Investing in a Sustainable Future

Private sector financing can play a pivotal role in amplifying the effects of government climate policies

Valerie Smith

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WE ARE FACING a global climate emergency that demands immediate action and long-term solutions, with financial institutions uniquely positioned to help support a net zero carbon future and a more sustainable world.

The urgency has never been greater: polar ice is melting and sea levels are rising, as are global temperatures. The National Aeronautics and Space Administration reports that last year tied with 2016 as the warmest on record since recordkeeping began in 1880, and that 19 of the warmest years have occurred since 2000.

Given the stakes, it's no surprise that investors are keenly focused on the climate change crisis. A 2019 *Harvard Business Review* study found that sustainability and environmental, social, and governance issues are now a top priority for leading investment firms and public pension funds. As the study points out, the world's largest asset owners have trillions invested in the global economy and multigenerational obligations that call for a long-term view of systemic risks; they can no longer afford to let the planet fail.

The next few years will be pivotal and consequential. Last year, with the world's attention understandably centered on the global pandemic, the UN Climate Change Conference, scheduled for November 2020, was postponed until this fall. Sustainable finance will feature prominently on the agenda, specifically mobilizing public and private funds to mitigate the causes of climate change.

Private sector's role

We know that public financing alone will not be sufficient to the task: the United Nations estimates that by 2030, costs may range from $140 billion to $300 billion a year, rising to $280 billion to $500 billion annually by 2050, well above the $100 billion a year commitment expected from developed economies.

As financiers of the global economy, banks will play a key role in supplementing public financing targeted at climate change. Banks also can help by aligning their lending with the Paris Agreement's goal of limiting global warming and directing capital to where it will have the most positive impact—for instance, by linking financing to environmental and social performance. Carbon pricing is another area where banks' involvement could prove critical. According to a new IMF staff paper, establishing a price on carbon emissions offers the most effective way to halt global warming. Lack of an international agreement on carbon pricing remains an impediment, however, and underscores the need for cross-border collaboration.

Large-scale international collaboration is underway in the financial sector. The Network for Greening the Financial System, launched in 2017, is approaching 100 members, composed of central banks and banking supervisors working to strengthen the global response on climate. The Net Zero Banking Alliance, an industry-led organization convened by the United Nations this spring, brings together more than 50 banks from two dozen countries, with a commitment to net zero greenhouse gas emissions by 2050.

As a founding signatory of the alliance, Citi announced a commitment to net zero greenhouse gas emissions by 2050, including emissions associated with our financing, and for our own operations by 2030. We expect to issue an initial plan within the coming year on how we'll achieve this ambitious goal, including interim 2030 targets for our energy and power portfolios. There isn't a straight line to the goalpost as our clients include oil and gas companies and other carbon-intensive industries. Citi's Environmental and Social Risk Management Policy guides us internally and provides a framework to advise clients on climate change risks and transitioning to a net zero economy. We're also partnering with the UN Framework Convention on Climate Change to accelerate the goals of the Paris Agreement through building capacity, connectivity, and awareness. No one institution can address the climate crisis alone—so we must all work together and take concrete steps to achieve net zero.

Commitments and challenges

Of course, announcements without action or accountability are mere words. So what must we do, and how will we know if we are succeeding? Following the money is one way. Citi has committed to providing $1 trillion in sustainable financing by 2030. This commitment includes extending our environmental finance target to $500 billion by 2030, plus an additional $500 billion in areas such as affordable housing, economic inclusion, and gender equity. Along with funding clean energy, green buildings, and sustainable transportation, we are directing funding and advisory services away from those that don't have a strategy to phase out reliance on coal. Internally, we're incorporating sustainable finance and climate strategy into the scorecards for our CEO and other senior executives.

Like others, we're continuing to integrate climate change risks into overall strategy, corporate governance, and risk management practices. The problem? Risk assessment requires robust climate, company, and asset-level data, so data quality and consistency must be improved as we assess the impact of businesses on global climate change and the impact of global climate change on businesses.

Recognizing the need for better data and transparent reporting, the Financial Stability Board's Task Force on Climate-related Financial Disclosures issued recommendations in 2017 for voluntary, consistent climate-related financial disclosures, but concluded in 2020 that disclosure of the financial impact from climate change remains low. As a result, lenders, investors, and insurers can't gauge which companies will struggle or flourish amid changes in the environment, the regulatory environment, technology, and customer behavior. Moreover, the task force adds, absent better data, financial markets "may potentially face a rocky transition to a low-carbon economy."

With regard to transparency, I'm proud that Citi has reported its greenhouse gas emissions for nearly two decades and, in 2018, was the first major US bank to release its initial climate disclosure report, following the task force's recommendations. Others are doing the same; by late 2020, more than 1,500 organizations had expressed their support for the task force framework.

Banks will help fill the information gap. Citi and scores of others are working through the Partnership for Carbon Accounting Financials to develop global standards to measure and disclose the greenhouse emissions associated with bank loans and investments. In a similar vein, Citi and other banks have been experimenting with the Paris Agreement Capital Transition Assessment tool, open-source software to align bank loan portfolios with climate benchmarks.

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As with other crises, we know that climate change will disproportionately affect communities of color and the poorest members of society. Federal Reserve Board Governor Lael Brainard highlighted this disparity in a recent speech, noting that lower-income communities often are in areas that are particularly vulnerable to climate-related risks, including health risks and weather disasters. Steps toward a more sustainable future must include conversations about environmental racism and inequality; these issues are inextricably connected, and to neglect that when undertaking sustainability initiatives would be shortsighted and unwise.

Citi's 2020 ESG report expressed our support for action to create a just, sustainable future, including through carbon pricing and disclosure of climate risks, and we'll continue to report on our progress across our many initiatives. FD

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