model, identify specific actions you can do in the short run (up to 5 years) in reducing your transport, electricity and heating emissions (Scope 1 and 2 emissions). Start with simple measures or "low hanging fruits" – like reducing energy consumption, and then move towards changing energy resources (e.g., type of cars, resource used for heating the premises, etc.). Refer to Identify dependencies and key enablers to decarbonise section for more guidance. Assess the chosen actions for their impact on emissions (you can use the GHG calculators used in Step 1 to identify what a certain action would change), costs, and feasibility of implementation.	Expand Level 1 approach to include the most relevant and/or largest Scope 3 emission categories and specific actions you can take to reduce those. Refer to Link decarbonisation levers with financials section for more guidance. Where relevant, engage with your suppliers to find lower-emission alternatives for your needs (e.g., more efficient logistics routes, use of alternative materials for production, etc.).	Add all relevant Scope 3 categories and map decarbonisation levers against near-term and long-term actions. Develop a CapEx plan based on relevant actions. Consider technology development and innovation which would support your decarbonisation efforts. Assess their impact on your current processes, capabilities, financial capacity, workforce, and other aspects.
Develop a financing strategy	Based on the previous steps, estimate overall costs and identify if and which actions can fit into your existing budgets. Build basic awareness of future investment needs and potential sources. Be ready to discuss your plans with a bank or other potential financing source.	Integrate transition plan actions into budgeting and investment planning processes. Compare actions by CapEx effectiveness (cost per ton of emissions). Consider payback period, internal rate of return (IRR) and net present value (NPV) to validate savings from OpEx decrease. Consider adding future compliance or non-compliance costs into the NPV calculation. Initiate discussions with your bank on transition finance or sustainable finance options they can offer. Review and analyse other relevant financing sources which contribute to decarbonisation solutions.	Link transition plan to long-term investment and capital allocation planning. Consider long term asset cycles and integrate equipment renewal plans in your decision making to ensure that each asset has clear cost and emission reduction expectations aligned with the full transition pathway you have set. Assess the most suitable financing mix for your investments, potentially combining bank, investor and/or public financing opportunities. Identify financing sources for high-risk innovations which may, according to the previous steps, be some of the most advanced decarbonisation levers in your business.

Build a practical roadmap	Based on the previous steps, build a simple action plan for the next 1-2 years. Assign basic responsibilities and approximate timelines. Refer to Develop an implementation roadmap section for more guidance. Reflect visible workforce impacts (e.g., additional training needs) and communicate purpose of the transition plan within the company.	Build a structured roadmap for the near-term target implementation and an approximate plan for the remaining targets if you have set them. Refer to Develop an implementation roadmap section for more guidance. Assign responsible teams and clarify decision-making processes. Identify skills and roles affected and plan initial training or support.	Develop a clear action plan linked to your strategic planning timeframes and a less detailed roadmap for the remaining period of the transition plan. Link actions to specific levers and reduction targets. Identify owners for specific actions, data management needs, systems, and required resources. Reflect organisational capacity needs in long term planning (CapEx planning, hiring, learning & development of own workforce, etc). Review and adjust the action plan based on progress, risks and dependencies.
STEP 4			
Set up a relevant monitoring and governance system	Select a small set of most significant indicators (e.g., energy and fuel use, renewables share, overall GHG emissions or emissions per asset class – e.g., transport, heating, machinery). Refer to KPIs, monitoring and analysis section for more guidance. Assign oversight for tracking emissions and other relevant KPIs. Link KPIs to the near-term target. Analyse reasons for increases or decreases in emissions – in particular, if they differ from what you were planning for. Discuss progress and necessary adjustments in internal meetings and make sure the information is communicated to the management regularly.	Develop a consistent KPI set for Scope 1 and 2 and relevant Scope 3 categories. Integrate them into existing management systems and link the KPIs clearly to your near-term and long-term targets. Refer to KPIs, monitoring and analysis section for guidance. Develop/update internal policies (climate, environmental, sustainability policies, supplier code, investment policy, etc.) to support climate targets. Integrate progress reporting into regular management reporting and risk management. On the management level, analyse the reasons for any deviations from the expected emission reduction path and identify solutions.	Use KPIs for decision making at management and board level. Link certain KPIs to management and board remuneration. Integrate KPIs in individual employee or business unit targets. Review KPI relevance regularly and update when business needs change but do not change the overall ambition. Embed oversight of transition plan progress reviews in relevant management and/or board committees (e.g., audit / sustainability / risk management committee, strategy sessions, etc.).

Set up a relevant monitoring and governance system (*continued*)	Communicate internally to ensure that all employees are at least generally informed about the company's climate approach. NB! If the progress is not as fast as you were expecting, do not change the ambition of the target. Think about ways how you can still move towards it and rather adjust certain actions.	Communicate internally about the company's progress and engagement of different functions. NB! If the progress is not as fast as you were expecting, do not change the ambition of the target. Think about ways how you can still move towards it and rather adjust certain actions.	Communicate internally regularly, acknowledging successes in transition plan implementation and analysing drawbacks. Include climate topics in employee trainings to ensure overall understanding of their importance and engagement of all functions.
Communicate externally	Communicate about your transition plan ambition and overall progress on your website or in the annual report. Have the information ready for stakeholder review upon request.	Make sure your transition plan is publicly available (for example, the banks may largely base their decisions on publicly available information). Report GHG emissions and progress in their reduction in a consistent format aligned with common reporting practices (e.g., European Sustainability Reporting Standards, Voluntary SME Standards, Global Reporting Initiative, Task Force on Climate-Related Financial Disclosures, GHG Protocol reporting, or other). If applicable, explain deviations from the set targets and further steps you will take.	In addition to the previous levels, make sure that your emission calculations are externally verified or assured and/or publicly commit to SBTi (externally validated targets with higher level of accountability for external stakeholders).

* Net zero target does not necessarily mean total exclusion of any emissions. It means maximum reduction of emissions and, if some emissions remain which cannot be reduced at all or cannot be reduced with reasonable means, - their compensation through approved and trustworthy carbon offset mechanisms.