The Perfect Storm – Why Corporate Social Responsibility and Responsible Finance have never been more important.

The issue of Responsible Business has never been more important.

When I addressed the Vatican on behalf of the Citi Foundation recently, I reflected on the word "responsible". What does it actually mean, and how would I define it in the context of what I do?

I wear several hats today. As an officer of Citi, I am a representative of Big Business. I am also an active participant in corporate volunteering and am on the Boards of Junior Achievement and the British coalition, Business In The Community, an NGO that mobilises business and their employees to do good in the communities that they are a part of. And it is the convergence of these worlds that was at the heart of my remarks.

In today's globalized business environment, Responsible Business is as vital to business success as effective product design, marketing, distribution and risk management. It is high on the business agenda, and in the best companies, it exerts an influence on everything they do.

I am a firm believer that businesses which embed sustainability in everything they do will be stand-out winners over the longer term. The responsibility that an enterprise takes for the social, environmental and economic impacts (positive and negative) is a pre-requisite for customer acquisition and retention. It is a core element of being the business partner of choice to their suppliers. It is essential if they want to recruit and retain top talent and it is clearly at the heart of giving back to those communities in which they operate.

You might call Responsible Business the 'bottom line of good'.

There is a connection between Corporate Social Responsibility and what I consider to be 'the perfect storm'. What do I mean by the perfect storm?

At one level, there are three powerful fundamental forces reshaping the financial and commercial landscape: globalization, urbanization and digitization. And these changes are irreversible. Globalization, for example, has transformed the financial system from a "hub-and-spoke" model where capital and commercial flows originate and are centred around the major financial capitals of the world, to a "point-to-point" networked model, where capital and trade flows often bypass the traditional financial centres altogether. This new network creates more linkages and results in greater efficiency but perhaps it also creates more risks.

The macro environment has been harsh and has hit the global economy with successive storms. And the outcomes are there for all of us to see. We are living through the biggest economic downturn since the 1930s, having recently survived a financial crisis of unprecedented scale. One of the world's biggest trading blocs, the Euro zone, is under great stress. Interest rates in the US and Europe are at or near zero and massive money creation through central bank intervention has provided only limited stimulus.

This economic turbulence is mirrored by geo-political turbulence – as is so often the case. I refer to the social-political revolutions centred on Arab Spring, and the regional threats arising from Iran's nuclear programme. All of this is in the context of a world where the centre of economic gravity is clearly shifting from the West to the East, and where many of the old certainties are evaporating.

On another level, the rumble is coming not only from without, but also from within. The Occupy Movement, which started on Wall Street, is simply the most vocal expression of a widespread frustration with a financial machine that is regarded as looking after its own at the expense of Main Street. There is a lack of trust in Banks and Big Business alike.

As if this were not enough, there is the bigger, planet-wide picture. Poverty has not gone away. Hunger still kills more people each year than AIDS, malaria and tuberculosis combined. Rapid population growth, accelerating urbanisation, sustainability, climate change – all of these issues are too big for any one sector of society to address on its own. They are, nonetheless, our collective responsibility.

But this is not all pessimistic.

I have a positive message to bring, too. We do have the power to deal with many of these problems that are seemingly so hard to solve and we do have the ability to engage our resources to mobilise business for the good of all.

If we do that with commitment and real energy, I believe that we will look back on this period and regard it to be as much a turning point in the development of mankind as the Industrial Revolution was 150 to 200 years ago. We really can fast-forward to a better future. And at Citi – celebrating our 200th anniversary last year – we do cultivate a long-term perspective.

Let me now turn to how I, at Citi, see the role of Responsible Business – and why I believe it is now more important than ever.

The financial system extends beyond the banks. While the financial system is made up of private firms and individuals acting to further private interests, it is also a public trust and serves the public good. The financial system provides and raises capital for essential projects large and small. It delivers services to business of every size and people at every income level. Its reach, diversity and sophistication all work in concert to efficiently move capital to where it can be more productively employed, creating jobs, wealth and opportunities for billions of people.

Our multi-faceted and complex global economy could not function without an equally multi-faceted and complex financial system. And our GDP – as individual countries or as a global whole – would not grow, or grow as efficiently, without the financial system. And ultimately, for an economy to flourish, its business sector must flourish.

Corporations and banks have, in many eyes, become dominant institutions in society. At the same time, society rightly has expectations of what banks should deliver to retain the license to operate. We must remember that private and public interests are not always destined to collide. As banks enable their clients to operate their businesses more efficiently, invest in new capabilities and expand into new markets, they will also help accelerate Governments' social inclusion and development agendas.

Citi's participation as a core member of the UN Capital Development Fund's Better Than Cash Alliance – an important initiative to help governments transition from cash to digital payments as the means to empower people and grow emerging economies – is one example, and our global alliance with the US Agency for International Development (USAID) to promote financial inclusion and development impact through the digitization of cash disbursements is another. These are not philanthropic gestures. Instead, they are commitments by Citi to be a key part of the digital revolution that will not only bring millions of the unbanked population into the formal economy but facilitate the evolving supply chains of our biggest and largest corporate clients that are sourcing raw materials from, and distributing goods and services to, these emerging market communities … at scale.

Sustainable business that is connected to progress in the real economy has become an imperative. If corporations and banks wish to maintain their 'license to operate', they must <u>not</u> be a source of the problem but need to be a fundamental part of the solution. This brings me back to my earlier comment about banking and the financial institution being a public trust and a public good. Beyond the shared responsibility for ensuring the financial system's safety and soundness, it is about working with our clients to drive progress in the real economy.

Mark Price, the Chairman of Business In The Community and Managing Director of Waitrose – a large UK supermarket – recently said that "The fate of every man, woman and child depends on a powerful and vibrant business sector – from the multinationals to the SMEs that are at the very foundation of our economy". In other words, social purpose and making money do not have to be in opposition to one another.

Let me explain in more detail. I'll start with the environment. We were one of the first banks to publicly announce goals for reducing our environmental footprint. As such, we have tough environmental targets for reducing our carbon footprint through 2015, and similarly challenging targets on water and paper usage. Within Citi Transaction Services, we have an organisation-wide effort to encourage our clients to go 'paper-free'. Since the start of 2011, we have eliminated more than seven million pages of paper by enrolling clients in paper-free solutions. For every tree saved, we are planting 10 young trees as part of the Plant-for-the-Planet Billion Tree Campaign.

Our Export Agency Finance business has also played a big role in financing some of the world's largest renewable energy projects. Working alongside our Alternative Energy Finance practice, we underwrote the debt for the $2.3 billion Desert Sunlight project in California. By 2015, Desert Sunlight will provide enough solar power to heat and light 160,000 homes, replacing conventional power that is currently generating around 300,000 tonnes of carbon dioxide a year. That is the equivalent of taking 60,000 cars off the road!

This is a win-win. It is good for the planet. It is also good for Citi. It was gratifying to be ranked No.1 US bank in Newsweek's Green Rankings for a third consecutive year and to be named by Bloomberg BusinessWeek as the "World's Greenest Bank" in 2013. But, more tangibly, the expertise we have built up in credit-enhanced project financing structures with official agencies around the world has established our Export Agency Finance business and Citi as a leader in alternative energy. Our initiatives here are actively expanding our business.

Now let's look more closely at financial and social inclusion. As a bank, we see this as central to our mission. It is something with which we have been engaged for more than 40 years. According to the World Bank, more than 2.5 billion people – that is around 90 per cent of the adult population in the developing world -- have no access to financial services. This is the real base of the economic pyramid. Because these people are outside the banking system, they are vulnerable to loss, theft and exploitation. They have no means to save – or access credit at reasonable rates. They are truly marginalised.

The good news is that since the Millennium Development Goals were set, the numbers in extreme poverty have started to come down … and indeed some of the goals for poverty reduction in the period to 2015 have already been met. The bad news is that women are being left behind. This is tragic in many respects. When women are given economic opportunities, the benefits are more likely to extend beyond them – to their children, their community and the economy at large.

So how are we approaching the issue? In a number of ways – the first is in the area of microfinance. The idea is to encourage local enterprise in poor communities by making small loans … often just a few hundred dollars or less … to fund individuals struggling to make a livelihood. The typical loan might allow a market stallholder to buy much needed stock or give a farmer the funds to invest in seeds and tools.

The loans are disbursed through microfinance institutions, of which there are probably several hundred around the world. We launched Citi Microfinance in 2005 to support these institutions and now serve around 140 of them. Since 2006, working with the Overseas Private Investment Corporation (OPIC) … which is based in Washington … we have provided more than $290 million in funding to 32 microfinance institutions in 18 countries. That money has created loans for close to one million people, 92% of them women. Again, this is not charity. This is a business and one that is embedded in our core banking operations. Together, we are turning 'green' initiatives to 'blue'. In other words, we are putting more back into the economy than we are taking out.

Our second approach is pure technology. The key to financial inclusion in the developing world is what the NGOs call ‘reaching the last mile’. How do you get banking and financial services to an isolated rural community or fishing village? Here’s one answer. Of the 2.5 billion people who are outside the banking system, it is estimated that 1.7 billion own a cell phone. That link provides the last mile. Let me quickly go over some examples of how we, at Citi, have implemented a technology-led financial solution for our clients that benefits this sector.

At Citi, we have been actively partnering with telecoms operators to develop mobile money services that allow people to save, send and receive money by text without having to open a bank account. The Vodafone M-PESA network in Kenya has led the way but similar networks are now spreading all over the world.

In Kenya, we are also providing mobile banking solutions to PATH, a non-profit organisation that is working to deliver health services for HIV/AIDS and TB sufferers. Payments are distributed electronically –reaching that last mile more efficiently and at lower cost. In other parts of the world, we are working with consumer and healthcare companies, helping them distribute products into urban slums and rural communities where the distribution chain … from docks through co-ops to corner shops … are largely unbanked.

The impact of shifting from cash to electronic payments – the efficiency, the cost savings and the transparency it brings – are now becoming widely recognised. Better Than Cash Alliance is an excellent example – it is an Alliance that has already resulted in Kenya, Peru, Colombia and the Philippines all committing to digitise their disbursements to people in poverty.

Once again, our work to mobile-enable our banking solutions has huge commercial value. We are adapting to a future world where mobile money is the norm. It is an immense window of opportunity – and not just in the developing world. For instance, we are partnering with Coca-Cola in South Korea, where 4 out of every 5 cash collection customers have adopted a mobile solution. We are processing around 100 million transactions a year in this one partnership alone.

In all these areas, it is clear we can achieve more by working in partnership with others than we can by doing things alone. This may always have been true … but it is doubly evident in the new connected and networked world. The advent of social media, digital money and instant information transfer has opened doors to a future that was unimaginable only a decade or two ago. But these innovations demand that we also engage in a more collaborative future, pure and simple. And when our clients win, we win, and the communities win.

Our work in the area of sustainable supply chains is a good example of how the collaborative approach pays off. More and more big corporations are making a commitment to ethical and sustainable sourcing among their suppliers. They recognise that their purchasing power can be an important driver in bringing about positive change in developing economies. But businesses need to know that their suppliers have the funds to deliver on their commitments. We have pioneered creative financing techniques that use the suppliers' receivables and the big corporation's own credit standing to facilitate these arrangements.

In Mexico, for example, we are working with Pepsico to provide financing to low-income farmers. The arrangement involves 3,500 micro-loans, supported by efficient collection and financial education.

This is social engagement … but it is not charity. The market size for sustainable trade finance for farmers and the small enterprises that support them is estimated to be worth $450 billion. Our involvement in this area is a differentiator with clients … and it keeps us ahead of the curve in supply chain finance. In short, it is good business.

These collaborative ventures with Vodafone, Pepsico and others requires a new management mindset: one that sees opportunity in the better management of a company's social, environmental and economic impacts, and is open to the possibilities of working with partners from government, international agencies, other financial institutions and the communities that we are a part of.

There is another very important group, and that is our People. Responsible Banking or Responsible Business also means developing our human capital – the most important asset that we have – and giving them the opportunity to make their contribution to society with our support. This is a win-win for our company, for government and for society. We have long encouraged volunteering, giving our people the chance to get involved with a non-profit organization of their choice. Our Global Community Day is a chance for employees, their families and friends to come together as a global volunteer team. But increasingly the emphasis has shifted to skill-based volunteering, which utilises either personal or professional skills to help build capacity within NGOs or non-profit organisations. This achieves two goals. One, it helps these organisations develop in a way they would otherwise find difficult or costly. Two, it helps our people develop leadership, hones their collaborative and improvisational skills and, we believe, deepens their loyalty.

One of the beneficiaries of this volunteering effort is Junior Achievement where I serve as Vice Chairman of Junior Achievement Worldwide. Junior Achievement seeks to build financial literacy and help create the next generation of business leaders and entrepreneurs. Since its launch in 1919, it has benefitted more than 105 million young people worldwide, with more than 71 million students here in the United States. It may interest you to know that the second largest programme is now in Russia. They are quick learners!

Last year, more than 1,400 Citi volunteers gave their time to engage in Junior Achievement activities. Citi officers hold 73 seats on Junior Achievement boards – either at a local, regional or global level. I am delighted to say that Alan Meltzer is also involved on one of the Junior Achievement boards. The Citi Foundation is Junior

Achievement's largest corporate donor. It is money well spent. Around 30% of students involved in Junior Achievement programmes go on to run their own businesses.

So to sum up on what Responsible Business means to me and to Citi …

Responsible Business is not just a moral imperative – we believe it is essential to be a part of the solution and core business engagement is fundamental to retain our license to operate. Responsible Business for us is not just about how we disburse our profits, but how we <u>make</u> our profits, how we <u>treat</u> the planet, our communities, our supply chain and so on.

Responsible Business is a pre-requisite to be the provider of choice for our clients. It is a core element of being the business partner of choice to our suppliers. It is essential to be the employer of choice to the top talent in the industry, and it is clearly at the heart of being the neighbour of choice in the communities that we are a part of.

We are living through historic times and the present era would be seen as transformational in the years to come. I truly believe it can be. Capitalism has shown it has an almost unlimited ability to reinvent itself. The shock of the financial crisis, and the underlying excesses that it revealed recently, have been a powerful jolt to the system. Now business is coming to realise that social purpose and making money need not be in friction with one another. Responsible Business brings its own P&L. It is a virtuous circle in every sense. But we must accelerate the pace of change within Big Business. Responsible Business cannot be something remote from our daily activity. Every officer of the company must view his or her responsibilities as driven by Responsible Business.

And we can't wait for governments to do the job for us. They can create the conditions in which we can flourish, but we bear a fundamental responsibility to the wider society. And if we do not act and deliver in the short term – there simply won't be a long term. I was struck by a recent remark by Aaron Cramer, who runs a Responsible Business consultancy called BSR. What he said was this: 'A sustainable economy that delivers dignified prosperity for all people is the chief global objective for the next quarter century. Business can't do it alone, but it can't be done without business.'

Responsible Banking – like Responsible Business – is indispensible for the common good of society. And the common good is indispensible for flourishing companies, including banks. We need well-run banks that can provide society with what it expects of them.

And this presents a challenge for all of our future leaders. It will soon be their turn to set the corporate agenda. It will be down to them to determine priorities : to juggle the balance between short and long term value creation, and to address the unspoken demands of a fragile planet.

I note that it is part of this school's mission statement to prepare students to develop rewarding careers and – as importantly, in my mind – to become 'active global citizens'. No-one can ask more. Become that active global citizen and seize the opportunity to accelerate the revolution that is already under way.

There is one more hat that I wear. As a parent and husband, I want to leave the world in better shape for those that come after us. The thought of leaving the next generation worse off as a result of our excesses should hopefully be no more than a bad dream.