5. Breaking New Ground: Industry Leaders Are Raising the Bar

Following a year that has seen broad and deep economic disruption from the pandemic, the finance industry has taken on a leading role in building towards a more sustainable future through large capital commitments, ambitious environment-focused goals and driving long term economic and financial inclusion initiatives among underserved communities. Leading financial institutions have increasingly aligned their core business strategy to advance the United Nations’ 2030 Sustainable Development Goals (SDGs) and in particular to tackle challenges such as climate change, as well as various socio-economic issues impacting under-served and low-income communities.

“Doing Good” has Become the New Mantra for Financial Institutions

The 2020 Capital as a Force for Good report looked at financial institutions across three categories: (i) those that were “Being Good” and conducting themselves as good corporate citizens, including incorporating ESG, diversity and CSR, (ii) those that were “Doing Good” and leveraging their core businesses to drive a meaningful measurable impact, and (iii) those that were “Leading for Good” and seeking to drive transformational change through ambitious initiatives and leadership. This distinction is less relevant today, because as outlined in the previous chapter, ‘Being Good’ has virtually become a market standard with nearly 95-100% of financial institutions having ESG policies, diversity and
inclusion initiatives for employees and initiatives to reduce their carbon footprints. In that sense, these initiatives are no longer a criterion by which financial institutions can differentiate themselves, they are the minimum requirement to have a seat at the leadership table.

The key characteristics of the platform of an industry leader that is essentially positioned to be a "good" player include integrating ESG into their core business processes, creating new products to finance climate and inclusion solutions, setting sustainability targets, and measuring and reporting against these targets as well as embracing a broader stakeholder approach. In that sense, ‘doing good’ is or is rapidly becoming now the new normal for leading financial institutions. With the bar raised, differentiation in this new normal requires financial institutions to think far more deeply about how best they can use their businesses to drive positive change in the world.

A few important themes of 2021 have been pivotal in defining the changes in the role of the most advanced actors in the finance industry ranging from the global to the national and individual:

1. **Global big issues.** The industry has demonstrated awareness and continuous improvement on the issues and metrics that matter for the world, and climate change in particular has risen to become an industry wide mission.

2. **Social justice movement.** Financial institutions have taken on a leading role to address the structural barriers and systemic inequities faced by minority communities brought to the fore by the global racial and social justice movement, with a focus on employment, education, healthcare, and housing for minorities.

3. **Resilience and flexibility.** The industry has actively looked to build resilience for their employees as they made a wholesale shift to remote working environment during the pandemic, offering mental health and physical wellness programs including personalized resilience-building, meditation, and stress management programs, healthy eating, and exercise programs.

The industry’s leaders are also making commitments to address what appear to be intractable world issues, promote access to capital for underserved communities, funding solutions to immediate crises, excluding activities that do not meet their values or views and enhancing the resilience and well-being of their people. New ground is being broken in the process by the most advanced industry leaders, going well beyond their peers and include trillion-dollar commitments to drive the SDGs, redefining scale in climate change commitments in particular, driving inclusion and making an impact to underserved local communities, elevating social issues to a critical level, and making the case to address them, funding crises as leaders along the lines governments would and seeking to address underfunded SDGs.
Leaders Make Trillion Dollar Commitments to the SDGs

Leading financial institutions have made large financial commitments including a number of trillion-dollar commitments to sustainability linked themes, aligning with the SDGs and the Paris Agreement. Sustainable-linked finance has become core to the long-term business strategy of these leaders, and among the most advanced, it is no longer seen as a specialty field. The 100 industry leaders examined have been highly proactive in driving and supporting various sustainability-linked initiatives including:

US$7.0 trillion
Total financing committed to the SDGs until 2030

Trillion-dollar Commitments
Approximately 85% of the finance industry leaders have made a public commitment to SDGs, several which have made significant financial commitments to funding the SDGs over the last year, including for example, five global banks which collectively have committed over US$7.0 trillion to funding the SDGs between 2020-2030.

US$4.25 trillion
in climate related financing

Climate Related Financing
Of the US$7 trillion in total commitments, these industry leaders have allocated US$4.25 trillion to support climate action and related financing with the goal of accelerating the deployment of solutions for cleaner sources of energy and facilitating the transition to a low-carbon economy.

US$2.75 trillion
for social and inclusive development

Social and Inclusive Development
The remaining US$2.75 trillion (of the US$7 trillion) has been allocated for social inclusive development, scaling capital to advance community development, healthcare, and education, in addition to racial and gender equality as well as small business financing, home lending and affordable housing.

Redefining Scale in Climate Change Commitments

The finance industry’s leaders have taken on the mission to tackle long-term climate challenges by transitioning both their own operations and their clients’ operations to a net zero global economy with the Paris Agreement in mind. Several leaders in the financial industry have committed to the Paris Agreement’s target to achieve net zero greenhouse gas emissions by 2050 and mobilized significant funding for long-term climate change in the past year, redefining scaled investing in alternative energy and low carbon strategies through their commitments.

US$691 billion
mobilized for climate change

Mobilizing Environmental Solutions
Ten leading financial institutions have mobilized over US$691 billion for environmental finance in particular for climate change and energy
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Transition related investments as they look to tackle longer-term climate challenges beyond 2030.

**Renewable Energy Financing**

Of the US$691 billion in environmental financing, US$484 billion has been mobilized for renewable energy financing, focusing on clean technologies, retrofitting, rehabilitating, or constructing accredited energy-efficient buildings, as well as supporting financing strategies around risk hedging to manage the energy transition.

**Low Carbon Economy Commitments**

The remaining US$206 billion (of the US$691 billion) in environmental financing is focused on facilitating the low carbon economy, including investments and loans to help clients reduce the sector exposure to high carbon industries and supporting the transition to a low carbon economy through targeted loans.

**Driving Inclusion and Impact for Under-Served Communities**

This shows signs of the industry tackling various social and economic issues in a systematic way, laying the groundwork for the sustainable information age.

The global pandemic has revealed longstanding systemic issues that have impeded economic opportunity for communities around the world. In recognition of the broad and deep impact of the crises, leading financial institutions have deployed innovative initiatives to find commercial solutions to drive more equitable and inclusive economic growth across underserved communities globally. The industry leaders have advanced financial inclusion for all through ‘community financing’, which includes lending and investing activities for affordable-housing, economic development, and small businesses across various underserved communities.

**Community Finance**

Ten leading financial institutions have deployed a total of US$407 billion in community finance in 2020, with funds deployed across affordable housing, small businesses, quality education, energy efficient housing and infrastructure development. These commitments demonstrate how development finance has quickly become core to their long-term business strategy.
Small Business and Community Loans
Of the US$407 billion, community finance focused institutions last year disbursed US$393 billion in community small business and affordable housing loans, driving financial inclusion for business owners and residents, and promoting inclusive economic growth in previously underserved communities.

Community Development Initiatives
Additionally, these institutions have deployed US$14 billion in community development initiatives, combining corporate social responsibility funds alongside investment capital to maximize their impact in developing communities through a range of initiatives across healthcare, education, skilling, and housing, among others.

Elevating Social Issues to a Critical Level of Importance
The world witnessed one of the largest racial equality and social justice movements in modern history in 2020, which clearly demonstrated the systemic inequities that minority communities face on a regular basis. The largest financial institutions in the finance industry responded to the growing calls for racial justice through various initiatives to drive economic and social progress among the minority communities and augmented their policies to increase diversity in the workforce.

Commitments to racial equity initiatives
Leading financial institutions have committed over US$33 billion over the next ten years towards advancing racial equity including loans, investments, and direct funding for minority business owners and home buyers.

Affordable Housing
Of the US$33 billion committed to racial equity by industry leaders, over US$26.5 billion is being allocated towards affordable housing and mortgages for minority communities, recognizing the important role of home ownership in providing stability and security and in increasing prosperity in these communities.
Business Loans and Investments

Leading financial institutions have also committed to providing over US$3.0 billion in small business loans and equity investments in minority owned businesses, contributing to economic growth and development in minority communities and accessing new customers with significant future development potential.

Championing Underfunded Opportunities Within the SDGs

A small number of the industry’s leaders have risen to the challenge of tackling the most difficult problems in the world. They realized that simply funding the most easily accessed SDGs, such as renewables, is not enough to achieve the SDGs and increasingly focused on neglected SDGs (which are covered in greater detail in the next chapter), where there has not been as clear a business and investment case established compared to renewables financing. These include initiatives related to clean water and sanitation (SDG6), ending world hunger (SDG2), and preserving biodiversity (SDG15).

- **SDG 6 (Clean water and sanitation)**
  - 12 of the 40 financial leaders have publicly disclosed business initiatives totaling US$37.6 billion aligned to Sustainable Development Goal 6 (Clean water and sanitation). These include financing for water and sanitation infrastructure and storage solutions that are critical to help communities and businesses grow.

- **SDG 2 (Zero hunger)**
  - 9 of the 40 financial leaders have publicly disclosed business initiatives totaling US$39.2 billion aligned to Sustainable Development Goal 2 (Zero Hunger). This includes commitments towards providing nutrition services to vulnerable children through sustainability related bonds.

- **SDG 15 (Life on Land)**
  - 9 of the 40 financial leaders have publicly disclosed business initiatives totaling US$27.2 billion aligned to Sustainable Development Goal 15 (Life on Land) including commitments towards integrating biodiversity risks into financing and investment considerations.

US$3.0 billion for minority business loans and investments

US$37.6 billion in commitments to Clean Water

US$39.2 billion in commitments to Zero Hunger

US$27.2 billion in commitments to Life on Land
Conclusion: A sub-group of leaders emerging

The industry’s most ambitious leading financial institutions have adopted an aggressive stance that differentiates them from those that are at an earlier stage of developing their approach. The key features of the more advanced strategy include making big bold commitments, addressing fundamental issues in the world and their defined communities, stepping to addressing major issues such as the pandemic. These initiatives hold the promise of not only repositioning the organizations in the mind of the public, building a more positive and modern culture, but also creating whole new competences that can have a highly positive impact on the business at large.

- **Trillion Dollar Financial Commitments to Drive the SDGs** - US$7.0 trillion of capital commitments by five institutions to funding the SDGs over the next 10 years

- **Redefining Scale in Climate Change Commitments** - US$690 billion mobilized for environmental finance by ten institutions to tackle long-term climate challenges outlined by the Paris agreement, (representing 84% of the total climate finance by all 100 companies analyzed.

- **Elevating Social Issues to a Critical Level of Importance** - US$33 billion committed over next ten years by five institutions to advance racial equality including loans, investments and direct funding for minority business owners and home buyers

- **Driving Inclusion and Impact for Under-Served Communities** - US$407 billion of community finance deployed by ten institutions for sustainable and inclusive long-term growth of underserved communities (representing c.94% of all community finance mobilized by the 100 companies analyzed.)

- **Championing Underfunded Opportunities Within the SDGs** - US$104 billion of commitments.
  A few leaders are specifically targeting neglected SDGs, specifically focusing on ending hunger, delivering clean water for all, and cleaning the oceans.

Given financial institutions manage or allocate c.US$350 trillion, more than 85% of the world’s gross liquid financial assets, the world is increasingly looking to them to do that in a way that they judge to be responsible and to fund the solutions to big issues. Financial institutions’ actions demonstrate they understand this well, are willing to deploy capital to address critical issues, and still discharge their fiduciary responsibilities.
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