Climate Safe Lending Network

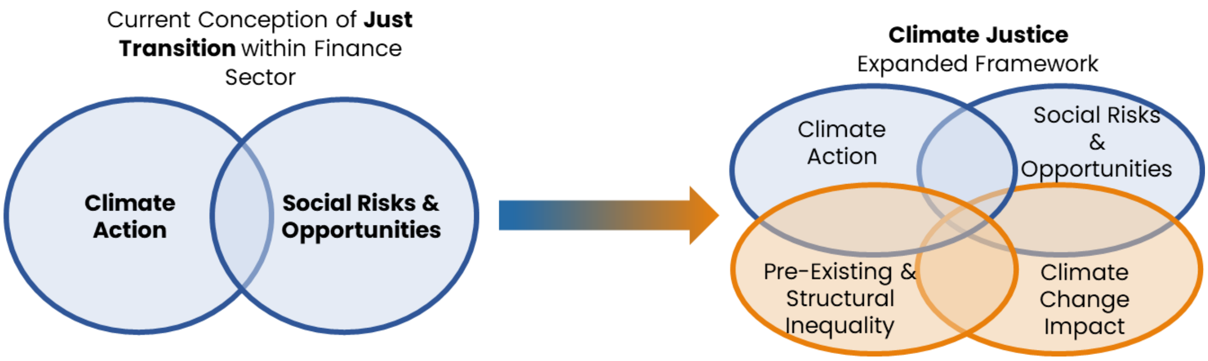
Banking on Climate Justice

Discussion Highlights, 14 June 2023

Context

Banking on Climate Justice Initiative

In May 2023 the Climate Safe Lending Network (CSLN) launched the "Banking on Climate Justice Initiative" - a collaborative focused on broadening current narratives and approaches within the financial system related to a Just Transition. The effort aims to facilitate a systems approach to better understanding and addressing the barriers and opportunities related to how both climate change and our financial system can either contribute to or deteriorate social equity, environmental resilience, and economic inclusion.



Within this effort, the Climate Safe Lending Network seeks to convene stakeholders from across the ecosystem - including practitioners, experts, campaigners, academia, etc. - to collaboratively develop bold perspectives on two central questions:

- How might we **improve our understanding** of the systemic forces at play at the intersection of finance and climate?
- What **policy interventions** [by governments and central banks] and **initiatives and innovations** [by banks and lending institutions] can best contribute to a fairer and more rapid transition for all?

In doing so, CSLN hopes to ultimately bring the network actionable guidance and case studies that reframe economic inclusion, social equity, and environmental resilience away from being seen as trade-offs with profit, towards being seen as strategically fundamental elements for societal and financial stability.

14 June Roundtable

After a series of individual conversations, a group of 27 stakeholders from across the sustainable finance ecosystem convened on 14 June 2023 for the first group discussion of this initiative. In this discussion, the group engaged in a systems approach to broadening and deepening their understanding of how finance and climate both influence and are influenced by economic inclusion, social equity, and environmental resilience. The group also explored their own place within this system of relationships and their spheres of influence on it.

Recognizing that systems approaches are messy and require engagement, patience, humility, and grace, the insights of the first session serve as a foundation for identifying key leverage points within the system that when collectively acted upon can accelerate change.

Discussion Highlights

🌍 Climate Justice is about a responsibility to prioritise empowerment

When asked "What does climate justice mean to you?" specific definitions varied across individuals - from concerns regarding global inequalities, to desires to continue elevating social agendas within countries, to policy implications and responsibilities.

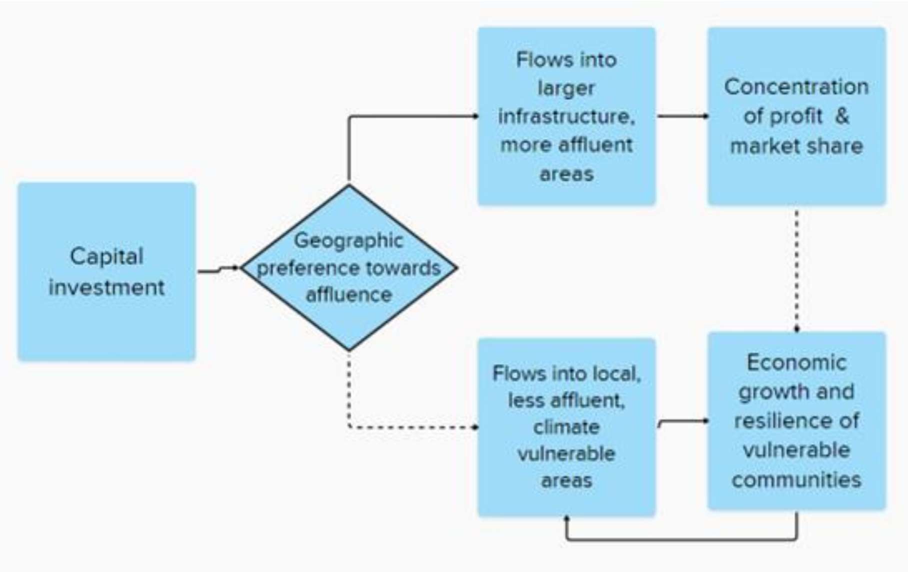
However, one theme ran clear: The current approach to the climate crisis is leaving people behind. Climate justice reverses the notion of leaving people behind in the sustainability transition by prioritising the needs and interests of communities directly impacted by climate change and serving as allies to affected communities in implementing their own solutions.

CSLN commits to continuing to expand representative voices.
We seek to strike the balance between an intimate, trusted group of engaged and collaborative stakeholders, and an array of holistically representative perspectives across geography and context. We recognize in our first session not all voices were represented that could have been. We look to the support of our network to continue working with us to identify and meaningfully include various perspectives in these conversations.

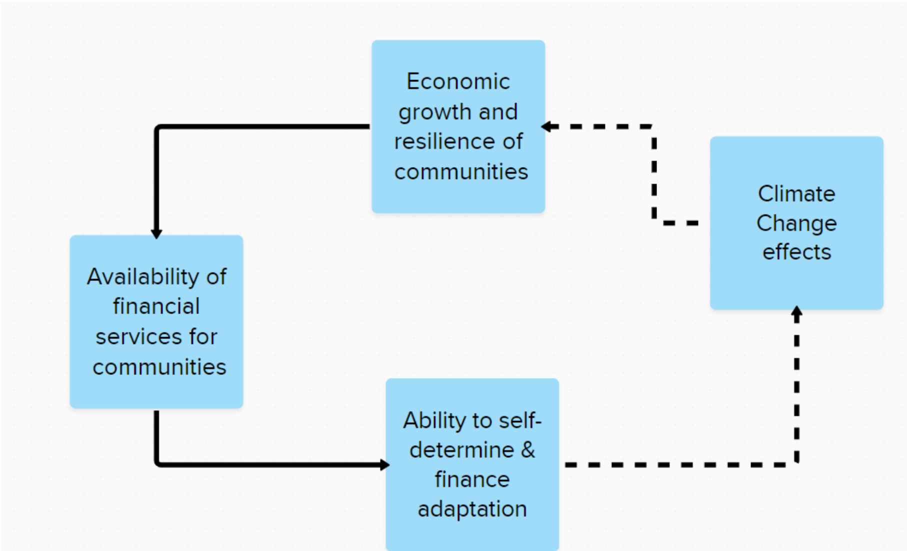
🌍 If financing was able to focus across a wider variety of local geographies, the ripple effects would be significant.

1. Most **capital flows have preference towards affluence**. This drives investment away from communities with limited access to resources, leading to self-reinforcing cycles that overlook geographies and communities that are more vulnerable to climate change, which deteriorates their stability, inclusion and resilience.[1]

[1] For systems mapping images, a solid line indicates a positive correlation (increasing one increases another), and a dotted line indicates a negative correlation (increasing one decreases another).



2. Additionally, the disparity of the effects of **climate change** impairs economic growth and community resilience, which **leads to less possibilities for localised solution building**.

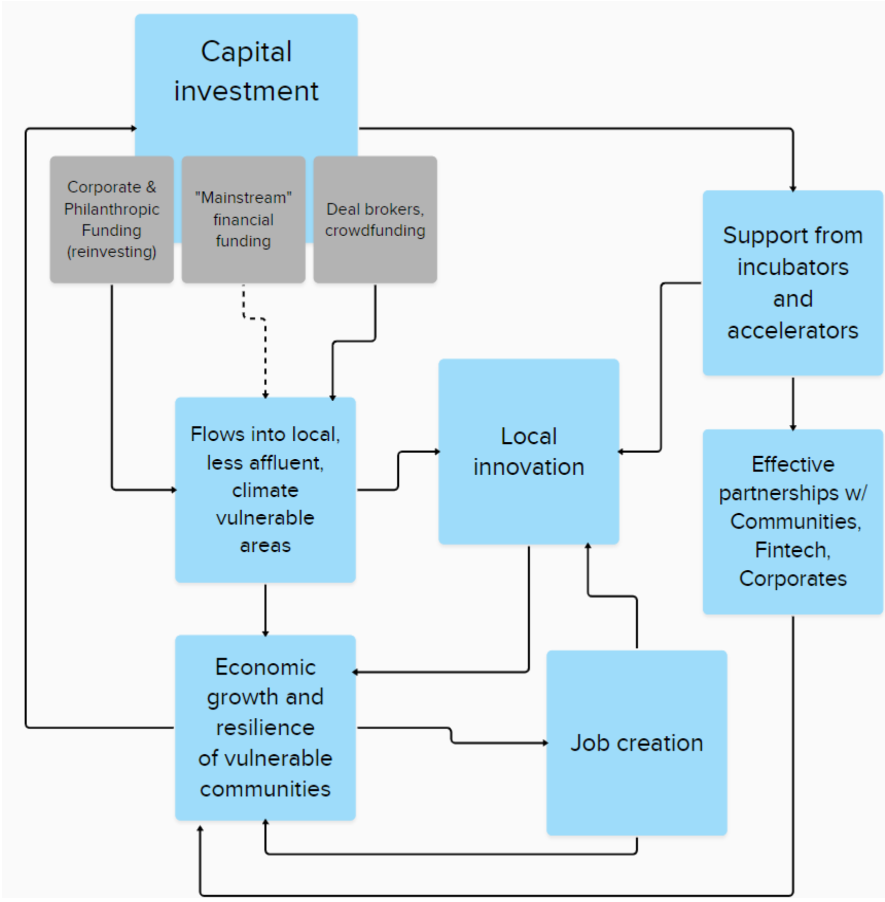


Case Example Vanuatu Twin Cyclones Underscore Pacific's Vulnerability to Climate Risks

One of the most vulnerable small island states is projected to lose 20% of GDP annually due to increasing climate-related disasters, while only 1.5% of the sub-region's GDP is needed for adaptation investment in Pacific SIDS. There is a good local plan in place, yet in a country that continues to have their GDP crumble, with no re-insurance prospects, and precious little climate finance grants coming in – it's clear that they are highly disadvantaged in being able to implement their localised plans.

Source: International Institute for Sustainable Development (IISD)

3. However, if **local solutions were financed sufficiently,** this could reverse the flow of finance away from under-invested areas and **trigger several beneficial reinforcing loops**.



To support local innovation, initial thoughts were raised around:

- Mobilising financial capital, both private and public, to support local innovators who face significant barriers in accessing funding
- Creating targeted financing options specifically tailored to the needs of local innovators, such as grants, low-interest loans, venture capital and crowdfunding platforms
- Putting into place policy and regulatory reforms to drive environmental resilience and enhance economic inclusion while promoting ecosystem development for local innovation

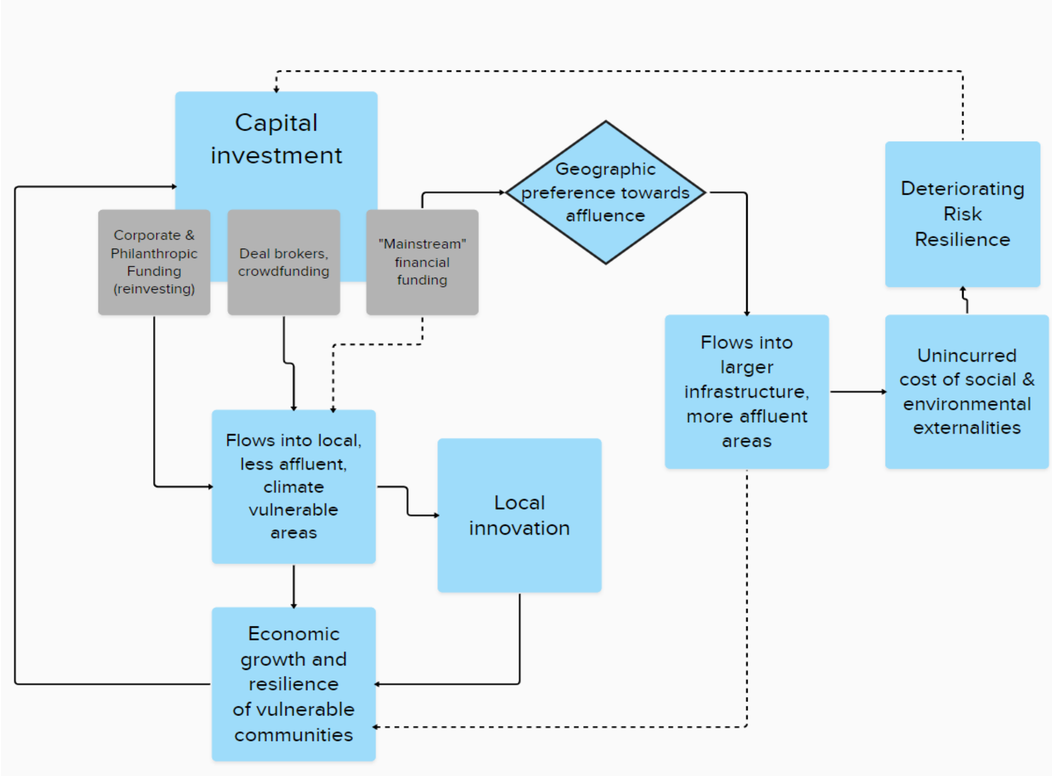
Case Example A currency-rate guarantee program by the International Monetary Fund could attract private investors to the energy transition in emerging markets.

"At the moment, the price of currency risk is substantially bigger than the actual risk," explains Avinash Persaud, an economist who is the special finance envoy for Barbados. However, there is opportunity for the IMF to reduce the "overpayment" on currency hedging for private investors without losing money by setting up a partial currency-exchange guarantee. Pooling risks across more than 100 countries, the IMF can substantially lower the hedging costs for private investors.

Source: Bloomberg Green

🌍 **Currently, many financial institutions will only adjust their internal practices and products if there is a robust enough argument to do so from a business perspective.**

1. Demonstrating the **business case** for climate justice includes **demonstrating why communities are investable,** and why not investing in communities has implications for longer-term risk resilience and financial stability.

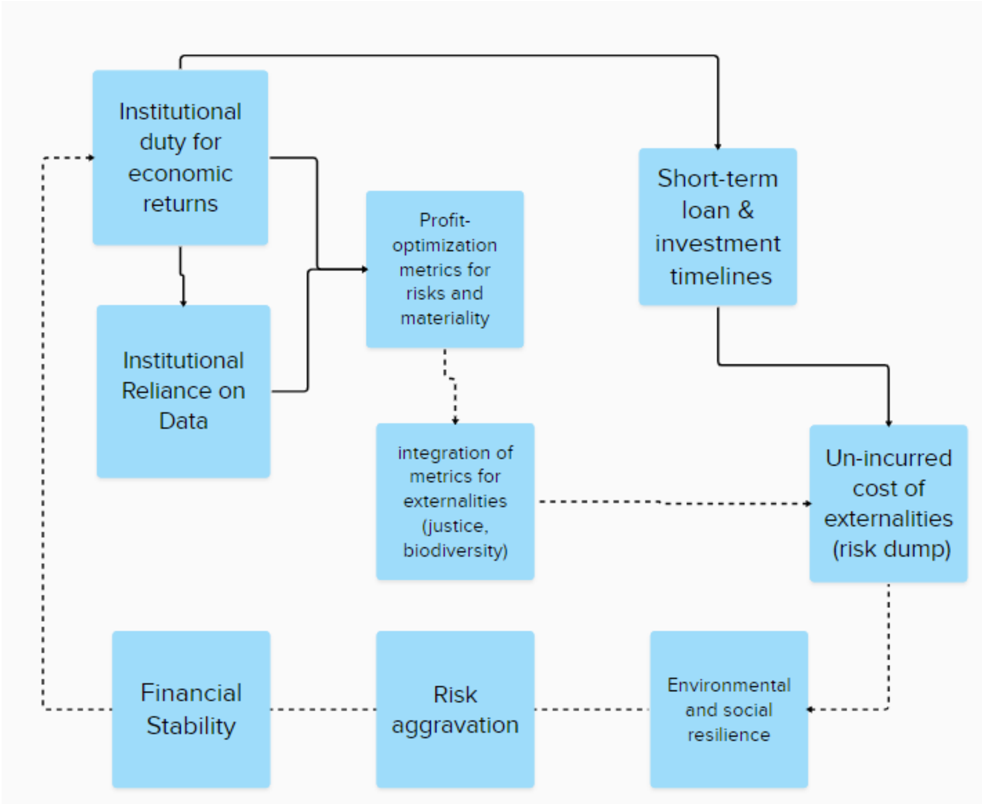


2. **Reliance on data is a necessity** for decision-making, yet almost always reinforces decisions that **create negative externalities** because these externalities are often excluded in data-driven decisions**.** Challenges to incorporating the necessary data include:
    a. A lack of credible data that looks at long-term effects (e.g., 'short-termism')
    b. Inability to quantify the entire supply chains and value chain
    c. Inability to quantify principles and expectations around social equity and inclusion

Case Example ISSB's missed opportunities in standard-setting for externalities

Significant feedback was received before the ISSB released its inaugural global sustainability disclosure standards in June 2023. Commenters noticed white papers did not use the term 'externalities' even once, nor were there attempts to frame impact materiality. Without disclosure of material externalities, standard setters miss a critical opportunity to guide businesses towards the path to sustainability. Unfortunately, in response to this feedback, the ISSB clarified that factors which go beyond the impact on an entity's financial position are beyond the scope of reporting.

Sources: (1) IPE International Publishers Limited; (2) IFRS Foundation

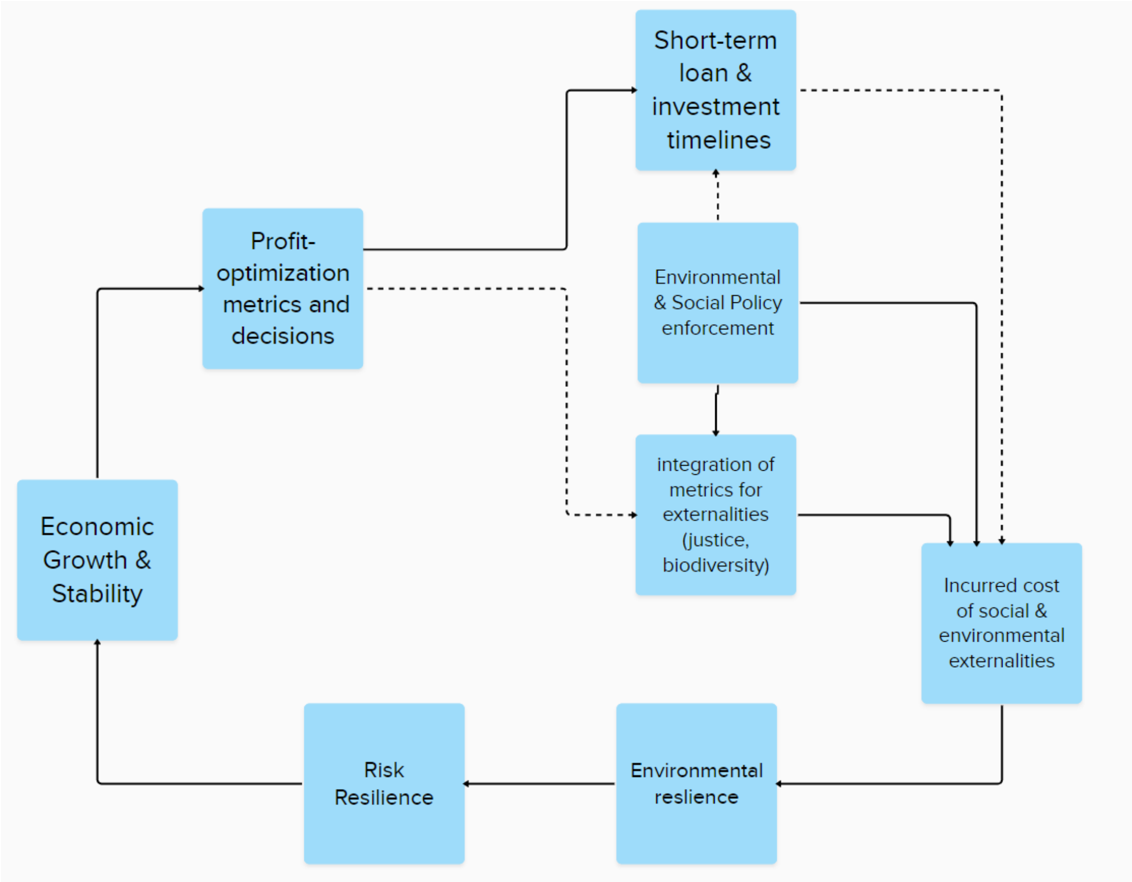


To improve data-driven decisions, there were early hints at:

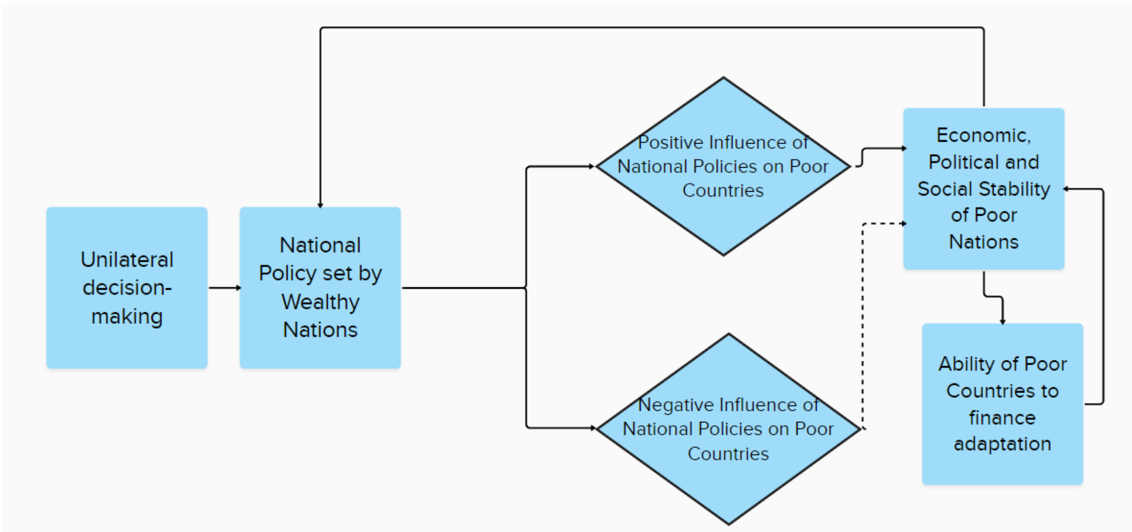
1. Engaging local stakeholders from across supply chains in data collection to improve social equity metrics and standards
2. Holistically modelling the impact of climate risk and financial stability by pricing in externalities
3. Developing financial products that reduce bank exposure to risk and capital requirements to hedge risk
4. Ensuring financial products have not only financial return, but also disaster risk reduction and a portfolio risk reduction rebate

🌎The continued coordination of policies at a global level are essential to creating a supportive environment in which the financial sector can effectively contribute to climate justice.

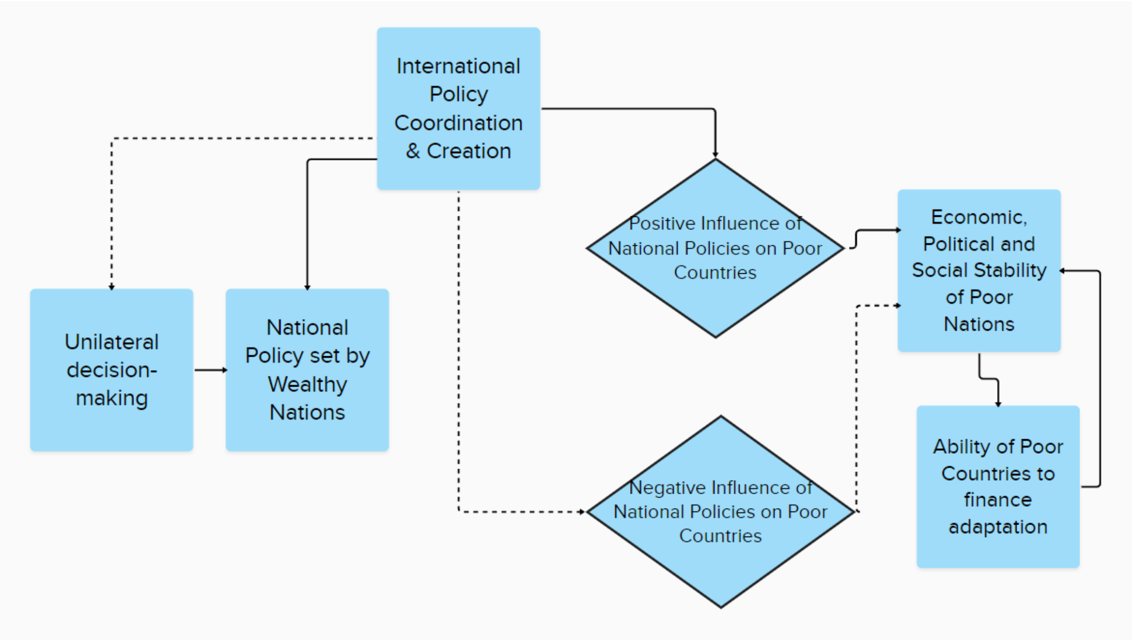
1. **Environmental and social policies** could **enforce behaviours** that favour long-term survival if a robust short-term business case to motivate decision-making is contradictory.



2. However, **national economic policies** made by unilateral decision-makers in wealthy countries can have a real impact on other parts of the world, potentially **inadvertently deteriorating** the economic stability and climate adaptation capacity in the majority of countries who have experienced wealth & resource extraction.



3. While multilateral organisations also tend to be run and/or financed by wealthy countries, **more democratic coordination at the international level** of both national and international policy can help **ensure national policies are not inadvertently creating barriers** to low- and middle-income countries.



To improve the mechanisms by which countries can globally and democratically coordinate, there was early discussion on further examining how competition laws may act as a means for multilateral development banks to support international economic growth.

Questions we continue to hold

Systems mapping can at times reveal many more questions than answers. That is part of the point: we need to be asking the right questions in order to find the right solutions. Some questions participants left the session with:

Navigating between local and global foci

- How do we meet the need for very localised solutions? How does the financial system design play into this?
- How does stakeholder engagement and data from communities provide "the business case" for a just transition?
- What stories and examples exist that connect local to national/international solutions?
- How do we balance international standards / frameworks / ambitions with regional and local conditions?

Creating systems change

- How do we tackle capitalism, the system and its inadequacies as well as banking and financing roles in this system?
- How do banks/financial institutions measure progress in these areas when the aims may take a long time to come about?
- How might we think about rhetoric vs. action?

Navigating our way forward

CSLN will continue to facilitate spaces where the above questions can be grappled with. Emerging from our June conversation, we have a few emerging hypotheses about where this collaborative is heading, and how we need to get there. We are excited to share these with you as the journey continues.

Our next session is on **Wednesday, 26 July 14.00-16.00 UTC** - **save the date.** This will be the second of four sessions through the end of the year. Over the course of the next few sessions, we will continue to build on our collective understanding of the current system and the role of banks and lending institutions, and identify leverage points to foster a new system that supports environmental resilience, social equity and economic inclusion. We will also provide space for you to continue to get to know each other, share what you're working on, and exchange ideas and resources for advancing your work.

Resources

The following resources were shared by participants in the session.

- Resilience Assessment Tool for CDFI Lending Programs and Tool Pilot Phase Implementation Guide (Resilient Community Development Finance Initiative) *The resilience lending principles and tool beta versions and guidebook under ResCDF*
- Investment Protocol for Coastal Cities Adaptation and Resilience (Ocean & Climate Platform, Climate Champions, Duke University, Resilient Cities Network) *Outlines opportunities in unlocking financial flows for coastal cities adaptation to climate change and resilience building.*
- Financing structures for place-based impact investing – what works? (Impact Investing Institute) *Sets out the key characteristics viable financing vehicles must possess, a variety of structures they can adopt and a set of case studies.*
- Mobilising institutional capital towards the SDGs and a Just Transition (Impact Investing Institute) *Identification of concrete instruments and policies for financing the Sustainable Development Goals (SDGs) and a transition to a Net Zero world in which no one is left behind*
- Just Transition Criteria – a practical tool for fund managers (Impact Investing Institute) *Just Transition Criteria that help asset managers and asset owners align investments with a just transition*
- CDFI Climate Crisis Working Group (CDFI Connect) *A dynamic, collaborative community designed and built just for the CDFI industry. It's the perfect place for knowledge exchange, idea incubation, professional networking, sharing industry events and job openings, and much more.*
- Movement Generation Just Transition Framework (Movement Generation) *"An economy based on extracting from a finite system faster than the capacity of the system to regenerate will eventually come to an end—either through collapse or through our intentional re-organization. Transition is inevitable. Justice is not."*
- From Banks and Tanks to Cooperation and Caring: A strategic framework for a Just Transition (Movement Generation) *We offer this booklet as a humble point of departure for folks interested in building a collective vision and strategy framework for Ecological Justice that does not separate humans from nature or social equity from ecological integrity.*
- IFC: We need more bankable projects (Environmental Finance) *Understanding barriers to bankable projects*