CLIMATE FINANCE: ONE FOUNDATION'S APPROACH

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Climate change is systematically reshaping our world and capital markets. In response, all segments of society—from financial institutions to philanthropy to government—are beginning to prioritize reducing climate-related risks and investing in scalable climate solutions.

Since 2008, the William and Flora Hewlett Foundation and its partners have made efforts to mitigate climate change through philanthropy—including helping financial markets to address climate risks and opportunities. Grants have included support for electrification, zero-emissions transportation, renewable energy, energy efficiency, and reducing industrial emissions. The Hewlett Foundation makes these grants because deep decarbonization of the global economy helps fulfill its mission to advance ideas and support institutions to promote a better world.

Recognizing that the more society can reduce future warming of the planet, the less we will all need to adapt, the foundation concentrates its $600 million climate portfolio on mitigating global warming. A total of $75 million supports a five-year climate and clean energy finance and investing strategy.[1]

At-a-Glance: Climate Finance Strategy

The Hewlett Foundation studied the global financial system to better understand where capital was allocated, who owned or controlled it, and what barriers existed to financing more zero-emissions energy, transportation, industry, and land use projects. These efforts identified nearly $250 trillion worth of commercial capital available globally in five primary capital pools: asset owners (and their asset managers), retail bank deposits, development finance institutions, private equity, and venture capital.

To ensure that more of the $250 trillion in available assets goes to climate-smart investments, the foundation supports *innovative finance* and the *systemic decarbonization of capital*. These two pillars are helping to diminish the eight key barriers that inhibit opportunities to use finance for climate-friendly activities: (1) limited sources of high-risk capital, (2) (mis)pricing of perceived risks, (3) deal size preferences, (4) lack of transparent data, (5) policy uncertainty, (6) timing of climate risk impacts, (7) lack of climate-friendly investment guidelines, and (8) short-term investment horizons.

The foundation's climate finance portfolio aims to mobilize enough capital across China, Europe, and the United States to reach net zero emissions no later than 2050. The strategy places special emphasis on helping to decarbonize capital through the decisions of capital allocators, including consumers, small and medium-sized enterprises, large nonfinancial corporations, and financial institutions.

Retail Banking

In 2018, the Hewlett Foundation introduced a request for proposal (RFP) related to sustainable, climate-friendly retail banking.[2] The purpose was to leverage the trillions in bank deposits and use them for climate action. In the United States alone, $17 trillion is held in bank and credit union deposit accounts. Examples of retail banking using capital to solve climate change include innovations through financial technology (online, climate-friendly interest checking and savings options)[3] and innovations that serve as proof points to existing financial structures.[4]

After receiving 70 applications from China, Europe, and the United States, the Hewlett Foundation awarded more than $2 million to support a number of solutions that combine retail banking and climate mitigation. One such example is the Clean Energy Federal Credit Union, an online-only national credit union that provides loans for solar installation, electric vehicle purchases, and energy efficiency improvements. As of April 2021, it had originated more than $60 million in clean energy loans to consumers and was originating $3 million to $5 million in additional clean energy loans every month.

[1] https://hewlett.org/library/climate-finance-strategy-2018-2023/.
[2] See https://hewlett.org/request-proposal-mobilizing-climate-change-mitigation-capital-retail-banking.
[3] Bank for Good: https://bankforgood.org/.
[4] Clean Energy Credit Union is an example of a proof point for other credit unions: https://www.cleanenergycu.org/home/home.

A plethora of new climate-friendly focused lenders have been launched, including Climate First Bank in the United States and Tomorrow Bank in Europe, as have numerous other innovations highlighted in the New Energy Nexus Climate Fintech Report. If scaled to a larger extent, such green retail financing can have a huge impact on climate change. For example, one residential solar electric system loan offsets 153.5 tons of carbon pollution over 25 years. This amount is equivalent to the CO_2 emissions of charging more than 18 million smartphones and represents the carbon sequestered by 186 acres of US forests in one year.

Passive Asset Management

One of the thorny issues related to climate change that receives little publicity is the role of passive investing. The default benchmarks for many indexes do not consider climate risks and impacts. A US-based fund, for example, is more likely to follow the S&P 500 Index than the S&P 500 Climate Transition Index or the S&P 500 Paris-Aligned Climate Index. Inertia, including unclear regulations and the newness of many climate-friendly funds, works against asset owners and retirement plans offering climate-adjusted funds to investors.

In 2020, the Hewlett Foundation introduced another RFP to fund projects with solutions to the problems that passive investing presents to solving climate change.[5] After receiving 70 applications from China, Europe, and the United States, the foundation selected an initial 6 applicants to receive $2.45 million. Following are three of the awardees as examples of projects:

- Adasina Social Capital, which is partnering with climate-affected communities to create open-access resources that encourage asset managers and owners to embrace more climate-friendly agriculture solutions;
- A coalition that includes the Americans for Financial Reform Education Fund and the Action Center on Race and the Economy Institute, which are campaigning to change the definition of fiduciary duty to include the obligation to integrate environmental, social, and governance factors—including climate change—in investment actions; and
- Wilshire Associates, which is designing a video-based climate change curriculum aimed at educating and empowering asset owners to make informed allocation decisions.

Going beyond RFPs

The Hewlett Foundation's climate finance portfolio does most of its funding outside of an RFP process. Some of the work to systemically decarbonize capital includes support for the global launch and expansion of the Partnership for Carbon Accounting Financials and for establishing and implementing US climate financial regulatory reforms, including recommendations through the Regenerative Crisis Response Committee. The Hewlett Foundation also shares its expertise with policymakers, such as through expert testimony at the US Senate Banking Committee and public input to the US SEC on climate disclosures.[6,7]

To learn more about the Hewlett Foundation's climate finance portfolio, visit the following web pages:

- https://hewlett.org/library/climate-finance-strategy-2018-2023/
- https://hewlett.org/building-a-better-banking-system/

[5]See https://hewlett.org/environment-program-request-for-proposal-aligning-passive-investment-with-paris-climate-goals/.
[6]See https://www.banking.senate.gov/imo/media/doc/Waite%20Testimony%203-18-21.pdf.
[7]See https://www.sec.gov/comments/climate-disclosure/cll12-8897120-241350.pdf.