

2° Lending Initiative

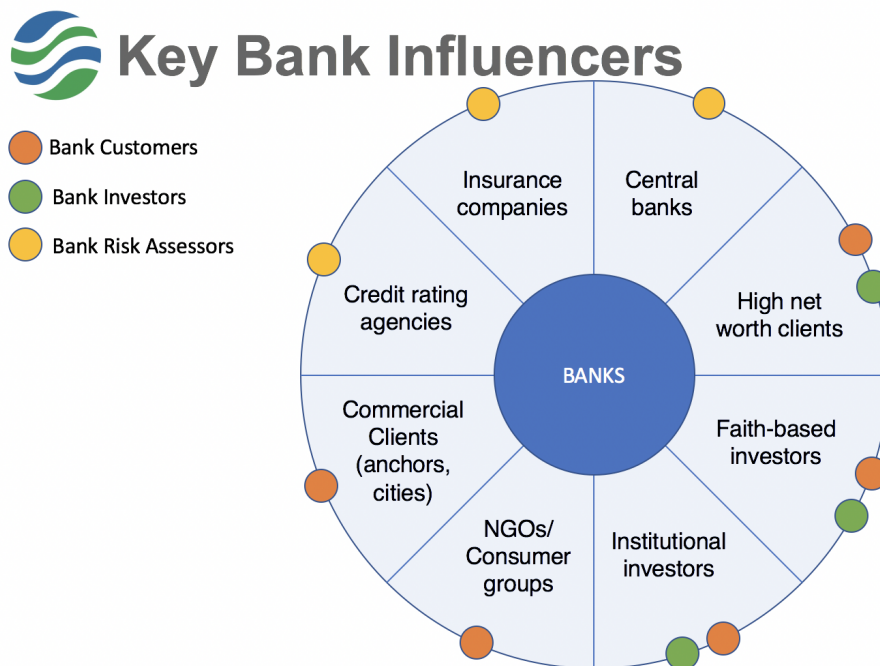
Lighthouse Foundation Grant - Final Report

Since October 2016 Positive Money has played a crucial role in the establishment, growth, and development of the 2° Lending initiative (previously the “Money Matters Initiative”). Following our interim report this short report outlines the progress made since then, including the completion of our research phase, the launching of our Network at the October Strategy & Design session in Aylesbury, and the resulting Initiative Groups that have been created to deliver a climate-positive banking system.

Completion of our Research Phase

Our initial research phase aimed at gaining understanding of how bank lending impacts climate change on a systemic level. To gain such a perspective it was essential that we surveyed the views of practitioners from across the banking and financial landscape, and from different levels of the system. Consequently we expanded our interview cohort from an initial proposal of 30, to just under 100 interviews at completion. Of these, Positive Money conducted 21 interviews, including with participants from central, commercial, and green & ethical banks; regulators; and civil society, drawing on their experiences from across Europe, North America, and from countries in the Global South, such as Bangladesh. In addition, a number of key issue areas were also examined with brief policy documents that were fed into the research process, including different approaches to defining the real economy, potential impacts of making changes to capital ratios, and an examination of the different frameworks that regulate the banking systems in our targeted geographies.

This extensive research process generated insights on the context of bank lending and climate change, the broad ecosystem of influencers active in this space, and possible change pathways through which to change the current banking paradigm and its adverse effects on climate. These insights were then taken to our Strategy and Design session in Aylesbury, to be presented to and assessed by select network participants, and to be carried forward into actionable initiatives to create change.



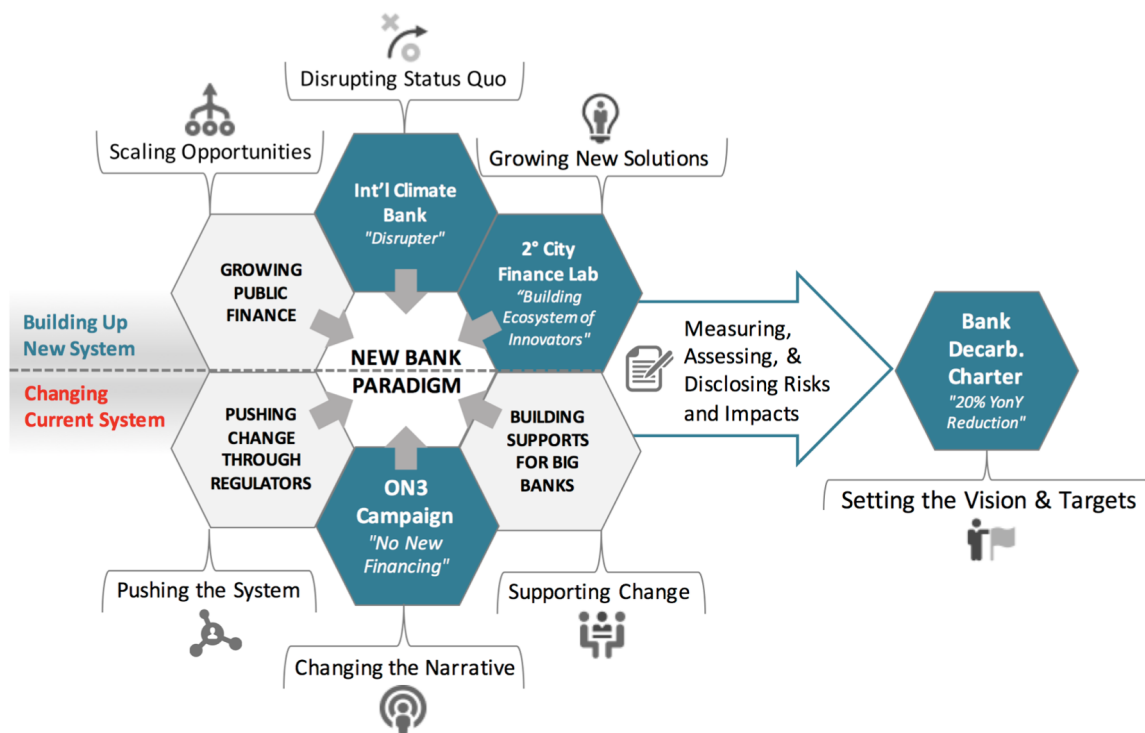
Strategy and Design Session

The Strategy and Design session was held between October 2-3 in Aylesbury, UK, and was a key milestone in the advancement of the 2° Lending initiative. In total 29 members of the network participated in the session, who were carefully selected for being amongst the most influential, collegiate, and collaborative practitioners from our cohort of interviewees. As well as achieving strong representation from across the banking and financial landscape, our Core Team was careful to ensure balanced representation in terms of the gender and geographic location of participants as well.

The session produced a number of significant outputs for the 2° Lending initiative. Firstly, the need to hone our audacious goal to one that includes (or is complemented with) a more intermediate metric was highlighted. While we are still pursuing a European and North American bank lending system that is consistent with staying in within a 2° temperature increase by 2025, the importance of defining how to achieve that was recognised by participants. This refinement remains a key objective of the initiative moving forward.

Secondly, participants of the meeting collaborated to analyse the shortcomings of the financial system's current relationship with climate outcomes, and to identify critical system shifts that will be needed to achieve the desired state by 2025. Informed by the insights derived from our interview and research process, participants identified a total of 28 critical shifts needed to tip the needle on bank lending and climate change - the highest number of critical shifts ever identified using CoCreative Consultancy collaborative network methodology.

Thirdly, participants then prioritised these critical shifts, and aggregated the most important into a strategic framework for creating meaningful impact. Encompassing strategies that are aimed at both changing the existing system and building a new one in its place, participants then designed actionable initiatives to deliver this strategy:



1. **An International Climate Bank** – To design and establish a global financial services institution that offers full spectrum financing for climate initiatives around the world with the

greatest potential for GHG drawdown. The institution would work through intermediaries to aggregate 2°-aligned projects in sectors such as transportation and agriculture.

2. **2° City Finance Lab** – To create an accelerator for those jurisdictions on the brink of establishing cutting-edge strategies and institutions for financing a climate-safe economy, including new regional and local public and community banks. The 2° City Finance Lab will work with innovators in 2-6 cities or regions to build new climate-positive banking systems serving local economies and facilitate divestment from fossil fuels and banks that continue to support them.
3. **ON3 Campaign** – To launch a public campaign among key bank influencers and stakeholders that asks commercial banks to *eliminate all new fossil fuel financing within three years*. The campaign will highlight the human health impacts of climate change, and create an early-adopter club of banks committed to eliminating fossil fuel lending.
4. **Bank Decarbonization Charter** – To create a global charter to be signed by all large banks (GSIB, DSIB) that commits them to: a year-on-year 20 percent reduction of CO² concentration on balance sheets and on gross new lending; a corresponding increase in allocation to climate positive solutions; a reporting framework; and, in time, a move to achieving the Sustainable Development Goals (SDGs).

Next Steps

Following the launch of these initiatives, the Core Team has been working hard to maintain momentum and engagement, with each Initiative Group having attracted a starting cohort and hosting its initial kick off meeting. To successfully deliver positive long-term impact on bank lending and climate change, it is imperative that these Initiative Groups now achieve the stability, energy, and capacity to be self-sufficient, and to effectively pursue their defining goals. Consequently, the next steps of the 2° Lending initiative as a whole will be to ensure this outcome. In particular:

- Enhancing and Developing Governance

To date the 2° Lending initiative has relied heavily on the Core team to conduct research, deliver all outputs, design sessions, attract participants, and to develop the network. Whilst the team has been incredibly successful at getting 2° Lending to this point, there is a degree of capacity overload that needs to be managed, particularly as the network begins to pursue four diverse, complex, and actionable initiatives. To ease this capacity demand, and to deepen the engagement of stakeholders in the delivery of 2° Lending, a key next step will be to enhance and develop our governance structure and ways of working together. Specifically, we are developing a Design Team that will act similarly to a steering committee for the network, as well as an Advisory Board for strategic assistance, and a Backbone Support team to provide administrative and operational capacity (see Appendix 1). Developing and staffing this governance structure will take time, resource, and expertise, but will also ensure the resilience and success of the network in the medium- to long-term.

- Gearing Up the Initiatives

The Initiative Groups have been collaboratively designed and assessed by participants of the network - the next task will be to ramp up the activities of the Initiative Groups, and to generate the requisite momentum, capacity, and influence to create change. As well as continuing to design and implement the Groups' activities, this will need each group to attract additional contributors, and to nurture the ownership that participants feel over these initiatives, to ensure that they are led by industry and integrated within it.

- Alignment, Collaboration, and Partnerships

The issues identified by our research process show that the relationship between bank lending and climate change is not only multifaceted and complex, but that it also crosses borders and jurisdictions. There is fortunately a great deal of activity happening globally in this space, however it is often fragmented, with initiatives and activities operating in parallel. Acting as a convener, 2° Lending has the opportunity to engage and align with other initiatives to help create a coherent movement for change that has the engagement and participation of industry figures. In turn, such alignment and contributions will help to raise the profile and success of 2° Lending.

