UNIVERSITY OF CAMBRIDGE
INSTITUTE FOR SUSTAINABILITY LEADERSHIP

Banking Environment Initiative

Let's Discuss Climate

The essential guide to bank-client engagement

Edition 1 - May 2021

The University of Cambridge Institute for Sustainability Leadership

The University of Cambridge Institute for Sustainability Leadership (CISL) is a globally influential Institute developing leadership and solutions for a sustainable economy. We believe the economy can be 'rewired', through focused collaboration between business, government and finance institutions, to deliver positive outcomes for people and environment. For over three decades we have built the leadership capacity and capabilities of individuals and organisations, and created industry-leading collaborations, to catalyse change and accelerate the path to a sustainable economy. Our practitioner orientated research builds the evidence base for action.

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The Banking Environment Initiative

The Banking Environment Initiative (BEI) is a group of global banks committed to pioneering actionable pathways towards a sustainable economy. The BEI co-produces horizon scanning applied research, develops leadership tools and convenes academic and industry collaborations. It is a member-led, not-for-profit group convened by CISL and initiated in 2010 with the support of HRH the Prince of Wales.

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Authors

The authors of *Let's Discuss Climate: The essential guide to bank-client engagement* were Jasminka Enderle, Annabel Ross and Thomas Vergunst at CISL. They were supported by Nick Villiers, Ben Kellard, Andrea Gangheri, Jason Teo and Anna Lowe.

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Copies

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Contents

Executive Summary

***Let's Discuss Climate: The essential guide to bank-client engagement* has been developed by the University of Cambridge Institute for Sustainability Leadership (CISL) and members of the Banking Environment Initiative. It is motivated by the need for a market-wide transformation in how banks and their corporate clients interact.**

The Guide aims to equip relationship managers to have meaningful conversations with large corporate clients about their decarbonisation plans and associated financing needs.

It has been designed for immediate use by relationship managers and client-facing staff and has been written with them in mind. It will also be valuable for sustainability strategy teams and those who structure the remit and education of relationship managers of large corporate clients, including the heads of business lines.

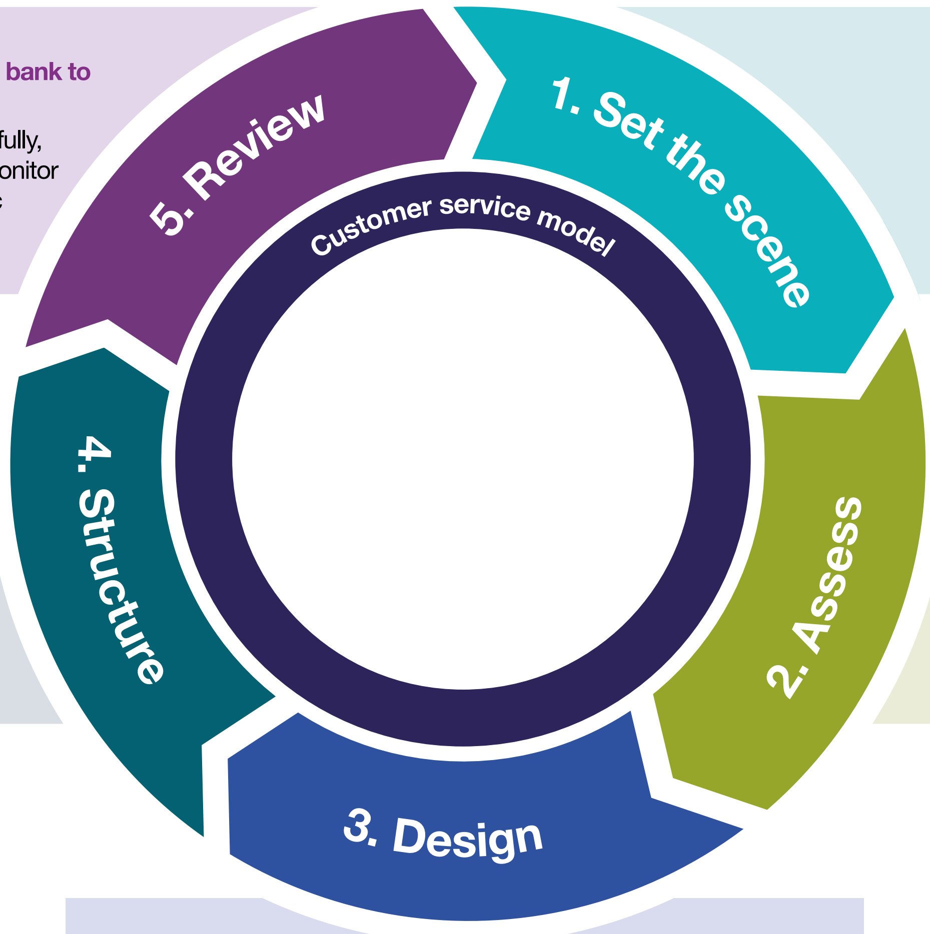
The Guide consists of a five-phase approach. Each phase details the context and targeted outcomes, with helpful resources, guiding questions and ideas to support relationship teams in their research and preparation efforts.

Banks and relationship managers should adapt their use of the Guide to best suit the client's and bank's baseline starting position. For example, engagement and impact may have to be iterative and vary depending on:

- Your bank's structure, strategy and markets as well as its capabilities and product offerings.
- Your client's sector, size and geographical distribution and the extent to which your client has, or has not, made progress on mapping its decarbonisation journey.
- Bank–client dynamic, including strength of relationship and common understanding of climate-related risks and opportunities.

Adequate education and internal supporting structures should be provided to staff to ensure that they feel empowered to engage and challenge clients in constructive ways.

Relationship managers and sustainability teams are encouraged to return to the online Guide frequently as it is intended to be a reference guide that will be periodically updated with new information and relevant resources.



Phase 1 - Set the scene

Establish your client's starting point, position the bank and open up the dialogue.

Target outcomes: Deeper understanding of climate-related risks and opportunities. Clarity about how your bank can support your client in their net zero transition journey.

Phase 2 - Assess

Assess your client's current position and ambitions for the future.

Target outcomes: Both you and your client understand their baseline position, the level of targeted decarbonisation. Map forward-looking strategic and operational implications, alongside financing opportunities.

Phase 3 - Design

Support your client to design a clear transition finance plan.

Target outcomes: Client develops a robust, science-based net zero decarbonisation plan with the appropriate reporting metrics and targets. Associated financing requirements have been identified and prioritised over the short, medium and longer term.

Phase 4 - Structure

Structure financing solutions to support your client's transition.

Target outcomes: Financial solutions for your client's current financing needs are structured, taking into account longer term strategy. Your client and bank agree on financing structure, pricing and a deal is signed.

Phase 5 - Review

Monitor progress and support your client and bank to further advance the net zero agenda.

Target outcomes: Finance is deployed successfully, and client invests to deliver agreed outcomes. Monitor progress and measure impact. Support systemic change of low-carbon business models.

Introduction

The next decade to 2030 will be critical in the transition to a sustainable economy that delivers the future we want, as envisaged by the United Nations (UN) Sustainable Development Goals and the Paris Agreement. We have growing clarity about what leading practice looks like and the type of systemic leadership that will be required to address the economic, social and environmental challenges of the 21st century.[1] The broad concepts, scope and need for change to address climate change are widely recognised. The challenge now is to take urgent action to achieve net zero emissions as soon as possible, while also navigating other immediate challenges.

For over 30 years, the University of Cambridge Institute for Sustainability Leadership (CISL) has worked with companies and individuals who have stepped up to lead change and to tackle critical global challenges in businesses, financial institutions and governments. Our activities include education, policy engagement, business transformation and applied research in sustainable finance. CISL is focused on achieving net zero emissions, protecting and restoring nature, and building inclusive and resilient societies.

We see finance as a key lever for change towards a sustainable economy. Our Centre for Sustainable Finance brings together over 50 financial institutions across five continents to address our three *Rewiring the Economy* tasks for finance through to 2030:[2]

- Ensure capital acts for the long term.
- Price capital according to the true costs of business activities.
- Innovate financial structures to better serve sustainable business.

The Banking Environment Initiative's (BEI) Guide to Bank-Client Engagement supports banks on the third task – that is, to work with clients to innovate and create opportunities in support of economy-wide decarbonisation. It builds on the findings of the BEI's Bank 2030 research, which sets out a vision for banks to accelerate the transition to a low carbon economy.

Banks sit in a unique position, directing capital across the real economy. The *Bank 2030* report, since used to frame board conversations in Australia, the US and Europe, maps the strategic transformation that a bank must undergo to create opportunities and alignment with global decarbonisation imperatives. It highlights the need for strong C-suite and middle management sponsorship, an active mindset at organisational and individual level, and an understanding of a low carbon future that is both necessary and inevitable.

The business case for banks to shift to a low carbon business model includes two factors:

- 'pull factors' – the growing market of low carbon financing opportunities and strengthening the rating and resilience of a bank's client base.
- 'push factors' – these represent the cost of inaction that may arise from the risk of carrying unmeasured and unmanaged physical and transition risk in the bank's portfolio, or from growing pressure from investors, employees and civil society.[3]

Bank 2030 found that core to a bank's response to climate change is the need to empower employees with time and knowledge about the transition. The dialogue between banks and clients will have to be different going forward. Banks' client-facing staff are a vital link between finance and business action. Backed by internal supporting structures, relationship managers can facilitate two-way partnerships with companies to encourage ambitious science-based net zero transitions and provide the necessary financial support.

The improving scope and quality of data is helping companies and financial institutions develop customised transition plans and financing strategies. However, there is a global need to build capacity and knowledge that accelerates climate action, and to actively help companies to decarbonise their business models. The scale and speed required to mitigate the climate crisis means that banks can no longer rely on a few specialists.

For this reason, the Guide to Bank-Client Engagement is designed to support client-facing banking staff to have more meaningful dialogues with large corporate clients about their decarbonisation strategies and associated financing needs. The Guide brings together the most important topics, questions, resources and areas of collaboration to help banking relationship managers frame and structure net zero financing discussions. It can be used as a reference guide, consulted frequently to guide client interactions and decarbonisation financing strategies. It serves to help banks empower their relationship managers to engage clients on climate change – they should not be discouraged by a sense that they do not have all the answers.

We encourage immediate application of the Guide to accelerate climate action in business and finance. The scale of the climate challenge is significant, and we will all have to play a role in supporting the transition to a net zero emissions economy.

What does net zero mean for banks and your clients?

It is clear that a net zero commitment by a bank is a bold step, but one that is being taken by a growing number of institutions.[i] Net zero goes well beyond a bank's operational footprint such as use of energy, business travel and office equipment. A bank committing to align its portfolio with the Paris Agreement will see it take into account the emissions of its full value chain, namely those of its clients and customers. A bank, therefore, cannot succeed without supporting its clients and customers on their own decarbonisation journeys.[ii] The urgent need for collaborative action is a starting point for this Guide.

Targeting net zero emissions by 2050 aligns with current science that underpins the Paris Agreement. This Agreement saw 196 governments commit to limit global warming to well below 2°C above pre-industrial levels and preferably to not more than 1.5°C. As of 2020, the Earth's average temperature had risen by more than 1.2°C since the late 19th century – driving home the urgent need for rapid, far-reaching, economy-wide decarbonisation.[4] Businesses need to achieve net zero as soon as possible, and certainly before 2050 to have a chance of limiting global warming to 1.5°C above pre-industrial levels.

The transition towards net zero will impact banks in fundamental ways. The Bank 2030 report showcases the potential evolution of banking, the business case for action and the contributions the sector can make to achieve a net zero economy by 2050. Driven by a combination of forward-looking management and employees, by investors, regulators and clients requiring transition-related services, bank operating models are already moving away from 'banking-as-usual' (Figure 1).

As banks move into the 'Zone of Transition', they will embed climate-related risks into decision-making frameworks, evolve product and service offerings, and expand coverage to stimulate financing opportunities linked to the net zero transition.[5] This essential transformation of a bank's strategy leads means updating its client relationship model, the outer ring of the circle. It is from this outer ring that this Bank-Client Engagement Guide builds, creating an actionable pathway for banks to integrate.

Description of net zero emissions

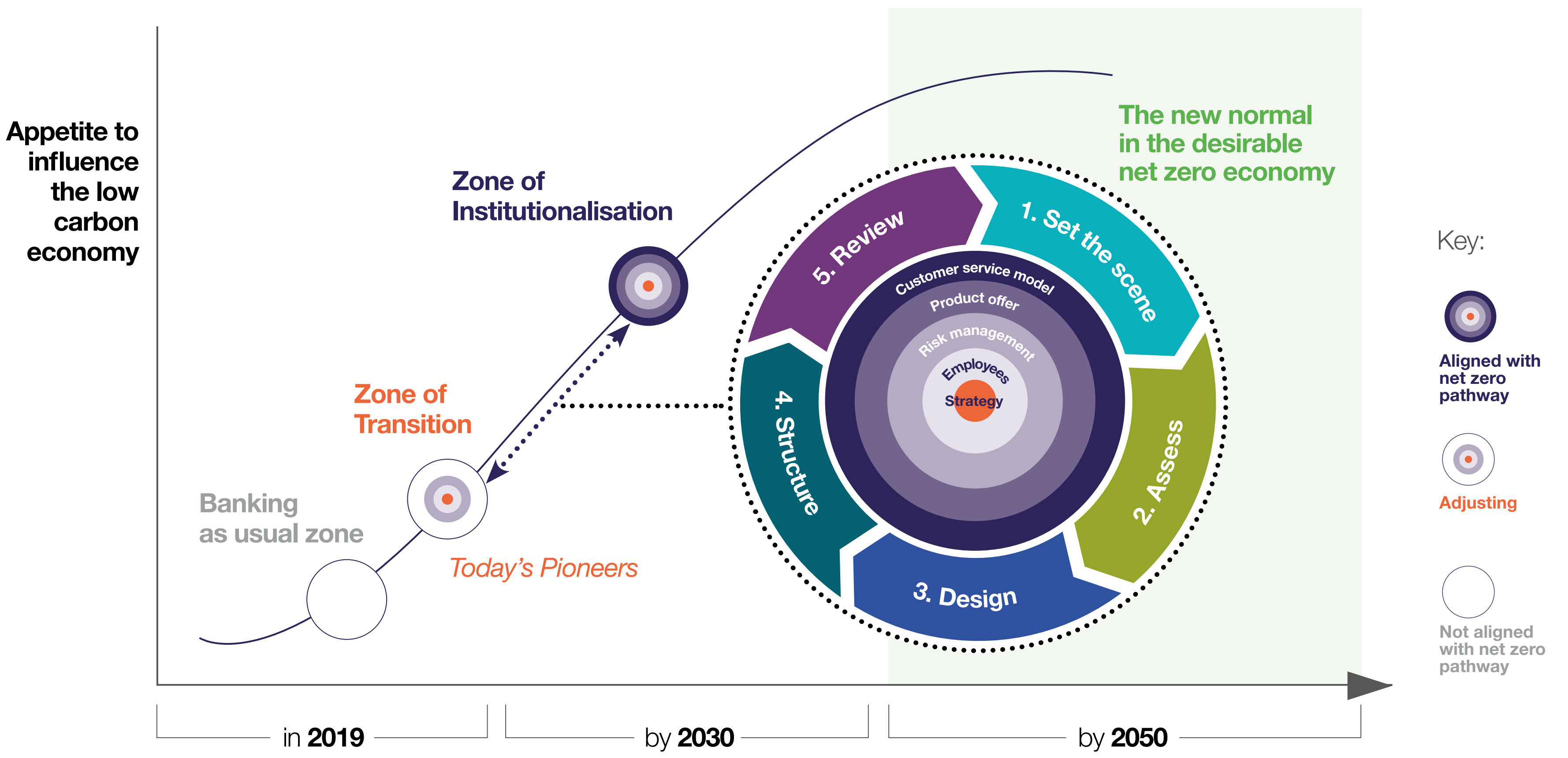
It is critical that relationship managers understand the concept of net zero and what this means for corporate clients. In broad terms, net zero emissions "are achieved when anthropogenic emissions of greenhouse gases to the atmosphere are balanced by anthropogenic removals over a specified period" (Intergovernmental Panel on Climate Change SR1.5).

According to the Science Based Targets initiative, businesses that are working to achieve net zero emissions need to comply with two conditions. They need to:

1. "Achieve a scale of value-chain emission reductions consistent with the depth of abatement achieved in pathways that limit warming to 1.5°C with no or limited overshoot."
2. "Neutralise the impact of any source of residual emissions that remains unfeasible to be eliminated by permanently removing an equivalent amount of atmospheric carbon dioxide." (Foundations for Net Zero)

For more on understanding net zero, see **Appendix – Understanding net zero** and resources in **Phase 1 – Set the scene.**

Figure 1: Accelerating the financing of the low carbon economy – the roadmap to a low carbon bank of 2030. Bank 2030 (CISL, 2020)



Banking as usual zone

- Focus on efficiency, preventing the status-quo from changing
- Have a passive mindset, where the bank is waiting for others to move first
- See sustainability as a reputational matter

Zone of Transition

- Have a forward-looking, active mindset that recognises low carbon opportunities
- Collaborate with others to create shared visions of a low carbon future and its attractiveness
- Create innovative, pioneering practices

Zone of Institutionalisation

- Incorporated forward-looking analysis of climate-related physical and transition risk into the risk framework
- Have stimulated the low carbon pipeline at scale
- Scaled pioneering practices
- Aligned the business and operating model with net zero

The decarbonisation of business models and their entire value chains will be a challenge. Many businesses in a bank's client portfolio will not understand the urgent need for change, while others will be more advanced in their sustainability journey and can act as a point of reference for further change. This Guide is supported by CISL's Targeting Net Zero report, which provides a strategic framework for companies to become net zero and may be useful as relationship managers seek to understand their clients' options and perspectives.

While the overarching agenda for meaningful action is similar from one client to the next, the scale and complexity of decarbonisation will vary. Each sector, and likely each company, has different pathways towards achieving net zero emissions. As a result, financing solutions and client engagement techniques will need to be tailored by banks and individuals involved, as acknowledged through the **Guide** and further discussion in **Overcoming barriers to progress**.

i Examples of banks that have committed to net zero portfolio alignment through the Net-Zero Banking Alliance include Banking Environment Initiative members: Barclays, BNP Paribas, Deutsche Bank, HSBC, Lloyds Banking Group, NatWest, Santander and Standard Chartered.

ii Aligns with Principle 3: Clients and Customers of the Principles for Responsible Banking and Guidelines for Climate Target Setting for Banks (United Nations Environment Finance Initiative).

The Guide to Bank-Client Engagement centres on how banks can help accelerate the transition to a net zero economy, focused on climate change mitigation and adaptation.

We note, however, that the environmental, social and economic challenges we face are interconnected. A holistic approach should be taken by users of this Guide. Decarbonisation depends on and interacts with other global priorities such as protecting and restoring nature and supporting resilient and inclusive societies.

It is essential that the foundations of this Guide not only help banks and clients align with the Paris Agreement on climate change, but that it can also be expanded to encompass broader sustainability goals, with the ultimate aim of aligning finance with the full range of UN Sustainable Development Goals.

"We live in a key time to tackle climate change and the financial sector plays a crucial role in this transition towards a low-carbon economy. We have the responsibility and the opportunity to support our clients, such that discussions on decarbonisation must take centre stage. The Banking Environment Initiative's Guide to Bank-Client Engagement represents an important tool for the banking industry, to facilitate proactive support and solutions for our clients as they transition to net zero emissions."

Steffen Kram, Global Head of ESG Solutions at Santander Corporate & Investment Banking

"Business cannot succeed in societies that fail."

Paul Polman, Co-founder and Chair of IMAGINE, Chair of the International Chamber of Commerce, The B Team, Saïd Business School and The Valuable 500, and Vice-Chair of the UN Global Compact. Former CEO of Unilever

The Banking Environment Initiative's Guide to Bank-Client Engagement

Reshaping client relationships to support the transition to net zero

The Guide to Bank-Client Engagement maps how banks can proactively support their clients to transition to net zero emissions as soon as possible. It aims to support client-facing colleagues to have more strategic conversations with their clients about the risks and opportunities posed by climate change. Critically, it also enables the user to assess, design and structure possible solutions for clients.

Who is this Guide for?

This Guide has been designed for immediate use by relationship managers and client-facing staff. It will also be valuable for sustainability strategy teams and those who structure the remit and education of relationship managers of large corporate clients, including the heads of business lines.

The Guide can be used by all banks that are looking to take a leadership position. It has been developed to guide leading banks through *Bank 2030*'s Zone of Transition, towards the Zone of Institutionalisation (see Figure 1).

The Guide is currently sector-agnostic and primarily designed for collaboration with larger corporates. This is because large corporates have the resources to collect climate-related data and to design and implement decarbonisation strategies. Future research will explore how this Guide can be adapted for small and medium-sized enterprises (SMEs) and the respective bank coverage models.[iii]

The Guide acknowledges that relationship managers are not specialists in climate change. It, therefore, provides guidance on where collaboration can help to enhance engagement and signposts lots of useful resources.

Relationship managers are influential and can be important levers for change. Client-facing bankers can help raise awareness and highlight the advantages of net zero business practices by showcasing market and competitor dynamics, highlighting the growing body of climate-related risk scenarios and supporting clients to chart a path forward. This can help to build trust, strengthen relationships and create mutual benefit.

iii Forthcoming: Cambridge Institute for Sustainability Leadership (CISL), the Banking Environment Initiative and partners of the SME Climate Hub.

What outcomes can you, as client-facing bankers, expect from using the Guide?

1. Deeper understanding of your clients' business and financing needs, with clarity on where the bank can innovate and derive commercial benefit in line with the Paris Agreement.
2. Stronger strategic partnerships with your clients and a wider support network built up around your organisation (see Figure 2).
3. Decarbonisation of your bank's portfolio to mitigate climate-related risks and to deliver against internal net zero commitments.

How to use the Guide

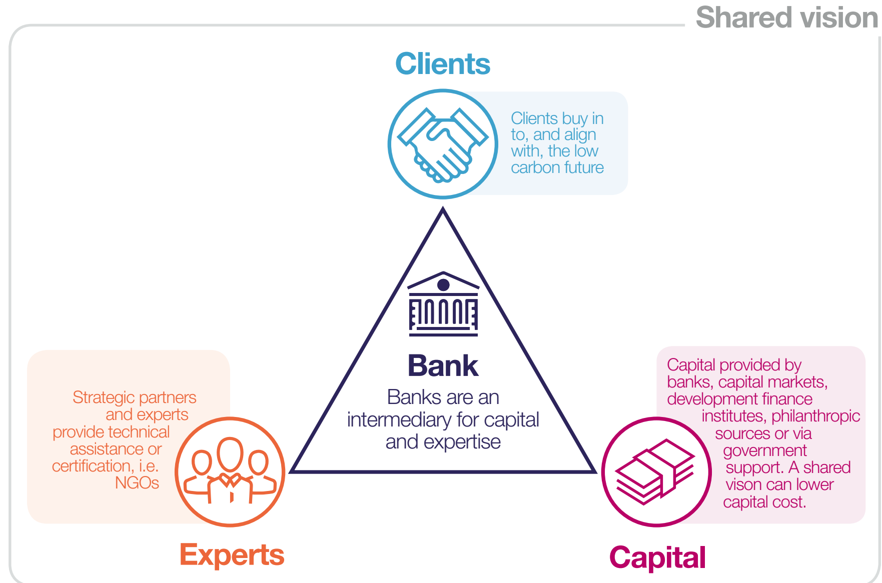
- **Use it as a reference guide to inform client conversations**, structure questions and facilitate a client's transition towards net zero business practices.
- **Establish which phase would be most relevant to you** based on your existing knowledge and interactions with each client. The journey may not be linear, and you may have to spend more or less time on each phase depending on your client's starting position (which in some cases may be well ahead of your bank's). See **Client's climate maturity and willingness to engage**.
- **Return to the Guide** as your client's decarbonisation journey progresses and the financing relationship evolves. You will be able to pick up more advanced elements in each phase, and regular updates to the Guide will incorporate growing understanding of net zero transition pathways and financing considerations.

How the Guide was developed

The Guide has been researched, created, tested and refined by CISL's Centre for Sustainable Finance in partnership with BEI members and CISL's Centre for Business Transformation. Research included a literature review, interviews and consultations with those named in the **Acknowledgements**.

The Guide builds on existing frameworks and tools, signposting these in the resources in relevant phases. It is informed by CISL's considerable expertise working with financial institutions and real economy businesses on decarbonisation strategies as well as transition and physical risks.[iv] For more on these activities please refer to the CISL website and the BEI's programme of decarbonisation work.

Figure 2: Banks creating a shared vision with clients, experts and sources of capital
Bank 2030 (CISL, 2020)



Each phase details:

WHY: Context and targeted outcomes for relationship managers' impact in accelerating the client transition to net zero.

HOW: Areas for the relationship team to research and prepare for client interaction.

WHAT: Meaningful questions to open up strategic dialogue with your client.

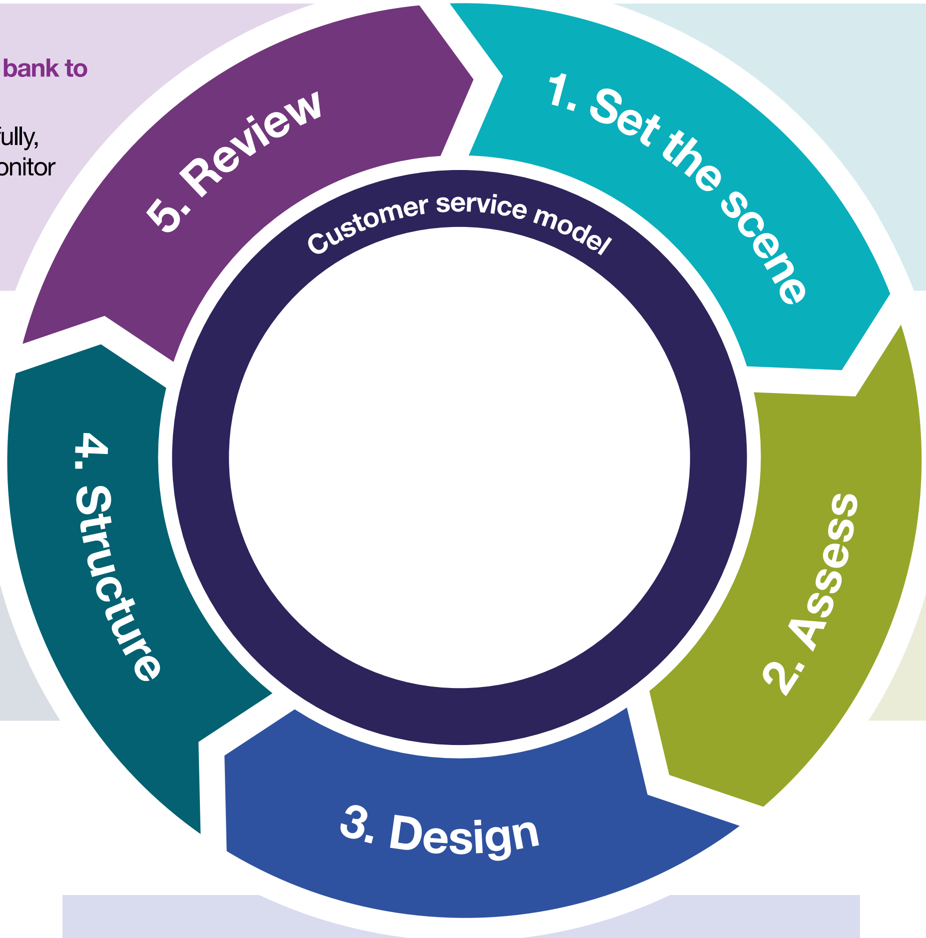
WHERE: Resources to help you find new and interesting topics to take to your client.

WHO: Wider bank collaboration to recognise the support you might seek to help you better progress with clients.

In the appendix you will find important considerations for:

- **Understanding net zero**
- **Integration into existing business practices** (roles and responsibilities, education, bank climate commitments and culture, available resources and the importance of incentive alignment).
- **Overcoming barriers to progress** (client's climate maturity and willingness to engage, sectors, size and geographies, taking a systemic approach, banking regulation, capital requirements, data availability and collaboration across finance).

[iv] Examples of existing frameworks and tools include Bank 2030, UNEP FI's Principles for Responsible Banking, CDP's Questionnaire for Corporates and Financial Services Companies, the CISL Net Zero Framework for Business, Science Based Targets initiative and Theory U: Leading from the Future as It Emerges.



Phase 1 - Set the scene

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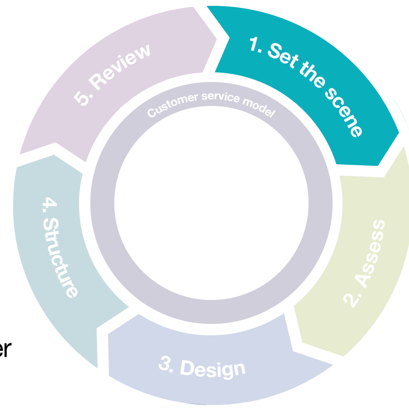


1. Set the scene

Establish your client's starting point, position the bank and open up the dialogue

The journey represented by the Guide starts with getting a sense of where your client is on their decarbonisation journey. This is from the perspective of both the individual contact and the organisation as a whole. Discuss the broader context of climate change for your client's sector and how your bank can add value. Depending on your initial findings, direct your engagement appropriately, positioning your bank as a key partner in their decarbonisation journey.

It is important to be authentic in these conversations, so your bank's purpose and strategy alignment will be key. The field of sustainability is advancing rapidly. A lack of confidence in your knowledge about climate change and corporate responses does not have to hold you back in your conversations with clients. Many people are having to upskill very rapidly in this space and your primary role in this phase is to encourage an open discussion with your client.

The aim is to form a closer partnership to navigate the changing landscape, drawing in sustainability or sector specialists where required. You can do this by asking the right questions. While these may not be easy conversations, taking you and your client into new territory, the bank's relevance and value creation opportunities will rely on the way you engage with your clients on the decarbonisation theme.

Target outcomes of this phase

- Client and bank have a deeper understanding of the climate-related risks and opportunities facing their business and sector, and how advanced the client is in relation to taking action.
- Client and bank are aligned on the role of business and finance in acting now to support long-term interests for the societies, natural environments and economies that they operate in and rely upon.
- Client is now more open to further conversations about how your bank can support them in their net zero transition journey.

Wider bank collaboration

Examples of how other areas of the bank could support relationship managers in this phase:

- Consistent messaging from C-suite and across the bank
- Client workshops and outreach
- Education courses, materials and regular feedback loops for internal capacity building
- Knowledge hub and good organisational signposting of who can help
- Case studies of the bank's credentials in sustainable finance
- Aligning incentives for staff

Key partners for this phase:

Strategy, sustainable finance specialists, sustainability and sector research, learning and development

1. Set the scene

Establish your client's starting point, position the bank and open up the dialogue

	HOW can you best prepare?	WHAT impactful questions can you ask your client?	WHERE can you find supporting resources with examples of what good looks like?
1.1	**Bank:** Understand your bank's climate commitments and strategy. Locate your bank's climate-related knowledge hubs, policies, products, services and client case studies of relevant transactions. Start to identify how you and your bank can support your client to take action immediate so that they can thrive as part of a net zero economy.	What, if anything, does net zero emissions mean to you and the wider company? Lead with what it means to your bank. How can we, as your banking partner, best support you on this journey? Provide examples of offerings, e.g. education workshops, research papers, specialist networks, advisory.	**Bank:** Your organisation's climate and sustainability strategy, voluntary disclosure and reporting, research papers, e.g. Bank 2030: Accelerating the transition to a low carbon economy (CISL, 2020) – includes useful info for pitching the net zero business case. Financial Sector Science-Based Targets Guidance (SBTi, 2020).
1.2	**General:** Research the net zero topic. Engage with colleagues to expand your understanding of climate change and how corporations are responding, both strategically and operationally. Identify and develop a network of trusted external partners, including bank networks, rating agencies, non-profit organisations and academia to stay up to date with the latest data and research – the resources column throughout the Guide will help.	How comfortable and clear are you on the topic of climate change and its implications for your business?	**General:** The Paris Agreement (UNFCCC, 2015). ClimateAction100+ Successes. Transform to Net Zero. Net Zero Unpacked (including Common myths and barriers preventing climate action) (CISL, 2020). **Education:** CISL's online courses in Sustainable Finance, Business and Climate Change, and Business Sustainability Management.
1.3	**Client:** Using public or private information, identify what climate-related information your client has publicly disclosed, e.g. objectives and commitments. Use this information to get a sense of the extent to which they have considered, and are responding to, climate-related risks and opportunities. This will help you pitch the conversation at the right level. **Sector:** Build understanding, in broad terms, of the changes occurring in your client's business landscape and the strategic implications of climate-related risks and opportunities for their business. Identify leadership examples of comparable companies that are addressing net zero to showcase peer action.	Does your organisation have a climate action strategy articulating climate-related risks and opportunities? How connected are the finance team to management's climate-related strategy, risk, planning and execution? Who do we need in the room to be able to further assess your decarbonisation strategy and financing needs?	**Client:** Company reporting and investor presentations – evidence of board-level accountability, culture of innovation and forward-looking analysis. Targeting Net Zero: A strategic framework for business action.

"Many of the methods [to channel capital into the low carbon economy] require the bank to 'lean in' with the client, promoting the benefits of a low carbon transition.

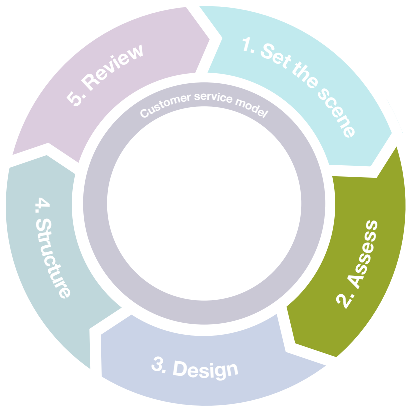
Take the opportunity of transitioning agricultural practices; as one interviewee commented, 'banks can do a better job at educating their borrowers on what sustainable agriculture looks like in 10–15 years', meaning that the bank could either highlight low carbon farming practices that sequester carbon and enhance yield or bring in external experts to make the case more compelling.

Again, benefits for the bank are likely to be tangible, in the form of additional lending or a more resilient borrower, and intangible – a stronger relationship with the client."

Bank 2030: Accelerating the transition to a low carbon economy (CISL, 2020)

2. Assess

Assess your client's current position and ambitions for the future



Having completed Phase 1, your client should be primed, if they were not already, to go deeper into how you can help them respond positively to climate-related risks and opportunities. Phase 2 sees you and the client refining the initial sense check by carrying out a thorough qualitative and quantitative assessment of their baseline position as regards their decarbonisation strategy.

Companies will be starting from different points, depending on their size, sector, geographical footprint and sustainability objectives. Leading corporates will already have made substantive progress, with a much clearer sense of their transition plan and resulting financing needs. This assessment helps you know where to focus in the subsequent phases.

The questions presented here are designed to prompt interesting and ambitious conversations with your client that build a more strategic and forward-looking partnership. Data collection and collation should be considered in respect of existing corporate and banking frameworks – both voluntary and mandated (recognising that in a number of countries large corporates are required to disclose climate-related information).[v]

This Guide is an iterative process so you will likely return to assess the client as data, corporate strategies and decarbonisation plans evolve and are revised as part of subsequent phases.

Target outcomes of this phase

- Relevant and reliable information will have been collected to begin scoping areas for an enhanced partnership.
- You and your client both understand their baseline position, the level of decarbonisation targeted and how far they have progressed to date.
- You will have ideally mapped forward-looking strategic and operational implications of climate-related risks and opportunities, alongside promising business activities and financing opportunities.

Wider bank collaboration

Examples of how other areas of the bank could support relationship managers in this phase:

- Access to databases, methodologies and tools that support the gathering of data and assessment at borrower and sector level
- Co-ordination of digital solutions that optimise client interaction, e.g. a common climate data file that clients prepare to be used by all their banks
- Alignment of systems that bring together client onboarding, relationship management (CRM platforms), credit approval processes and TCFD reporting

These points of collaboration can facilitate consistency and efficiency of climate-related data collection, sharing, analysis and communication across the bank.

Key partners for this phase:

Sustainability team, sustainable finance specialists, credit risk teams, system architects, regulatory and impact reporting teams

[v] For instance, the UK's Financial Conduct Authority (FCA) has mandated that UK premium listed commercial companies have to provide climate-related financial disclosures on an annual basis.

2. Assess

Assess your client's current position and ambitions for the future

	HOW can you best prepare?	WHAT impactful questions can you ask your client?	WHERE can you find supporting resources with examples of what good looks like?
2.1	Evaluate your client's climate strategy and assess the climate-related opportunities for their business.	Is the company innovating processes, products or services to harness opportunities linked to the transition to a low carbon economy? Are you able to identify new opportunities that may require financing? How much budget is allocated for research and development to determine new low carbon sourcing options, and innovate lower carbon products and services? Have you considered the views of your clients and stakeholders, and the potential positive impact of taking action on climate change?	Climate Action 100+ Benchmarks and Progress Reports. Net Zero Framework – A. Analysis (CISL, 2020). **Case study:** ACT - Assessing Low Carbon Transition by CDP and ADEME
2.2	Assess risks that might have a substantive financial or strategic impact on your client's business.[vi]	Has your organisation undertaken climate-related scenario and risk analysis? Have you determined the actual and potential climate-related impacts on your business strategy and financial planning (operating expenses, capital expenditure, mergers & acquisitions and debt) over the short, medium and long term?[7] Have you factored realistic future carbon prices and liability costs of high carbon activities within decision-making mechanisms and investment plans?	Company reporting. CDP scores and data, Carbon Tracker company profiles, Bloomberg terminals, ESG and credit ratings services such as EcoVadis, Vigeo Eiris, Sustainalytics, MSCI and ISS. Sustainability Accounting Standards Board SASB Standards. Climate Disclosure Standards Board. Partnership for Carbon Accounting Financials (PCAF). **Case study:** Bank-led methodologies such as Barclays' BlueTrack™.
2.3	Identify client's Scope 1, 2 and 3 emissions (see Figure 3) and the related risks, targets and commitments. Leading companies will report publicly on their full value chain climate goals and progress towards them.[6,vii]	If not reported publicly, what emissions measurement capabilities (Scope 1, 2 and 3) and science-based targets does your company have, or is your company considering? Are there clear short (2025), medium (2030) and long-term targets (2040–50)?	See company reporting and investor presentations. The types of resources needed will depend on your client's emissions measurement capabilities.
2.4	Identify the existence of a credible evidence-based transition plan in line with the Paris Agreement. Determine comparability with sectoral and regional standards and assess the extent to which the plan correlates with stated commitments.[viii] If a client is found to be lacking in this area, refer to **Phase 3**.	If there is a transition plan, are you clear on how your business operations and financing will need to evolve to deliver on it? Have you worked with external specialists to determine your needs, goals and opportunities in line with the latest climate science and sector leadership? How does your organisation perform against expected sector transition pathways?	The Climate Action Pathways outline sector-specific visions for a 1.5°C climate-resilient world by 2050 and set out actions needed to achieve that future. Carbon Trust Resources. Transition Pathway Initiative sectors. ACT (Assessing Low Carbon Transition – CDP). Paris Agreement Capital Transition Assessment (PACTA).
2.5	Evaluate client's awareness and influence of their value chain dependencies and impacts on climate-related themes – both social and environmental.	Has your company identified climate-related dependencies and impacts in your supply chain and customer offer? How much visibility and influence do you have over your company's supply chain and its net zero alignment? What more can the organisation do to decarbonise its value chain? Does your organisation assess the life cycle emissions of any of its products or services? How is your company working with customers to minimise the negative impact of the company's products and services, and to innovate to harness opportunities linked to the changing market?	Carbon Footprinting Guide (Carbon Trust). Corporate Value Chain (Scope 3) Accounting and Reporting Standard (GHG Protocol). Net-Zero Challenge: The supply chain opportunity (World Economic Forum, 2021). Trado: New technologies to fund fairer, more transparent supply chains (CISL, 2019). Education: Sustainable Supply Chain Management online course. **Case study:** Kering's Environmental Profit & Loss.
2.6	Assess the obstacles your client might face. If needed, establish new relationships within the client's organisation to connect with the teams responsible for the sustainability strategy and transition plans.	How deeply is your company integrating its climate commitments in its corporate strategy, including engagement of all business lines and functions? How is your company measuring progress towards stated targets or commitments, and what plans do you have in place if it becomes apparent that you may miss your targets? What are the constraints your company faces that may prevent your transition plan from materialising? How can the bank assist in addressing the challenges that you might face?	Additional resources depend on the specifics of your bank, client and product offering.

vi Aligned with CDP Climate Change 2021 Questionnaire C2.3a, C2.4a.
vii Aligned with CDP Climate Change 2021 Questionnaire C-AC7.4b/C-FB7.4b/C-PF7.4b, C4.1
viii Aligned with CDP Climate Change 2021 Questionnaire C3.1a, C3.1b.
ix Aligned with CDP Climate Change 2021 Questionnaire C-CG6.6

"Undertake analysis and build analytical capability to ensure business responses to net zero are informed by thorough understanding of climate-related risks and opportunities and the organisation's contribution to climate impacts. Depending on the level of board awareness and buy-in, this may need to be iterative to build the case for a more thorough analysis."

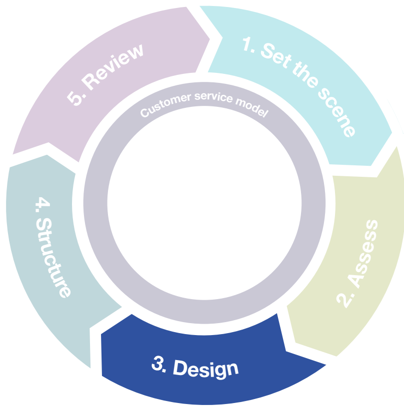
Targeting Net Zero: A strategic framework for business action (CISL, 2020)

"Not all information that influences the long-term future of a business can be reduced to numbers… Sustainability reports are dominated by information on historic reporting, but investors should be asking about strategy and how the company knows its strategy addresses risks and opportunities."

Dr Carol Adams, Investors are asking the wrong questions on sustainability, FT. Source.

3. Design

Support your client to design a clear transition finance plan



Building on Phase 2, and particularly element 2.4 related to establishing whether a credible transition plan is in place, you can now determine the best way to support your client as they design or enhance their decarbonisation strategy.

Every business will need to design their own climate action plan, which may be part of a wider sustainability or Environmental, Social, Governance (ESG) strategy. While this design phase sits outside of a bank's remit, it remains in a relationship manager's sphere of influence. Your role is likely to be highlighting the need for a decarbonisation transition strategy and signposting useful resources and potential strategic partners.

Encouraging and supporting your clients to set ambitious transition plans will help their business positioning and ensure that they remain resilient in the face of growing climate-related risks and opportunities. Their targets and measures will be relevant for both client and bank reporting, risk mitigation and financing opportunities covered in the subsequent **Structure** and **Review** phases. Your bank may be able to support clients to ensure that the Key Performance Indicators (KPIs) they are setting are robust and relevant to attract the financing they will need to invest and deliver on their decarbonisation and broader sustainability objectives.

Once you understand your client's transition plan, and it has been validated as robust as per the **Phase 2** guidance, you can bring your colleagues together to establish where your bank can add value over the short, medium and long term.

Target outcomes of this phase

- Client has a robust plan for how they can transition to net zero based on the latest scientific evidence and leading sectoral practice.
- Appropriate metrics and targets have been established to address the gaps identified during the Assess phase, which can be embedded into financial structures.
- Associated financing requirements have been identified and prioritised over the short, medium and longer term.

Wider bank collaboration

Examples of how other areas of the bank could support relationship managers in this phase:

- Build a network of trusted internal and external partners
- Knowledge hub and good organisational signposting of who can help
- Transition pathway research and relevant market updates for key sectors

Key partners for this phase:

Sustainability strategy specialists, external partners (e.g. consultants, technology solutions experts, peer comparisons and academia)

This phase can be skipped for clients who are already well advanced on their sustainability journey and have a clear action and investment plan for reducing their greenhouse gas emissions.

3. Design

Support your client to design a clear transition finance plan

	HOW can you best prepare?	WHAT impactful questions can you ask your client?	WHERE can you find supporting resources with examples of what good looks like?
3.1	Ensure your client has the expertise and support they need to set, measure and understand objectives, progress and impact as they build their decarbonisation/transition strategy. Banks will be building expertise in particular sectors as this work develops. Sharing this learning with colleagues and clients will be a value-add service. You might be able to signpost and introduce your client to experts outside the bank who are able to support with the design of robust transition strategies.	Has your company sought advice in creating a credible transition plan with science-based metrics and ambitious KPIs? Which external providers are supporting you? Can we help you by connecting you with trusted partners?	Targeting Net Zero: A strategic framework for business action – Business Briefing and Case Studies (CISL, 2020). Project Drawdown climate solutions by sector, Net Zero Climate Tools Library, right. based on science, Say on Climate – Transition Action Plans. Embedding Project, Climate Transition Finance Handbook (International Capital Market Association, 2020. Financing Credible Transitions and Sector Criteria (Climate Bonds Initiative, 2020). Leading with a sustainable purpose (CISL, 2020): sections on purpose, strategy, metrics, evidence-based goals and external partnerships. SME Climate Hub (for large corporates engaging with SMEs in their value chain).[8] **Case study:** Unilever's climate action plan
3.2	Identify what financing needs your client's decarbonisation strategy will require. Design a financing plan over the short, medium and long term that links to expected investments and working capital flows in support of climate objectives.	Is your decarbonisation strategy set to be: • quantitatively measurable (based on a measurement methodology which is consistent over time) • aligned with science-based trajectories where such trajectories exist • publicly disclosed (ideally in mainstream financing filings), with clear interim milestones • supported by independent assurance or verification? [x]	Bank 2030 – Accelerating the transition to a low carbon economy (CISL, 2020). Catalysing Fintech for Sustainability: Lessons from multi-sector innovation (CISL, 2017). Defining Transition Finance (Environmental Finance, 2019). **Case study:** Right.based on science and BNP Paribas
3.3	Build data considerations into your financing plan. Explore if it is possible to align your bank's and your client's climate-related metrics and targets – this will be important for bank portfolio reporting, monitoring and **Phase 5 – Review.**	What data infrastructure do you think you need to support efficient business decisions towards KPI achievement?	Seek guidance from internal reporting teams and refer to **Phase 2 – Assess.**

[x] Aligned with ICMA Climate Transition Finance Handbook

"Setting a net zero target is easy but reaching it will require a shift in both metrics and mindsets. We didn't get to the moon by thinking 'let's get to the top of Everest and worry about the next step when we get there'. We started with the end in mind. That's what all good designers do, and all business leaders must become designers now. Incremental thinking won't get us there. Efficiency drives won't get us there. We have to completely reimagine how we create value – fundamentally redesigning our products, our processes, our procurement practices, and ultimately our business models."

Geoff Kendall, Co-Founder and CEO, Future-Fit Business. Targeting Net Zero: A strategic framework for business action (CISL, 2020)

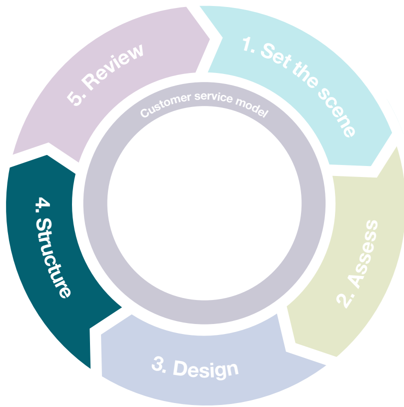
"With these foundations [steps to empower employees] in place, we observed that it becomes possible for the bank to bring counterparties together to promote and then realise visions of a low carbon future – to connect clients with experts and capital that improve the visibility and attractiveness of low carbon business cases.

It begins with a deep, trusting client relationship, where the bank is a 'critical friend'. This makes it possible to have difficult, but business-critical conversations about the transition. In these conversations the bank can share a vision of a low carbon future with clients. If it has also spent time cultivating relationships with experts, it can then connect the client with the experts or tools needed to realise that vision. These partnerships with experts provide the client(s) with confidence and/or technical assistance."

Bank 2030: Accelerating the transition to a low carbon economy (CISL, 2020)

4. Structure

Structure financing solutions to support your client's transition



Now that a forward-looking transition finance plan has been mapped in collaboration with your client, you, as the relationship manager, can harness the strengths of your bank to meet their financing and liquidity needs in line with the client's climate objectives.

Your primary role is to use your expert knowledge of the client to structure appropriate financial solutions with your colleagues and put them forward to the client to turn their strategy into a financed reality. This presents an opportunity to identify unmet needs and share these with colleagues to enable innovation.

Establishing a long-term transition finance partnership with the client may lead to innovating new products and services. It may also require restructuring old financial facilities that do not serve the updated decarbonisation targets and strategy. This phase sits predominantly within your bank, or the client's banking group for syndication considerations. You and your bank can generate opportunities and new ways to scale low carbon financing that sets your bank up as a leader in this space.

Capital requirements and regulation are particularly important to consider (see **Overcoming barriers to progress**). The banking group will need to carefully consider how to support these updated business priorities and their implications for the bank's own exposure to climate-related risks, and its ability to achieve its own organisational decarbonisation targets.

Target outcomes of this phase

- Financial solutions for your client's current financing needs are structured, taking into account longer term strategy.
- Parties involved agree on structure and pricing.
- Mandate is awarded and a deal is signed.

Wider bank collaboration

Examples of how other areas of the bank could support relationship managers in this phase:

- Range of solutions across advisory, loan syndication, debt capital markets, foreign exchange, derivatives, cash management, trade finance, leasing, project and asset-based finance
- Legal frameworks to support innovation and structuring
- Credit risk management and strategy alignment with net zero direction
- ESG and ratings advisory

Key partners for this phase:

Product specialists, sustainable finance specialists, credit risk management, syndication with other financial institutions

4. Structure

Structure financing solutions to support your client's transition

	HOW can you best prepare?	WHAT impactful questions can you ask your client?	WHERE can you find supporting resources with examples of what good looks like?
4.1	Identify current financing commitments and what needs to change to serve your client's updated transition finance strategy, noting whether needs are for general corporate purpose or are asset specific.	In what ways does your existing financing structure create barriers to achieving net zero? What changes (e.g. refinancing) could we support you on to facilitate appropriate financing for your strategic net zero transition needs? Bearing in mind the decarbonisation-related opportunities identified, do you require additional financing facilities? Further to conversations in previous phases, what level of KPIs could be embedded into financing solutions to support enhanced action towards your climate-related objectives?	Resources are dependent on the specifics of your bank, client and product offering.
4.2	Bring together specialist colleagues to innovate financial solutions for the client's net zero transition needs, as determined in the **Design Phase**. Take a customer-centric approach to enhance alignment and create realistic, evidence-based solutions, reimagining the ways your banking activities can help drive positive change.[9]	Further questions will be driven by the specifics of your bank, client and product offering.	Principles for sustainable finance instruments (International Capital Market Association). Green Loan Principles (Loan Market Association, 2021). ASEAN Green Financial Instruments Guide (Climate Bonds Initiative, 2019). Sustainable Supply Chain Finance (Business for Social Responsibility, 2018). Bank 2030: Accelerating the transition to a low carbon economy (CISL, 2020); Section 5 (Financial Instruments) and 6 (Opportunities).
4.3	Embed KPIs or Use-of-Proceeds metrics based on sector-relevant science-based benchmarks. External verification is recommended. Ensure that covenants are not lower than the client's own targets and that they demonstrate ambitious commitments and additional action that go well beyond business as usual.		Second-party opinion services e.g. Sustainalytics, Vigeo Eiris, ERM, examples provided by Climate Bonds Initiative.
4.4	The bank will need to overcome its own barriers to unlock financing opportunities with clients such as pricing, creating new products and services and, at sector level, advocating for updated regulation to support a level playing field for economy-wide decarbonisation. There is an opportunity for relationship managers to feed insights into product development, research and policy teams to support a stronger offering.		See **Overcoming barriers to progress**
4.5	Identify potential syndication partners for the transition plan to be fully financed, e.g. public/private blended finance. Engage credit risk, legal and any other stakeholders needed to structure appropriate solutions.		Resources are dependent on your bank's internal structure and partnerships with other organisations.

"It is the active mindset of some bankers that marks them out from their peers – a mindset that prioritises relationships over transactions and which is underpinned by a forward-looking attitude that sees a low carbon future as inevitable.

It can be said that such bankers have a 'make the future possible' mindset – one seeking to expand the pipeline for green finance – rather than a 'serve the market' mindset. Bankers with this active mindset take action because they think it is essential to their business – that it will help them serve the successful clients of the future, avoid risks, generate returns and maintain their social license to operate."

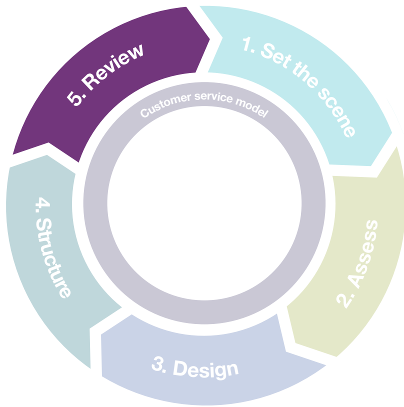
Bank 2030: Accelerating the transition to a low carbon economy (CISL, 2020)

"In support of this [net zero], businesses will benefit from harnessing new, emerging opportunities for cheaper and more patient forms of financing to support the transition. A growing number of investors, bankers and insurers are collaborating with corporate clients and bringing forward new financial products – including products that offer discounted financing – to support transition and take low carbon solutions to scale."

Targeting Net Zero: A strategic framework for business action (CISL, 2020)

5. Review

Monitor progress and support your client and bank to further advance the net zero agenda



This final phase involves reviewing what worked and what can be improved in support of your client's net zero emissions transition plans, and progress towards your bank's climate change commitments and market positioning. It can act as an important means of deepening the relationship with your client and provide an opportunity to explore how ambitions can be scaled and what innovations may be required to enable future rounds of financing.

You can now look to consolidate learnings and share product development and broader ideas that may be worth scaling in the bank. You can also apply your knowledge to other clients that would benefit from your insights and support. In this way, you can continue to work with your client base to monitor their transitions and re-evaluate their financial needs where necessary, revisiting the phases as part of a continuous improvement process.

As time goes on enhancements in this phase will enable more efficient reviews of impact, including quantitative metrics, aligned incentives, efficiency statistics and direct links between a bank's increased support and positive outcomes for the bank, clients and broader society.

Target outcomes of this phase

- Finance is deployed successfully, and client invests to deliver agreed outcomes.
- Tools have been established to monitor progress, measure impact and ensure methodologies and financing remain relevant to client's needs and objectives.
- Bank and client have explored avenues for unlocking barriers that could support systemic change and the commercialisation of low carbon business models.

Wider bank collaboration

Examples of how other areas of the bank could support relationship managers in this phase:

- Ensure high-quality service, monitoring and feedback
- Reporting structures align with latest requirements to support both bank and client disclosure
- Policy and sustainability teams update wider bank with developments relevant to client interactions
- Group strategy can iterate in response to and in support of updated client and market needs
- Centralised knowledge hub is updated to support others as they set the scene and move through the phases of the Guide with other clients

Key partners for this phase:

Implementation team, sustainability and sustainable finance specialists, policy and research teams

5. Review

Monitor progress and support your client and bank to further advance the net zero agenda

	HOW can you best prepare?	WHAT impactful questions can you ask your client?	WHERE can you find supporting resources with examples of what good looks like?
5.1	Ensure monitoring is established for your client portfolio so that implementation, progress and impact can be measured and integrated into bank reporting.	Is there anything more that your organisation needs in order to achieve an improvement in monitoring and reporting of climate-related data? How has this work impacted, positively or negatively, on climate and broader Sustainable Development Goals?	Client reporting frameworks (EcoAct, 2020). Green Bond impact reporting (International Capital Market Association, 2020). Evaluating Impact Performance (Global Impact Investing Network, 2019). Impact Management Project. In search of impact – Measuring the full value of capital (CISL, 2019).
5.2	Consolidate insights and learnings that you and your client have gained about barriers and opportunities and feed this into bank strategy and relationship management improvements. Expand institutional knowledge by sharing client success stories across the bank and externally where appropriate. Set up networking, learning and innovation opportunities and communities.	How effective has our partnership been in approaching the financing associated with your transition to a net zero company? What have you found beneficial and/or challenging?	Look for resources within the internal bank networks and knowledge hub.
5.3	Review the financing plan at regular intervals to integrate updates in methodologies and financing. Stay in contact with internal and external partners to learn about new sources of finance that would help your client to deliver on their decarbonisation strategy.	Would you like us to share comparable net zero financing options that our bank is working on?	Resources are dependent on the specifics of your bank, client and product offering.
5.4	Stay abreast of any material controversy that might have adversely impacted your client as this could trigger some internal reviews or repositioning. Understand your bank's policies on non-compliance of agreed KPIs and inform your client of the consequences if they do not deliver the agreed outcomes.	Further questions will be driven by the specifics of your bank, client and product offering.	Resources are dependent on the specifics of your bank, client and product offering.
5.5	Find ways to update your client with relevant, timely and easily shared updates that could help them accelerate climate action at their organisation, and perhaps advocate for wider changes across the sector or broader economy.	What further information would it be helpful for us to provide in terms of insights and updates? Do you have sufficient understanding of how your peers and the wider sector are responding to climate-related risks and opportunities? Have you thought about joining initiatives and schemes to support broader action and unlock some of the systemic market barriers that may be hindering your progress towards achieving net zero emissions?	Refer to resources in **Phase 1 – Set the scene**. As the bank–client partnership and progress towards net zero develop, you can expand your mutual knowledge. Participation in initiatives can lead to powerful advocacy for change. Look to the Corporate Leaders Group, We Mean Business coalition, Science Based Targets, Climate Action 100+, B-Corp, World Benchmarking Alliance and World Business Council for Sustainable Development (WBCSD).

"A bank in 2030 will have institutionalised the mindset, competencies and innovative practices needed to meet this challenge. As a result of doing so, it would have:

- **Financed clients that are aligned with a 'net zero' emissions economy.**
- **Taken on additional business model risk to accelerate sector transitions.**
- **Developed a distinctive competency and reputation to attract the winning clients of a low carbon future.**
- **Understood, measured and managed climate-related sources of risk in the credit portfolio.**
- **Understood the impact of each dollar of financing on the net zero emissions goal.**
- **Aligned the bank's business model with net zero, both from an operational and strategic perspective.**
- **Advocated for system change that quickened the low carbon transition, as such change was in the bank's interest."**

Bank 2030: Accelerating the transition to a low carbon economy (CISL, 2020)

Conclusion and call to action

The Banking Environment Initiative's Guide to Bank-Client Engagement, developed by CISL and members of the Banking Environment Initiative, is motivated by the need for a market-wide transformation in how banks and their corporate clients interact. This seeks to build capacity and capability for relationship managers to have meaningful decarbonisation conversations with their clients.

Like *Bank 2030*, the Guide takes an opportunity-driven perspective, encouraging client-facing communities to ask meaningful questions that open up and deepen strategic partnerships. A key challenge will be to provide effective support with innovative financing solutions and to be comfortable navigating unknown paths together with clients over the long term. Decarbonising the global economy is not going to be an easy journey and there is a lot still to be learnt as we turn commitments into action. Effective collaboration and sharing of learning will be crucial to success.

We encourage immediate application of the Guide to accelerate climate action in business and finance. The Guide can be used as a reference and should be frequently consulted to steer bank strategy and client interactions. Relationship managers should be empowered by their banks to engage their clients on climate change and should not be discouraged by a sense that they do not have all the answers. The scale of the climate challenge is significant, and we will all have to play a role in supporting the transition to a net zero emissions economy.

Appendix

Understanding net zero

Further to the description of net zero provided in ‘What does net zero mean for banks and your clients?’, it is critical that relationship managers understand the concept and what it means for corporate clients.

The cited definition provided by the Science Based Targets Initiative refers to two characteristics of net zero companies. Firstly, there is a pressing need for absolute reductions in emissions so that companies can get as close to zero emissions as possible. Ambitions should very much be focused on the ‘zero’, rather than the ‘net’, element of the net zero equation. Secondly, some hard to abate sectors may have to rely on greenhouse gas removals – via carbon offsetting, for example – to compensate for unavoidable residual emissions. This will enable a company to declare that it has achieved a net zero carbon commitment. The use of technology and nature-based solutions to remove emissions from the atmosphere will be an important part of our response to the climate crisis.

However, with significant challenges to scaling these solutions, they will not compensate for lack of action to address climate change.[10,11,12] We need to focus first and foremost on achieving absolute reductions in greenhouse gas emissions throughout global value chains (i.e. companies need to follow the carbon hierarchy set out in Figure 4). The scope of activities included in an organisation’s stock and flow of emissions should include direct and indirect emissions as defined by Scope 1, 2 and 3 (as represented in Figure 3). In addition, banks should seek to target and prioritise clients in the most carbon-intensive sectors as this is where the most urgent action is needed (see Figure 5).[13]

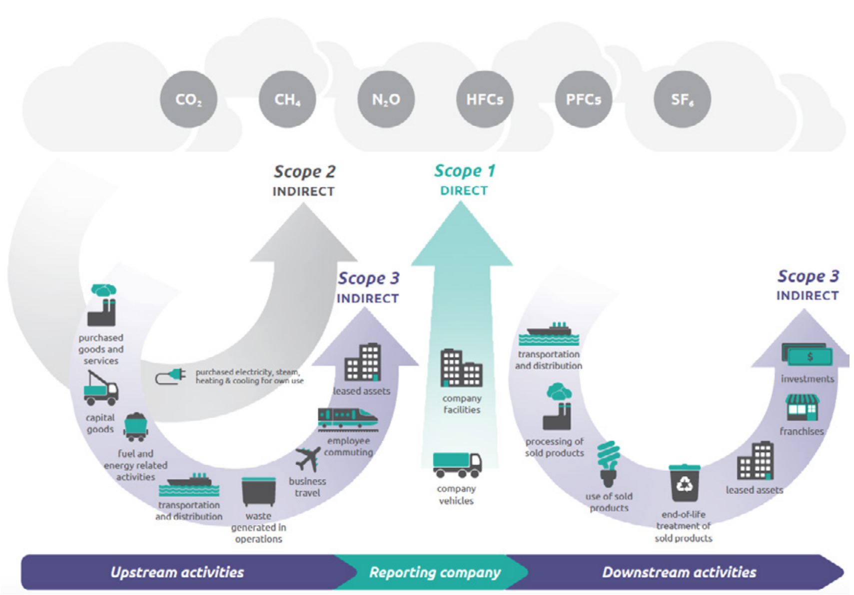


Figure 3: Scope of the organisation’s net zero ambition (GHG Protocol, 2013). [Source]

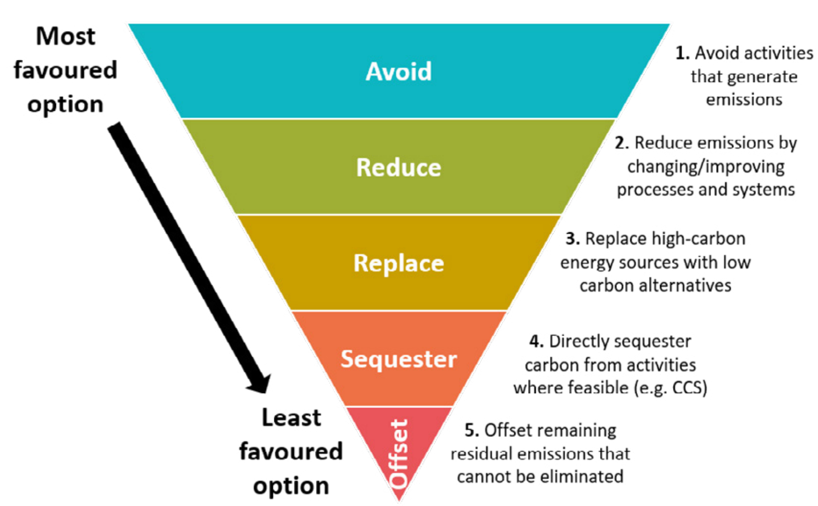


Figure 4: Carbon hierarchy

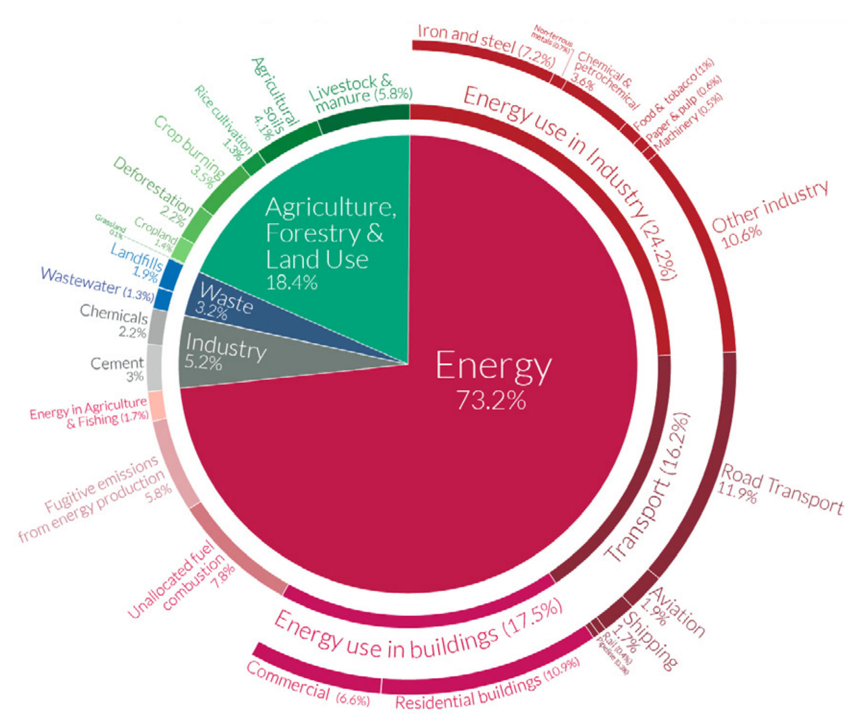


Figure 5: Global greenhouse gas emissions by sector in 2016 (global emissions were 49.4 billion tonnes CO2. in 2016) (Worldindata.org, 2021). [Source]

Integration into existing business practices

This section highlights the main areas that will create the enabling conditions within the bank to both optimise this Guide and progress its own decarbonisation journey. For further practical guidance on aligning and integrating the corporate purpose and strategy with the transition to a sustainable economy, see Leading with a Sustainable Purpose.

Implementation into banking systems:

Variations in banking business models and sustainability strategies mean that the Guide to Bank-Client Engagement will require interpretation by banks. To ensure effective use of the Guide, organisations should adapt it to align with their strategy and purpose, business structures and own maturity in climate-related topics.

For most banks, staff education and enhancement of the bank's infrastructure will be needed. Tangible examples include setting the bank's own decarbonisation milestones and action plan, establishing knowledge hubs and effective data management.

The Guide might act as a catalyst for banks to review and align working practices, such as product development and client relationship management processes.

Banks can generate organisational change by aligning individual incentives, creating time to learn and maintain knowledge and to build internal and external partnerships. More on these themes and the business case for banks to shift to a low carbon economy can be found below and in *Bank 2030: Accelerating the transition to a low carbon economy* (CISL, 2020).

Roles and responsibilities:

The Guide offers suggestions about where relationship managers are best placed to:

- Influence – making the case for decarbonisation, asking challenging questions and steering product innovations.
- Guide – signposting actions and resources mapped in this Guide.
- Control – relationship management strategy, financing plans and expanding knowledge and networks.

While the ultimate users of the Guide are client-facing staff, the responsibility for guiding how to use this Guide in the context of each financial organisation will sit with management, such as group sustainability teams and business line heads.

Education:

Education is an essential enabler. Effective client engagement will require client-facing staff to understand key environmental and social challenges and their commercial implications.

Relationship managers will need to have sufficient confidence in these topics in order to work with colleagues and sector specialists in **Phase 1 – Set the scene** for clients who may not yet see the imperative to act on climate change or broader social and environmental issues.

This Guide has been designed to be as streamlined and user friendly as possible. The reality, however, is that client-facing staff may not be able to invest the necessary time to absorb and act on the themes and materials laid out in this document without additional support. Specific training on how to engage with the Guide, coupled with a deeper dive into specific examples, can be very valuable for individuals who do not feel sufficiently empowered to bring their clients along on the sustainability journey and to assess their performance in meaningful ways.

The role of education in empowering relationship managers - the case of Lloyds Banking Group[14]

Lloyds Banking Group's Commercial Bank was one of the first divisions within the Bank to recognise the risks and opportunities posed by climate change. A key pillar of the Commercial Bank's strategy was to upskill relationship managers and empower them to have more informed conversations with clients. As of 2020, over 900 colleagues had received training with the University of Cambridge Institute for Sustainability Leadership (CISL) as a means of supporting clients' transition to a sustainable low-carbon economy. This training helped colleagues to understand:

- The latest science around key sustainability challenges, the commercial implications for business and why the urgent need for action.
- What leading practice looks like within the real economy.
- How they can best support clients to decarbonise their value chains and protect key dependencies that they rely on.

The Commercial Bank has taken active steps to unlock barriers and enable relationship managers to support their clients with their sustainability-related plans and ambitions (e.g. by developing new product and service offerings, building out relevant collateral materials and forming partnerships with external experts who can advise on relevant technical issues). Relationship managers now have to ensure that sustainability-related risks are considered for all new and renewal facilities including, for example:

- Clients' understanding of, and approach to, addressing physical and transitional climate risks within their business and supply chain.
- The existence of actual or potential 'stranded assets' due to ESG factors.
- The actions being taken to reduce greenhouse gas emissions.
- The frameworks that clients have put in place to ensure compliance with all relevant legal and regulatory ESG requirements.

See CISL Education

The bank's climate commitment and action plan:

Net zero commitments by banks will be essential to engaging with clients meaningfully. A well-thought-out purpose, strategy and action plan will be increasingly important as it will allow all areas of the bank to channel resources and mobilise capital towards action in line with decarbonisation and broader sustainability objectives.

See *Guidelines for Climate Target Setting for Banks* (UNEP FI, 2021), *Targeting Net Zero* (CISL, 2020) and *Net Zero Investment Framework* (PAII, 2021) for for insights into this topic.

Internal culture:

To transform a business, the need for a strong commitment and consistent messaging, not only from the C-suite, but from all layers of management, has been highlighted by research, including *Banking Beyond Deforestation* (CISL, 2020).

Interactions with other departments, whose priorities may differ from those driving the decarbonisation initiative, may be characterised by friction. Risk management, finance, product lines, IT and HR will all need to be part of the decarbonisation and sustainability strategy.

It will take organisational commitment for bank staff to be trained and empowered, so they need supportive managers to allocate time for these objectives beyond short-term revenue targets.

Governance and incentive structures, as well as the distribution of sustainability expertise and partnerships supported by the bank, will be vital to effective client interactions as mapped in the Guide and in Bank 2030.

Available resources at your bank:

Banks will have different abilities to rise to this challenge, and the value a bank can add to the decarbonisation and broader sustainability agenda will form a part of the bank's competitive positioning as the market evolves. There will be trade-offs and investment requirements to innovate and to develop skills and solutions.

Different governance structures are evolving to address sustainability. ESG advisory roles are likely to grow and be adapted to clients' ESG maturity types, sizes and sectors, with specialisms in certain topics e.g. decarbonisation, nature-based solutions, ending deforestation, social equality. This could take the form of an ESG Advisory Group, supporting relationship managers to prepare, understand and assist in client meetings, or third-party partnerships with specialist sectoral or geographical knowledge (some of which are included in the resources for each phase).

Shared resources or a knowledge hub that staff can access to help with education, examples of ESG successes, opportunities and failures, testimonials, sectoral benchmarks, academic research, analytical papers and thought leadership. Inclusion of examples of best practice and positive case studies in client engagement can also play a role to help develop the dialogue and raise standards/knowledge for relationship managers.

Incentive alignment:

Commercial strategies and incentive structures still lack meaningful links to ESG and the longer term perspective that is required for implementation of climate aspects into banking models. In both finance and business, C-suite compensation is starting to connect with ESG performance, but this is yet to be institutionalised throughout organisations in a way that is easy to measure and reward.

Relationship managers' shorter-term goals, incentives and performance agreements will need to encompass sustainability objectives to ensure these outcomes are prioritised, though further work is required on the details to ensure they are effective.

"Having integrated the purpose and strategy into individual, team and functional objectives, these then need to cascade into individual rewards and incentives. In doing so the purpose acts as both a 'glue' and guide for employees, providing greater meaning to their work through a 'clear line of sight' between their work and the organisational purpose that contributes to a sustainable economy. Aligning personal purpose with that of the organisation has the potential to boost employee creativity, motivation and performance. The following practices will enable the delivery of this principle.

- Practices:
  1. Develop clear roles and responsibilities for delivering the strategy and update job descriptions accordingly; this will be enabled by integrating the purpose into strategies and objective-setting and cultivating the culture and capabilities of the wider organisation.
  2. Align and 'cascade' personal objectives with the responsibilities and deliverables required to implement the purpose and strategy, starting with the senior leadership team.
  3. Align individual reward and recognition with the purpose, strategy, goals and metrics.
- Pointers:
  1. Identify and prioritise human resources practices such as recruitment and induction and adjust and integrate them with the new purpose and strategy.
  2. Use company metrics to track and measure business unit, departmental and individual performance."

Excerpt from *Leading with a sustainable purpose* (CISL, 2020).

Overcoming barriers to progress

In order to ensure the Guide is fit for use for its target audience, the scope is limited to the most important areas of decarbonisation that a typical relationship manager has the ability to influence, guide or control. The consequence is that some characteristics of the bank–client relationship are not addressed in their entirety in the Guide.

Here we address some of the main barriers to progress that a bank and its relationship managers might come across when navigating client decarbonisation dialogues, financing and action. We hope that users of this Guide can support and advocate for systemic changes that remove obstacles.

Client's climate maturity and willingness to engage:

Navigation of the Guide will depend on your counterpart's knowledge of climate action and their motivations to act. The Guide will help you determine how advanced your client is and understand the journey you will go on together. This Guide signposts materials you can share with clients that might open up the discussion, e.g. Common myths and barriers preventing climate action from the *Net Zero Framework (CISL, 2020)* can help with messaging.

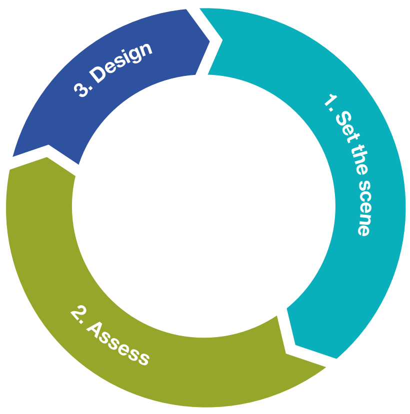
In some cases, the bank may lack influence over the client, and you may meet resistance when trying to engage on this potentially complex topic. Securing engagement with clients can be challenging, particularly in sectors that have yet to see significant progress or alternative viable solutions. Some sectors are much more challenging because of the nature of their business, or the cultures within them.

The aim of this Guide is to encourage partnership and proactivity in taking urgent and necessary action at company level, which can quickly drive decarbonisation across the economy. Should a client not be willing to recognise the risks or importance of climate change and fall out of line with banks' sustainability policy and targets, banks should consider the viability of the relationship and the strength of the company's management and its forward-looking prospects.

Banks will begin to recognise the consequences of client inaction in managing their portfolio. In the event of a lack of progress or if engagement does not lead to the desired results, relationship managers can take various escalation steps to further increase pressure, such as limiting further financing facilities and relocating the bank's limited resources.

The maturity maps below provide an indication of the time and effort spent in each phase as your client transitions to net zero. The actual numbers will vary depending on the client's maturity on climate-related topics and their decarbonisation transition progress. The figures shown are for indicative purposes only.

At the outset



Starting point: You and your client have yet to engage on climate-related topics. Your client is unaware of climate-related risks and opportunities for their business and does not have a net zero transition plan.

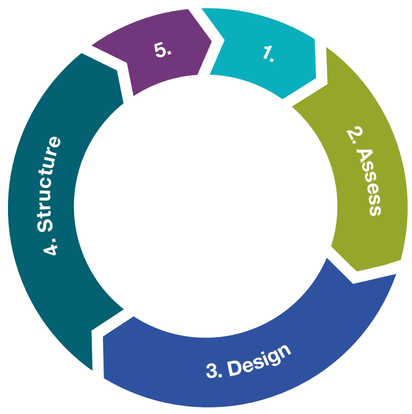
Outcome: Your client understands the need to address climate and the role your bank can play in supporting them. They know their starting position and what gaps they have. They get initial guidance from the bank to kickstart designing their transition plan.

Where the client is by the end: Working to create a robust transition strategy for their business.

Where the bank is by the end: Has built up a relationship with the client to talk about these complex topics that are new to the client. Establish your bank as your client's preferred partner to support their decarbonisation journey.

After this you and your client work towards developing a robust transition plan and the resulting financing opportunities.

As the client develops their sustainability strategy and transition plans



Starting point: Client has started collecting and monitoring climate-related data and is actively working on a detailed transition plan.

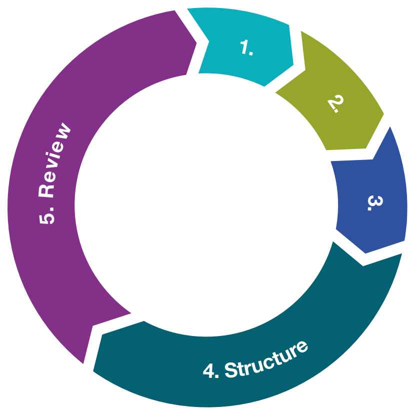
Outcome: A robust net zero transition plan backed with science-based metrics is developed and financing solutions are identified to support the plan. KPIs, Use-of-Proceeds metrics and covenants are embedded in all financing facilities. Ensure that no metrics are lower than the client's targets and that they demonstrate ambitious commitments and additional action that go well beyond business as usual.

Where the client is by the end: Ambitious net zero transition plan with appropriate science-based metrics is developed.

Where the bank is by the end: Financial solutions are structured for the client to turn their transition strategy into a financed reality. Bank-wide innovation may be necessary to develop new solutions to meet your client's needs.

After this you and your team work towards monitoring your client's progress and accelerate their transition.

Monitor your client's progress and accelerate their transition



Starting point: Bank and client are in advanced dialogue about the identified financing structures.

Outcome: Mandate is awarded and deal is signed. Deepen the relationship with your client and provide an opportunity to explore how ambitions can be scaled and what innovations may be required to enable future rounds of financing.

Where the client is by the end: Deploy capital to invest and deliver on their decarbonisation and broader sustainability objectives. Client provides periodic reports on their identified KPIs.

Where the bank is by the end: If the client is in line with the decarbonisation targets, identify ways to accelerate their progress. If the client does not deliver the agreed decarbonisation results, take appropriate actions in line with the convenants structure and legal agreements.

You and your client look for avenues for unlocking barriers that could support systemic change and the success of low carbon business models.

Client sector, size, geography:

The Guide is currently sector-agnostic and primarily designed for bank collaboration with larger corporates; those with the resources to collect climate-related data and to design a transition plan. This population will grow as disclosure, policy and supply chain initiatives expand to encompass more companies.

The Guide does not currently cater for SME client engagement due to different bank coverage models, data and resourcing considerations. However, the BEI is working with partners through the SME Climate Hub to research and develop net zero finance for the SME market.

Policy support for sector decarbonisation is likely to increase. This includes mandatory climate disclosures by large companies[15] and more stringent building regulations. Banks can monitor these and support clients with navigating the financial implications.

Taking a systemic approach that includes broader social, economic and environmental considerations:

This Guide is focused narrowly on decarbonisation as there are strong drivers for corporate action in this space, e.g. growing pressures from investors, regulators and citizens. This narrow focus provides simplicity as banks build up their capacity to respond to broader sustainability-related risks and opportunities and some of the complex interactions.[16]

Users of this Guide need to remain aware of the key interdependencies between climate change and wider environmental, social and economic themes, e.g. social inequalities can hinder progress on climate action, or the clearing of old growth forest for timber or agriculture can provide short-term food and employment, but can contribute to climate change and the significant loss of biodiversity.[17,18,19] As this requires considerable breadth and specialism, client-facing staff would do best to work with specialists – internal and external – to ensure a holistic approach is taken, where externalities are minimised and the full range of UN Sustainable Development Goals are considered.[20]

Cash and liquidity concerns will be relevant along the decarbonisation journey, particularly where there are conflicting priorities in light of macroeconomic conditions, global politics, competition within sectors, a client's jurisdiction, Covid-19 recovery needs, and many other issues besides. Balancing these factors is not easy and, as noted above, education can be one means for helping client-facing staff and sector specialists to understand some of the key social and environmental limits that we face (see Figure 6).[21]

A key role of relationship managers will be to collaboratively and constructively challenge clients to demonstrate how their business is responding to these various issues. It is easy for many clients to provide stock answers to difficult questions and cite potential trade-offs as being a valid excuse for not taking action on social or environmental issues. If banks are to minimise their exposure to these risks then they will have to work with their clients at scale to deliver systemic, economy-wide change.

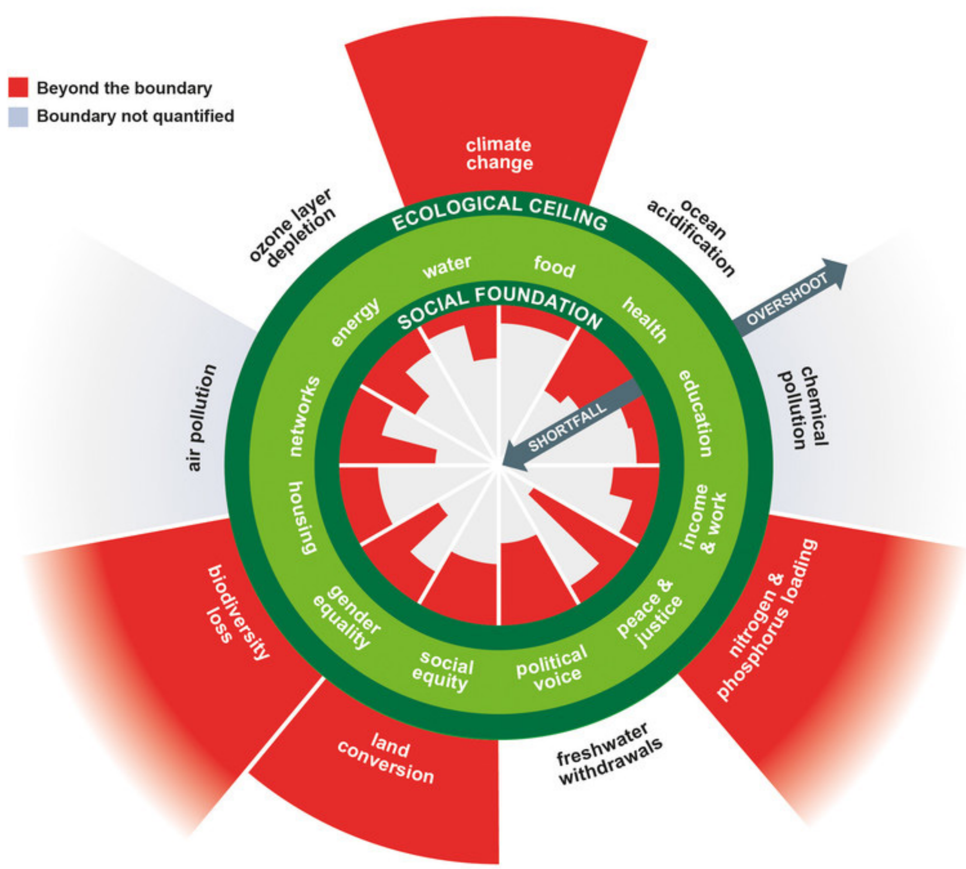


Figure 6: Sustaining a safe operating space for humanity on earth requires a businesses and economic systems to operate between an ecological ceiling and a social foundation. (Raworth, 2017)

"Consider why Emmanuel Macron did not show up at Davos [in January 2020]. The French president took precisely the kind of action deemed necessary to tackle the climate emergency – whacking up the cost of driving fossil-fuelled vehicles – only to find the country erupt into protest. The message to Macron from those on low incomes was clear: don't talk to us about the end of the world until you have told us how to make ends meet at the end of the month."

Larry Elliott, Inequality makes climate crisis much harder to tackle, The Guardian, January 2020. Source.

"If there is one early lesson to be drawn from the COVID-19 crisis, it is that governments must be better prepared for the worst. The pandemic has shown the lethal folly of ignoring expert warnings about the need to be ready for calamity, no matter how remote or uncertain it may seem. This should be uppermost in leaders' minds as they struggle to rebuild stricken economies in the face of rising calls to abandon measures to address another global threat, climate change. Unlike COVID-19, the world has had ample evidence of the damaging effects of global warming for decades. Governments today still have a chance to mitigate these – they should do so as part of the effort to rebuild after the virus."

Financial Times Editorial Board, The virus fight opens up a climate opportunity, Financial Times, May 2020. Source.

Banking policy and regulation, including capital requirements:

While banking policy and regulation was not in scope for this Guide, we recognise the hugely important role it plays in determining banks' policies, products and pricing. We encourage lines of communication to be set up with policy engagement teams to enable client-facing teams to communicate market needs and advocate for a supportive regulatory structure.

Formulating a structured approach that aligns a bank's risk appetite with the evolving climate-related risk profiles of clients, sectors and geographies will be an important step to accelerating the bank's transition to a net zero emissions economy. Collaboration with risk management teams is important, ensuring open lines of dialogue internally. This way, value-add opportunities can be created that work with regulation and capital considerations to help the bank and clients be resilient in the face of change.

Further information can be found at: Network of Central Banks and Supervisors for Greening the Financial System (NGFS), which has resources looking into climate scenarios, portfolio management techniques. Climate Financial Risk Forum Guide 2020 – Scenario Analysis Chapter (Financial Conduct Authority, 2020). Task Force on Climate-related Financial Disclosures Knowledge Hub. Climate Action Tracker sectoral and country data for policymakers. Framework for assessing physical climate change risk (Prudential Regulation Authority, 2019) and UNEP FI's Banking Programme.

The landscape is changing rapidly and both bank and clients will need to remain nimble as policy in the finance and business worlds advances.

Data availability and alignment with other tools and frameworks:

The improving scope and quality of data is helping companies and financial institutions develop customised transition plans and financing strategies. However, currently both finance and the real economy lack harmonised climate-related approaches with which to design and execute transition plans, assess decisions and monitor progress. This should not stop progress, and the structure of this Guide supports proactivity and ambition in spite of continued need for greater scale and higher quality of data collection, collation and analysis.

Fragmentation of approaches is one obstacle to progress, so this Guide aims to help banks align with what their clients might be using and reporting, such as UNEP FI, Science Based Targets and CDP. Where possible, this Guide has taken into consideration leading methodologies and frameworks that are gaining traction in the market, as referenced in the resources column of each phase.

Collaboration partners during the project include Banking Environment Initiative member banks, and other external partners as named in the Acknowledgements helped to ensure the validity and relevance of these resources to the relationship management community.

The data and disclosure theme is being covered by organisations, including the Network of Central Banks and Supervisors for Greening the Financial System (NGFS), UNEP FI, TCFD and 2° Investing Initiative (2dii). Useful resources also include the ClimateWise Physical Risk Framework (CISL, 2019), ClimateWise Transition Risk Framework (CISL, 2018) and the Framework for assessing physical climate change risk (Prudential Regulation Authority, 2019).

Collaborating across finance:

Client engagement is also highly relevant for other financial actors, including asset owners, investment managers and insurance companies that interact with the corporate sector. Client engagement may mean something different to others, and different approaches will be taken due to variation in the levers of change available.

For examples see The ClimateWise Principles Independent Review 2020, Support climate awareness amongst our customers/clients and the UBS Asset Management case study, Climate change – engagement in action.

Cross-finance collaboration will be crucial to delivering a smooth and effective transition to net zero, and we are seeing momentum gather around net zero industry alliances.

While this Guide has been developed for application in the banking context, we hope it can inspire action in the broader business, policy and finance communities such as the member organisations of the Centre for Sustainable Finance, Corporate Leaders Groups and those in the Race to Zero coalition.

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UNIVERSITY OF CAMBRIDGE
INSTITUTE FOR SUSTAINABILITY LEADERSHIP

Head office
1 Trumpington Street
Cambridge
CB2 1QA, UK

T: +44 (0)1223 768850
info@cisl.cam.ac.uk

Brussels
The Periclès Building
Rue de la Science 23
B-1040 Brussels, Belgium

T: +32 (0) 2 894 93 19
info.eu@cisl.cam.ac.uk

Cape Town
PO Box 313
Cape Town 8000
South Africa

T: +27 (0)82 829 6852
info@cisl.cam.ac.uk

www.cisl.cam.ac.uk **@cisl_cambridge**