Taking the Carbon Out of Credit
Webinar Questions and Answers

1. **How are you helping lenders calculate their financial risk? Would predictive model tools that can calculate the impact of conservation practices that reduce climate risk be helpful?**

   That is something which some in the Climate Safe Lending Network are doing – and we're keen for people to share perspectives and learning on this (predominantly via the Climate Safe Learning Lab). There are myriad tools and initiatives focused on risk, as this is a central construct in the banking system. While we acknowledge this work and incorporate it, the pathways and tools have more of a focus on impact and alignment. We'd welcome any insights/tools you have to share on this. – James Vaccaro, Interim Director, Climate Safe Lending Network

2. **Who/what institution is driving the standardized approach to lending requirements? 20+ years ago, when I entered the field, there was an ASTM (American Society for Testing and Materials) standard that drove ALL commercial loans to produce a Phase 1 Environmental Site Assessment. These are still done to this day, but that is because ASTM is a recognized standard setter that the banks could rely upon.**

   As discussed in the seminar, there are a few organisations who can standardise minimum standards – like the Equator Principles. There is also the EU Sustainable Finance taxonomy which sets out thresholds. But given the diversity of contexts for each and every project there is no standardization of environmental criteria. – James Vaccaro, Interim Director, Climate Safe Lending Network

3. **Sandrine you mention the local area projects. How do we get focus on providing low-cost finance to community energy projects?**

   There are several mechanisms for channelling funds locally (e.g., via community development financial institutions) or raising funds locally via community share offers/crowdfunding. However, the issue for community energy projects tends to be far more about appropriate support mechanisms that are relevant to their scale (e.g., feed-in-tariffs etc.) than low-cost finance. - Sandrine Dixson-Declève, President, Club of Rome

4. **Do you see micro-enterprises as major way that banks can meet environmental and social goals?**

   Net zero pathways require action from the very small (micro) enterprises all the way up to big business. As economies digitalise and localise, the role of micro-enterprise becomes increasingly important. – James Vaccaro, Interim Director, Climate Safe Lending Network

5. **Knowing some financial institutions continue to experience difficulty establishing portfolio plans/prohibitions (on the credit side beyond project finance or new**

customer opportunities) that align with a 1.5 warming scenario, how do you feel about sustainable financial products/sustainability linked loans in higher climate risk industries (i.e., oil and gas)? Have these been vehicles for advancement or greenwashing, and how should institutions pursue transformative opportunities in higher climate risk industries? How meaningful are opportunity focused strategies without formal risk policies to align lending with a 1.5-degree warming scenario?

This is a good question with a lot of technical depth under the surface. A 1.5-degree warming scenario will only be reached if we reach net-zero within a specific timescale. Getting to a 1.5-degree bank-wide strategy will also need to include investing in strategies that speed and scale CO_2 drawdown, such as regenerative agriculture. A 1.5-degree aligned loan is likely to cover only part of that transition and, therefore, makes assumptions about what happens beyond the tenure of the loan. And some sectors are moving quicker to net-zero than others; hence, they will have steeper pathways to reach 1.5 degrees than others. Using sustainability-linked loans (effectively an incentive mechanism – either by varying loan amount and/or interest rate) can help promote alignment but this needs to be referenced to an overall systemic transition to net zero. It is, therefore, much 'safer' to invest in companies who are (for example) switching out of fossil-fuel transport into green-hydrogen on a step-by-step basis than (by comparison) investing in incremental efficiency gains in high-carbon technology. – James Vaccaro, Interim Director, Climate Safe Lending Network

Objectively we are unlikely to stay below 1.5 degrees. If we start from that premise, the key question is how quickly we can attain a net zero state. The pathway and tools here provide the building blocks for doing that without prescribing the timeline. I would argue that "opportunity strategies" and "risk strategies" can be superfluous to the setting of a net zero target and timeline, as it is possible to be significantly carbon positive for a long time while still aggressively exploring opportunities and mitigating transactional risk in a portfolio. I would argue that without setting targets and measuring progress, the risk and opportunity agendas can become executive level diversions from harder decisions. – Ivan Frishberg, Director, Impact Policy, Sustainability Banking, Amalgamated Bank

6. **Sandrine, interesting comment about the shift to local business models. How, in your view, can EIB (European Investment Bank) make a difference in getting banks to shift their lending models? What can we do better, do less, do more of? To Sandrine's point could we do more via intermediation/risk sharing with local partners?**

   EIB is already making a difference and its new climate policy has already helped create greater focus on climate in European banks. A greater diversity of partners and wider range of blended finance options (perhaps bringing in a wider range of finance partners) could help accelerate the transition in key sectors. – James Vaccaro, Interim Director, Climate Safe Lending Network

7. **Can multilateral banks like European Bank for Reconstruction and Development (EBRD) help with the issue of greening loans in Belt and Road companies?**

   Absolutely – interesting to note that more development banks (e.g., CDC) are ditching fossil fuels and setting net zero targets: https://www.devex.com/news/cdc-quits-oil-andcoal-as-part-of-new-climate-strategy-97627. – James Vaccaro, Interim Director, Climate Safe Lending Network

EBRD and other DFIs (development financial institutions) can and do make a difference, exemplifying methods and profitable outcomes … but they are small players in many key countries with major carbon growth profiles, so this is not enough. – Simon Zadek, Principal, Project Catalyst, United Nations Development Programme

Often DFIs can be catalytic investors, directing the flows of finance that are leveraged in from private finance sources. In this way, their impact can often extend beyond their portfolios. Additionally, through promoting blended finance structures to help rapid de-risking they can accelerate transition pathways. – James Vaccaro, Interim Director, Climate Safe Lending Network

8. **How do we ensure that, or measure whether, bank commitments to stop the flow to fossil fuels are ambitious enough and aligned with climate stability?**

   Much of this will be addressed via initiatives such as the Science Based Targets Initiative https://sciencebasedtargets.org. However, mandatory disclosure of portfolio carbon accounts and/or forecasts are necessary in enabling all stakeholders to understand whether action is 'enough'. Translating trajectories into degrees-warming scenarios may be an emerging way of comparing relative action. – James Vaccaro, Interim Director, Climate Safe Lending Network

9. **There is an intense debate in financial circles on the lack of reliable, material and forward-looking data on companies' exposure to climate risks and opportunities to inform investment and lending decisions. TCFD (Task Force on Climate-related Financial Disclosures), for instance, tries to address that, but overall progress on adoption has not been fast. Is data today indeed a barrier for climate safe lending? If so, how can lenders overcome that data issue?**

   If someone needs to borrow money, then they have to provide whatever data the lender requires. For too long, some lenders have not been interested in this kind of data and as a consequence they have not had adequate risk or impact management systems. That is beginning to change. Data is becoming easier to access and process. – James Vaccaro, Interim Director, Climate Safe Lending Network

   Data frailty has become the single largest excuse for inaction or hard decisions in a time when outright climate denial is no longer socially acceptable. Data improves over time, our ability to generate it, to analyse it and to harmonize it is inherent. Nevertheless, there is far too much use of lack of data and lack of forward-looking data in particular as an excuse for inaction. Given all of the data we do have about high carbon investments increasing, emissions increasing and time falling short it is time for action. No business or venture was started with perfect data. It is all an evolution with a sense of clear direction. – Ivan Frishberg, Director, Impact Policy, Sustainability Banking, Amalgamated Bank

10. **What banks should we include in this network and approach as soon as possible? How can we best involve/invite them to join us?**

Good question – we already have a good diversity across the network. Enriching that diversity further can only help. It would be great to have membership from beyond Europe/North America and to span across all forms of lending institutions. – James Vaccaro, Interim Director, Climate Safe Lending Network

11. **There are a lot of powerful reasons for banks to act to reduce climate risk and impact, particularly as so many other institutions are moving forward, and yet they seem to be stuck. What has the Climate Safe Lending Network heard from banks about why they are stuck, given that they know their own risk and its significance? What have you heard from banks about what might help them get unstuck?**

    Like so many disruptive innovation stories of the past, what can hold an organisation back from the future are its successes of the past. Recognising that the fossil fuel economy is dying and a new regenerative and circular economy is emerging can feel very threatening to organisations who have set expectations based upon their competencies and revenues generated in the old economy. As we discussed in the webinar, that is why we need to go a long way beneath the surface into the mindsets that govern organisational thinking and behaviour. – James Vaccaro, Interim Director, Climate Safe Lending Network

12. **What are your recommendations considering central banks and government regulators have such different perspectives? How should we advocate with different roles in different countries?**

    Central banks and financial regulators need to require licensed financial institutions to demonstrate a glide pathway to a zero emissions portfolio by 2050, rather than simply committing to it … this sits best in countries where policy commitments to net zero has been made as this provides the policy cover to regulators to demand evidence of a coherent pathway. - Simon Zadek, Principal, Project Catalyst, United Nations Development Programme

    We'd agree that there are very different starting points, contexts and, therefore, strategies for moving the conversation forward. However, there are some unified end-points – like Net Zero needing to happen by 2050 – and a long way before that in many sectors. The first key step is to understand what is genuinely in common and what is more localised. The second key step is understanding the relative agency and influence of all the other stakeholders surrounding regulators. The final step is involving regulators (directly, as engaged people) in systemic innovation processes. Some regulators have been able to become fairly innovative (by using sandboxes for financial innovation, for example) and this could be generalised wider – for example in projects such as Bankers for Net Zero. – James Vaccaro, Interim Director, Climate Safe Lending Network

13. **For Simon: You mentioned the difference between those banks showing deep commitment vs. those treating it as a risk/compliance item. What would you say are the key indicators of banks in the first, deep commitment category?**

    Test whereabouts in the lending process for 'intention/alignment'. Those with deep commitment will start with this. Those who are fixed in a compliance mentality will see it as a health check towards the end. - Simon Zadek, Principal, Project Catalyst, United Nations Development Programme

14. **For a bank CEO who typically views his priorities as those that can be realised monetarily within a 5-10-year term, how can they be incentivised to act on climate change given that risks and rewards will materialise over a much longer timeframe (after they have retired)? In the absence of a mechanism where stock-prices adjust in the near term to banks' (in)action to climate change, can we really expect banks to act today?**

    That's a very deep question with answers at many levels. Not least to challenge the entire premise of CEO compensation levels and incentive payments (in comparison to other professions – e.g., those who we've discovered via COVID that we can't live without). Perhaps indeed, there is the kernel of an excellent idea within your question – that rewards may well materialise after they have retired for the benefit of their next generations. As indeed will the benefits of their leadership on climate change if successful. – James Vaccaro, Interim Director, Climate Safe Lending Network

    That is exactly the right question and the assumed answer is that this is why we are failing to change as quickly as we need to. In the absence of changing our entire corporate system (doing away with quarterly earnings reports, shareholder time horizons, compensation structures) it will just take real corporate and investor leadership. – Ivan Frishberg, Director, Impact Policy, Sustainability Banking, Amalgamated Bank

15. **Sustainable Development Goal alignment?**

    The Platform will now address a broader base of social indicators. For the moment, the EU Taxonomy for Sustainable Finance, as proposed, includes substantial contributions criteria for climate mitigation and adaptation alongside the broader environmental DNSH (Doing No Significant Harm) principles. There is some social consideration, but definitely not to the extent needed; hence, why the platform will now focus on this. We needed to make sure that the DNSH methodology ensures no significant harm to communities from green investments, but it is definitely not complete. I am hopeful that over the autumn and next year the new Platform will truly address broader based criteria both on social and non-green criteria. - Sandrine Dixson-Declève, President, Club of Rome

16. **My organization is getting ready to adopt a policy formalizing that we will not finance fossil fuel exploration extraction or infrastructure. I'm in search of sample language. Is there any sample language in the Climate Safe Lending Network toolkit?**

    There are examples from other banks who we can connect you with – and organisations in this space who could offer their insights opinions. Perhaps you might want to reflect on how you would articulate your strategy affirmatively as part of a broader communication on your institution's vision and direction. – James Vaccaro, Interim Director, Climate Safe Lending Network

17. **Given the lack of "perfection" in climate risk analytics, and the barrier to action that this creates, perhaps analogous risk analysis situations would be helpful. Are**

there other systemic risks that banks already manage that have similar characteristics - the systemic risks, the lack of regulatory clarity, and the imperfection of available data?

There are many analogous systemic situations – none that offer perfect examples of simple tools that solve the problem. Consider, for example, how the financial industry developed risk models to manage systemic risk of mortgage property defaults. The key is to ensure that there is sufficient awareness of leaning into the stress tested scenarios and recognising them as real possibilities. – James Vaccaro, Interim Director, Climate Safe Lending Network

Framing this as a risk issue has allowed a conversation to happen in the banks, but it has not driven changes. Given the timeline we are on for exceeding dangerous and catastrophic levels of climate change it is time we stop putting the burden on risk and risk data to drive change. – Ivan Frishberg, Director, Impact Policy, Sustainability Banking, Amalgamated Bank