UNEP Finance Initiative
Innovative financing for sustainability

0.618...

UNEP FI, Issue 5, January 2005

The golden ratio... building quantity without sacrificing quality

Common ground

Klaus Töpfer
Executive Director,
United Nations Environment Programme

Financial institutions and individuals worldwide are waking up to the fact that responsible investment can protect their assets and turn "values into value".

Corporate governance scandals and the pension crisis facing developed world economies are just two of the issues compelling investors to take the long view.

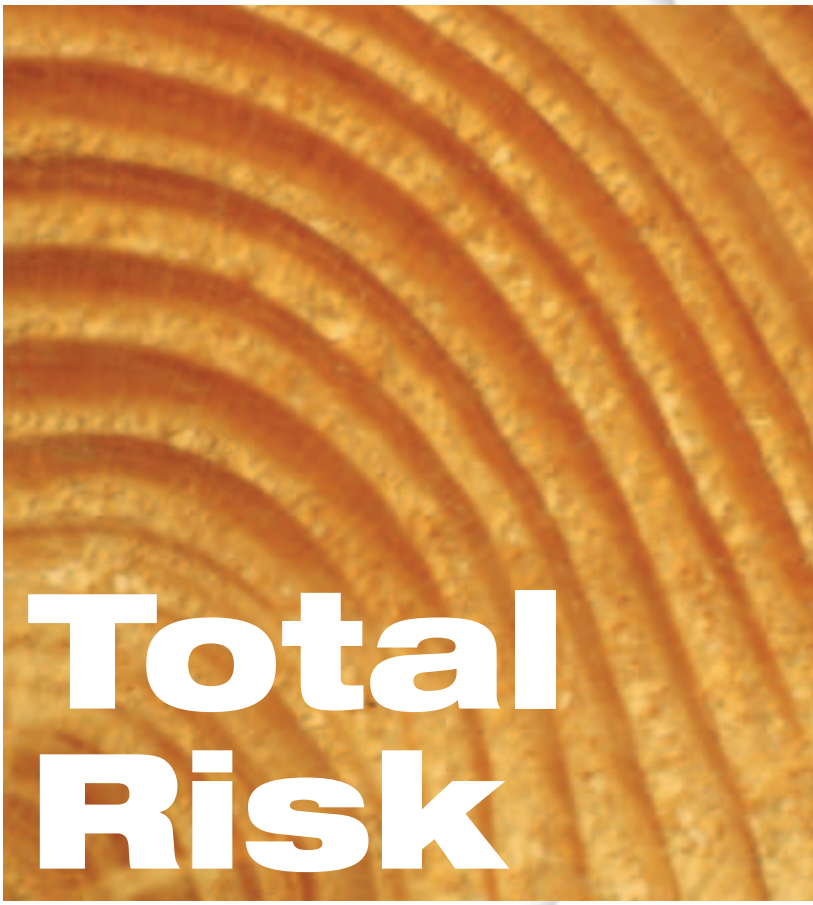
For the past two years UNEP and the UN Global Compact have been working with leading financial institutions to understand what these and other challenges mean for financial returns. Our research concluded that the greatest opportunity for delivering the best outcomes for the environment, community and investors lies in two areas:

- The integration of environmental, social and governance issues into investment management, particularly through long-term active ownership by investors; and
- Fostering long-term investment in emerging markets

As a result the UN, through UNEP, the Global Compact and its financial sector partners, has embarked on two major initiatives:

- The Responsible Investment Initiative; and
- Responsible Investment in Emerging Markets

This edition of *0.618...* brings together global thought leaders from the investment field to explore in detail the potential of this work.



Total Risk

Sir Graeme Davies
Chairman, Universities Superannuation Scheme

USS sees responsible investment as part of good pension fund governance and sound long-term investment management. The Fund has a commitment to encourage responsible corporate behaviour and this reflects our view that good management of such issues is good for long-term corporate performance, helping to protect and enhance the value of the Fund's investments.

Longing for growth

USS is also a 'universal investor'. Because of our size, we own a slice of the whole market. Indeed, a large proportion of our equity assets are held in an index fund. As a result, we simply can't move easily in an out of companies we see facing environmental, social, or governance risks. For this and other reasons, we are therefore unconvinced by negative screening as a suitable response by pension funds to these challenges. With £19 billion to invest, we are also not convinced that specialist SRI funds, which we accept are well suited for retail customers, offer a systemic solution to our institutional needs.

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UN Responsible Investment Initiative

Monique Barbut Director, UNEP DTIE

A number of investor alliances based on specific environmental, social and governance (ESG) issues have developed to address the problems of short-termism and the risks posed by these issues. Examples include the Investor Network on Climate Risk and the Pharmaceutical Shareowners Group. There has also been notable investor activity in the US around the Global Reporting Initiative, board diversity, recycling, human rights, and a host of other issues. In addition, institutional investors are increasingly financing sustainable venture capital projects.

Governments and other regulators have also begun to explore how the policy frameworks that govern institutional investment can be aligned with and encourage active and responsible ownership.

But these investor activities have not yet entered the mainstream. And in many countries, they have not even begun.

Against this backdrop, the UN has engaged in a strategic research programme on responsible investment through the Global Compact and the UN's leading public-private partnership for the financial sector, the UNEP Finance Initiative.

This dialogue highlighted the need for the globalisation of best-practice responsible investment as a way to protect the long-term interests of the owners of capital. It also identified the need for increased resources to be applied to the analysis of these issues and for capacity-building amongst investors and regulators.

Responding to this call, UNEP, in its capacity as an implementing agency for the UN Global Compact, launched the Responsible Investment Initiative (RII), a global platform for institutional investors to learn and collaborate on environmental, social and corporate governance issues.

The RII is an effort to identify and act on the common ground between the goals of institutional investors and the sustainable development objectives of the United Nations.

Phase One, to be conducted during 2005, will consist of the development of best-practice principles for responsible investment, as well as key investor and policy-maker resources.

Phase Two, starting in 2006, will build support and capacity from within the investor and policy-making communities globally.

This public-private partnership represents an important step toward the fulfilment of the Principles of the UN Global Compact, the Millennium Development Goals, and the objectives of the World Summit for Sustainable Development.

Caisse des dépôts backs Responsible Investment Initiative

"Because of our investment horizon, which is long term, and our culture of financial security, we believe that adopting a global vision of shareholder responsibility is the best way to safeguard the interests of our stakeholders. We strive to make well-informed investment decisions, analysing not only financial performance, but also how companies take sustainable development issues into account.

"For this reason, we fully endorse efforts to develop a recognized, international benchmark for responsible investment by institutional investors based on best practices."

Caisse des dépôts is a major French public financial institution with total assets of €380bn.

www.caissedesdepots.fr

UNEP Asset Management Working Group

The UN and 15 firms from countries on four continents are working to understand when environmental, social, and governance (ESG) criteria are financially material and how they impact on securities investment.

In 2004 the group:

- Commissioned and comparatively analysed 11 brokerage house reports on ESG issues across 7 industry sectors
- Hosted a roundtable of CEOs of leading European pension funds to discuss the results of the analysis

In 2005 the group will commission a second round of reports (Mat2) that will include:

- Additional sector analysis of ESG issues in the US, EU, South America and Asia
- Analysis of the portfolio-wide impacts of specific ESG issues

www.unepfi.org/investment
investment@unepfi.org

Total Risk

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Given this context USS decided that the best strategy for us is to engage with companies over the long term in an effort to improve their social, environmental, governance, and financial performance – to change the direction of the ship rather than jumping ship. Having a stake across the entire market, including those companies where there are concerns about governance and corporate responsibility issues, means that USS, as an active long-term owner, is in a much better position to learn about environmental and social risks, and to call for them to be addressed. In addition, many social and environmental problems are sector-related. Our approach allows us to work with companies across entire sectors to focus on the systemic issues and to 'raise the bar' for the whole sector.

The approach that we have adopted also focuses on the quality of engagement rather than quantity – we only have the resources to focus on a few key issues and sectors at any time. So far, the sectors where we felt we could deliver long-term value and use our influence for good have been pharmaceuticals, extractive industries and property. The issues we have prioritised include the public health crisis in emerging markets, climate change and more recently, people management.

Effective engagement is challenging and requires highly skilled staff to analyse the issues and engage with companies over the long term. Acting alone, there is a limit to what one fund, no matter how large, can achieve.

The need for investor collaboration

Working together with other investors increases the effectiveness of engagement many times over. Because we are a highly diversified investor, our stakes in individual companies may not be enough to get board level attention. However, a coalition of large funds can represent a sizable proportion of a company and will be taken very seriously indeed.

That is why USS puts so much effort into working with other UK and global institutional investors to ensure action on material environmental, social and governance risks. Projects include the Pharmaceutical Shareowners Group (www.pharmashareownersgroup.org), the Institutional Investors Group on Climate Change (www.iigcc.org) and the International Forum for Active Shareowners. These initiatives have been very successful in opening up lines of communication with company management and policy makers that were unavailable to us as an individual investor.

We are therefore very supportive of the UN's Responsible Investment Initiative and its potential to link these efforts and expand on them – both geographically and in terms of the issues addressed.

Such a development could help with the establishment of and coordination between national, regional and global alliances of institutional investors, large and small, who share similar perspectives on the need to invest for the long-term interests of beneficiaries. It will facilitate the pooling of resources and sharing of knowledge and increase the effectiveness of our engagement activities. It will also help pension funds join together to send credible signals to our supply chain – investment consultants, fund managers and their brokers.

www.usshq.co.uk
www.pharmashareownersgroup.org
www.pharmafutures.org

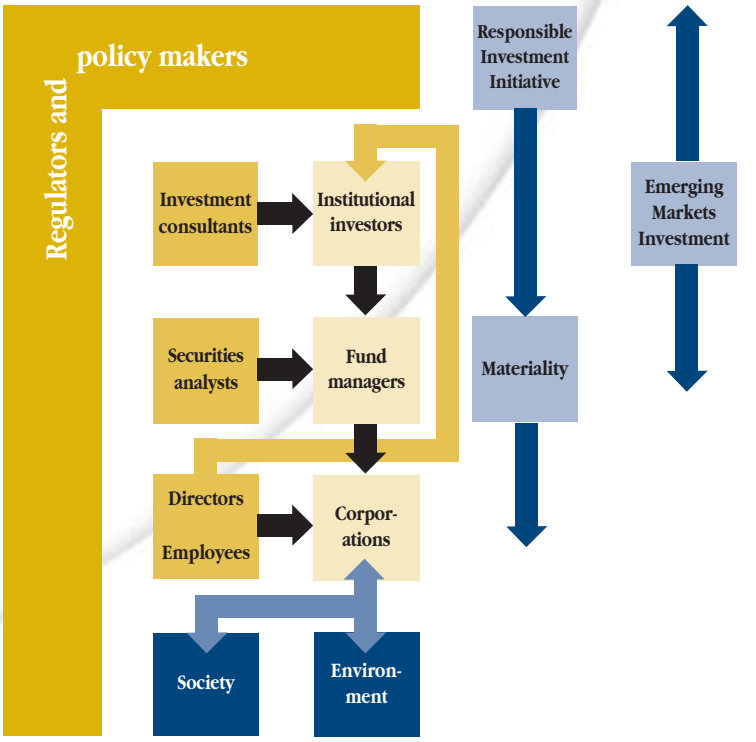
To change the direction of the ship rather than jumping ship

Who Cares Wins

In June 2004, twenty major financial institutions – including Credit Suisse, Deutsche Bank, Goldman Sachs and Morgan Stanley – pledged their support for the Global Compact's 'Who Cares Wins' report and initiative on connecting financial markets to environmental, social and governance criteria. At the same event UNEP FI presented the results of a landmark research project by 11 leading financial analysts into the materiality of social, environmental and corporate governance issues to equity pricing.

www.unglobalcompact.org
www.unepfi.org/investment

UNEP FI projects & stakeholders



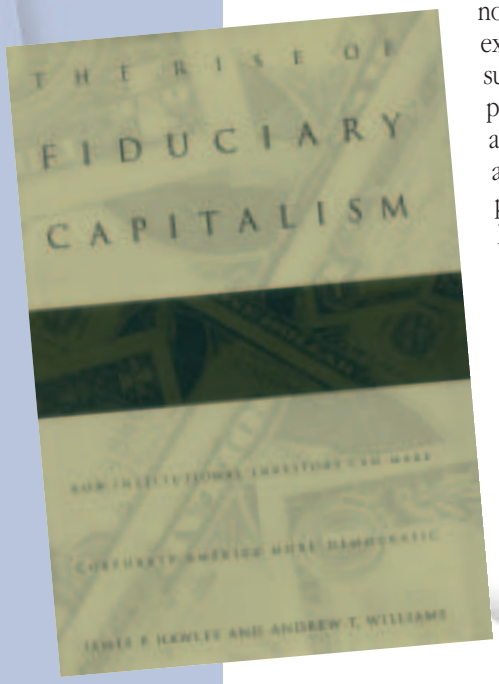
Universal owners, fiduciary duty and materiality

For universal owners, the longer-run benefits of a portfolio-wide approach to SEE factors will significantly outweigh the costs to some individual firms

Professors James P. Hawley and **Andrew T. Williams**,
The Center for the Study of Fiduciary Capitalism

UNEP and the Asset Management Working Group (AMWG) have developed an extremely important agenda to expand and integrate social, environmental and economic (SEE) factors (in addition to corporate governance) into long-term (and in some instances, shorter-term) market valuation of individual firms. Such a venture, supported as it is by many large institutional investors (with typically highly diversified portfolios) from numerous nations working jointly with a UN agency, is an extremely important undertaking. However, we want to suggest, based on our previous work*, that for a complete valuation of the material impact of SEE data, an additional and critical step should be undertaken.

While SEE data indeed materially impact bottom line financials of individual firms by limiting its impact to a single firm (or even an economic sector, e.g., utilities), the analysis proposed by the AMWG ignores the direct and indirect effects of economic externalities. For example, coal-fired electricity generation creates not only political, regulatory and legal tort contingent liabilities for generators, but it also negatively affects a host of other industries, as well as the health of the public at large and thereby indirectly off-loads costs to both business and taxpayer-supported health care systems. It is our thesis that pecuniary and non-pecuniary externalities generated by such activities as air pollution need to be accounted for not only as contingent legal and political/ regulatory liabilities of those generating negative externalities but also for their economy-wide impacts that affect the sectors absorbing (and thereby subsidizing) the negative externality generator.



Why should portfolio and economy-wide externalities be important to large institutional owners? Because typically they are what we call universal owners: that is, institutional investors that own a broad cross section of the economy and who therefore internalize externalities. We argue that it is very much in their own long-term financial self-interest to account fully for SEE type impacts from negative externalities and to make this accounting using input-output data, including SEE data. Thus, it is necessary, but not sufficient, to account on a firm-by-firm (contingent risk) basis. It is also in the economic interest of a universal owner to minimize (for example) the environmental damage of each of its firms, since this will capture the long-term and society-wide benefits. Although specific firms in its portfolio will bear the costs of clean-up or restructuring in order to produce in an environmental friendly mode, the other firms in the portfolio will benefit. We believe the longer-run portfolio-wide benefits will significantly outweigh the costs to some individual firms.

What would elements of what we call a sustainable governance action plan include? Most importantly, it would mean that universal owners should monitor universally for SEE impacts portfolio-wide. Universal monitoring necessitates SEE data transparency as a prerequisite. Universal owners should therefore urge regulators, listing authorities, legislative bodies, as well as leaders and boards of directors of individual firms, to make SEE data available in a timely manner. Such actions will effectively expand current conceptions of fiduciary obligation to recognize SEE impact as material.

Why is this sustainable governance? Because it uses the varieties of corporate governance activism and engagement with firms (running the gamut from informal discussion and negotiation, to proxy activities, to positive and negative publicity), which have the potential to bring about behavioral changes in the firms owned by large institutional owners. This is also because it is based on the corporate governance assumption of maximizing long-term value (and return), but in this case from a portfolio-wide perspective.

www.fidcap.org

**The Rise of Fiduciary Capitalism: How Institutional Investors Can Make Corporate America More Democratic*, University of Pennsylvania Press, 2000

I can see clearly now

Active investors challenge corporate opacity

Without sufficient, reliable information about companies, investors are flying blind. This is true for environmental, social, governance and traditional financial data. 0.618... **outlines a number of initiatives that are delivering results.**

Carbon Disclosure Project

The Carbon Disclosure Project (CDP) brings together institutional investors, governments and civil society in an initiative that aims to help business and the public sector cut carbon emissions and capture the commercial potential of low carbon technologies. The CDP's institutional investor group solicits information on the action taken by the world's 500 largest companies to address the business risks posed by climate change.

The first round of CDP from 2002–2003 brought together 35 institutional investors and $4.5 trillion of assets under management. By the time the second round was launched in November 2003, the group had grown to 95 institutional investors and $10 trillion of assets. CDP 2's results have been used by Innovest Strategic Value Advisors to construct a Climate Leadership Index, comprising the 50 companies whose responses best addressed the breadth of climate change issues.

Pension funds are well represented in the CDP: signatories include the New York State Common Employees Retirement System, the Ontario Teachers' Pension Plan, Australia's PSS/CSS and the UK-based Universities Superannuation Scheme.

www.cdproject.net
www.innovestgroup.com

Investor Network on Climate Risk (INCR)

Launched in 2003, the Investor Network on Climate Risk (INCR) works to promote better understanding among institutional investors of climate change risks to the US financial markets. INCR is coordinated by CERES, a broad coalition of investors (representing over $400 billion in assets) and companies.

INCR actively encourages companies to address the material risks and opportunities associated with climate change and a shift to a lower carbon economy. In July 2004, INCR released the Investor Guide to Climate Risk, a publication that identifies action steps for plan sponsors and fund managers as well as the companies in which they invest.

The Network has been particularly active in engaging the US oil industry on its disclosure of the material liabilities it faces in relation to climate change. A number of shareholder resolutions were submitted by INCR members in 2004 requesting reports on oil companies' reactions to rising regulatory, competitive and public pressure to reduce greenhouse gas emissions.

www.incr.com
www.ceres.org

By the time the second round was launched in November 2003, the CDP had grown to 95 institutional investors and $10 trillion of assets

I can see clearly now

The Global Reporting Initiative is quietly becoming the platinum standard for corporate reporting of social and environmental performance

Transparency in the extractive industries

In February 2004 a group of 57 institutional investors issued a statement calling for disclosure of any payments to and from governments by companies in the oil, gas and mining industries.

Led by ISIS Asset Management, the group has identified the need to distinguish between legitimate payments (taxes, royalties) and corrupt and risky business practices. It is supporting the UK Government's Extractive Industries Transparency Initiative (EITI), and encouraging other investors to join in calling for the development of international mechanisms to address the transparency of government payments in this and other sectors.

The group has $7 trillion in assets under management and has a diversity of mainstream asset managers (Fidelity, Merrill Lynch Investment Managers), SRI funds (ethos, I.DE.A.M) and major pension schemes (CalPERS, USS).

www.isisam.com

Transparency guidelines for active shareholders

The UK Social Investment Forum is in the process of developing transparency guidelines for active shareholders in consultation with asset managers, trustees and investment consultants. The guidelines will be piloted by 12 fund mangers, starting in October 2004.

The aim is to provide a consistent framework in which asset managers can report their approaches to active shareholding and their effectiveness.

Many pension funds do not have the in-house capacity to engage with companies on these issues. These transparency guidelines will allow pension funds to better assess fund managers' abilities to fulfil mandates that include active engagement on environmental, social and corporate governance issues.

www.uksif.org

Shareholder advocacy and the Global Reporting Initiative

Dr Julie Fox Gorte,
Director of Social Research, Calvert (a socially responsible mutual fund investment manager)

The Global Reporting Initiative (GRI) is quietly becoming the platinum standard for corporate reporting of social and environmental performance. As of September 2004, over 500 enterprises – most of them private-sector companies – have produced reports that use the GRI reporting protocols (of those, only 40 are in full accordance with the guidelines). While this is encouraging, investors still need better access to material information about corporate, social and environmental performance.

Social and environmental information can be material to investors. At times, poor performance can have immediate and costly impacts, as in the case, for example, where there are significant compliance problems. Such problems are often preceded by more subtle signs, such as high employee turnover or rising environmental emissions. GRI reports can be useful in identifying the harbingers of more serious problems. Moreover, social and environmental performance also offers insights into corporate governance.

In 2003-2004, Calvert filed 14 shareholder resolutions asking companies to issue reports on their social and environmental performance using GRI protocols. One resolution was successfully challenged at the Securities and Exchange Commission. Of the remaining 13, eight were withdrawn after the companies agreed to the requests. The final five were voted on by shareholders at the companies' annual shareholder meetings. The vote totals were impressive, ranging from 20% to over 38% in favor. Such results are almost never possible without support from institutional investors, and we believe that these totals indicate that institutional investors also find great value in sustainability reporting.

Many of the companies that did commit to producing sustainability reports had reservations about complying fully with the GRI. But full compliance is rarely achieved in the first year of reporting. We believe that over time, as companies commit to increased disclosure and develop internal systems to measure their impacts, many sustainability reports will turn into full GRI reports. Moreover, as we pointed out in many of the corporate dialogues, the GRI guidelines are what they claim to be: guidelines. We encourage companies to study the guidelines and identify the key indicators most relevant to their own industries.

www.calvert.com

GRI Working Group

In September 2003, UNEP FI and the GRI convened a working group to develop a pilot version of the GRI Financial Services Sector Supplement (Environmental Performance).

The goal of the Working Group is to develop a set of globally applicable indicators that will address the environmental impacts of financial-sector products and services to be used in conjunction with the GRI Guidelines 2002. The indicators will also complement the existing GRI Financial Services Sector Supplement (Social Performance). UNEP FI and GRI have drawn together an international working group of 19 leading institutions from a range of different constituencies across both the financial and non-financial sector.

The 15 draft indicators were launched for public consultation between June and September 2004. The Working Group has just met for a fourth time in October to review the feedback from this public consultation process and to finalise the first pilot version of the sector supplement. The pilot is likely to launch in January 2005.

www.unepfi.org/gri
gri@unepfi.org

Climate Change Working Group

A key development for the CCWG in 2004 was the launch of a new workstream on renewable energy, as part of its work toward the Sustainable Energy Finance Initiative (SEFI). SEFI, a partnership between UNEP FI, UNEP Energy, and BASE (Basel Agency for Sustainable Energy) was launched at UNEP FI's Tokyo Roundtable in October 2003. SEFI's goal is to bring about increased investment in the clean energy sector.

The means to achieving this is to introduce new approaches to financing sustainable energy and to catalyse strategic partnerships in the area of clean energy finance, both amongst financial institutions and between financial institutions, and selected UN-system agencies.

www.unepfi.org/climate
climate@unepfi.org

Enhanced Analytics Initiative

Leading European institutional investors are challenging the investment banking and broking industries to provide research on environmental, social and corporate governance (ESG) issues. They have told their banks and brokers they will allocate at least 5% of their commission budget to research on these issues.

The initiative is being led by European institutional investors BNP Paribas Asset Management, PGGM, RCM (part of Allianz Dresdner Asset Management), Generation Investment Management and the Universities Superannuation Scheme (USS). With €330bn of assets under management, the initiative already has significant momentum, and is recruiting more members.

The group feels that "non-traditional" aspects of corporate performance such as overall strategy, corporate governance, human capital management and environmental management have rarely been integrated into mainstream analysis.

"We feel research on extra-financial areas such as governance and labour relations is one of the keys to understanding the performance of a business in the long term," says Philippe Lespinard at BNP Paribas Asset Management. "If we look five years ahead we think these issues will eventually be part of mainstream financial research."

Roderick Munsters at PGGM, argues that "intangible issues should get more attention than they receive nowadays because they play a crucial role in long-term performance – and we are long-term investors."

ESG research is increasingly becoming a focus for sustainability practice in the financial sector. A number of initiatives from UNEP FI and the Global Compact are investigating the impacts of ESG issues on corporate fundamentals. Underlying these initiatives will be the 2005 revision of the Global Reporting Initiative's Sustainability Reporting Guidelines, the aim of which is to ensure the guidelines meet the needs of the analyst community.

UNEP FI is confident that with its close links to institutional investors and analysts, it can play an important role in helping the financial sector make ESG research an indispensable pillar of securities analysis.

For enquiries, please contact Sylvia van Waveren-Severs, PGGM Investments on sylvia.van.waveren@pggm.nl / +31 30 277 9797 or Raj Thamotheram, USS on rthamotheram@uss.co.uk / +44 20 7972 6397.

Through a different lens

Mobilizing ownership – the civil economy agenda

Dr Stephen Davis, CEO, Davis Global Advisors, and co-founder and former Governor, International Corporate Governance Network

Policymakers around the world have a historic window of opportunity to shepherd a new politic of growth that transcends outmoded divides between the anti-capitalism of the traditional left and the laissez-faire corporatism of the traditional right. The reason is the rise of mass ownership.

Through pension, insurance and savings institutions, millions of citizen-savers are gradually inheriting potent stakes in the commanding heights of enterprise – the biggest listed companies – from the state, tycoons or founding families. This emerging economic reality blurs the old frontiers between worker and owner just as industrialization once overwhelmed social divisions thought immutable in feudal times.

At this critical juncture of transition, there is an opening to offer practical policies designed to match the vigor of private enterprise to the demands of social accountability. The key to unlock progress is an agenda designed to mobilize ownership. This formula represents what I term a 'civil economy'. A civil economy agenda would have the potential for forging new domestic coalitions behind successful income and employment-creating policies. And it would provide global leadership in shaping the course of market capitalism toward social responsibility.

Just as civil society requires engaged citizens for its success, so also a civil economy requires owners who perform an equivalent role. Today, institutional investors managing the savings of

tens of millions of people quietly own vast swathes of the market all over the world. But too many funds shirk their fiduciary obligation to savers and offer unquestioning obedience to corporate authority, even when an investee company's management is patently flawed.

The roots of this disengagement are clear. A generation ago, the ownership of companies became divorced from management control. The shareholder was encouraged to think of his or her ownership interest in the company as a "tradable security," not as a right of ownership. Shareholder rights were (at best) seen as equivalent to consumer rights. If you did not like the company's behavior, you would sell and take your investment elsewhere.

Rules and practices in big capital markets hemmed in shareowner power in a variety of ways. Statutes, regulations and court decisions installed the general principle that investor concern for a corporation's relationship to social, ethical and environmental (SEE) concerns would normally constitute a breach of fiduciary responsibility. Laws discouraged cooperation among funds on grounds that they might constitute a joint party with sufficient blocs to mount a takeover. Certain markets limited investor power by handing boards and management of companies authority to make decisions without consulting shareowners. In the US, for instance, boards can still retain sole power to introduce takeover defences. They can ban shareowners' rights to summon special meetings. And ballot rules make it almost impossible for investors to oust under-performing board members. In other markets, governments have inhibited investor power by discouraging the rise of pension funds or placing severe limits on their ability to invest in equities.

Perhaps the greatest weakness faced by investors, however, is the one most deeply embedded in institutions' own architecture. The truth is that most funds fail to meet the bedrock governance standards they increasingly demand of companies. Here are some of the ways they fall short:

- Savers can only rarely discover how their funds behave as owners. Only beginning September 2004, for instance, could investors in US mutual funds discover how their stock is voted. Such information remains hidden elsewhere in the world. Without such disclosure, conflicts of interest are more likely to affect decisions.

- Savers normally have no voice in how the funds operate, or who makes key fund decisions. Corporate funds and employee stock plans in many jurisdictions are entirely or largely controlled by company management. Such funds very often serve as reliable pro-management voting blocs in the event of contests. Pension plans controlled by corporations typically vote shares mechanically with management.

- Boards of trustees of pension schemes generally do not operate as professional oversight bodies. Most trustees are not getting trained, spend too little time on the job, communicate too little with scheme members, and ignore shareowner activism and socially responsible investment. They are typically not paid and few spend efforts assessing their own performance or communicating with beneficiaries.

- Intermediaries such as investment advisors, gatekeepers, consultants and fund managers typically dominate trustee decision-making. This proves damaging because they are driven by factors – especially their own pay schemes – to back short time horizons, excessive trading or stock selection that disregards SEE and governance risks.

- Too many funds rigidly split the functions of ownership and portfolio trading. The responsibilities to vote shares and monitor SEE and governance may often fall into a compliance or legal division, while professionals doing the buying and selling of shares have little knowledge of SEE and governance.

The key to unlock progress is an agenda designed to mobilize ownership

The truth is that most funds fail to meet the bedrock governance standards they increasingly demand of companies

Trustees should have access to robust, independent training programs

Through a different lens

- In many markets, trade bodies representing institutional investors have failed to form themselves into political counterweights to the influence of corporate management. One reason is that they are structured to identify their constituents as the executives of the funds, not the ultimate beneficiaries. Trade groups miss tapping the most promising route to political clout: the millions of grassroots savers whose money they represent.

Taken together, these factors render most funds unaccountable to citizen-savers and, as a consequence, relatively passive as owners and stewards. Fund aversion to oversight frees corporations, enabled by somnolent boards, to engage not only in infamous cases of larceny, but in a more corrosive everyday mismanagement of companies' impact on shareowner capital, employees and the environment.

Through voluntary codes, law or regulation, institutional investors must become transparent and accountable. Funds should disclose regularly what guidelines they use in investing, including whether or not they consider social criteria and how they vote their shares. Savers should have a role in selecting trustees of such funds. And trustees should have access to robust, independent training programs. Market regulators should clear ways for investors to cooperate, but ensure that funds operate solely in the interests of their clients rather than for other conflicting business interests.

Some of these reforms are beginning to be introduced by statute in Australia, France, Germany, the UK and the US. Where implemented, they are spurring funds to play a more active role as owners. That, in turn, has compelled more companies to clean up their management and improve both their economic and social responsibility performance.

Most of what is needed from government is surgical adjustment of regulation and law. The beauty of that equation – small public expenditure yielding big results – is that it could be a winning platform for political leaders under pressure to spur both growth and social justice when there is limited money in the public till.

Parts of this article are drawn from work produced for Policy Network, the World Economic Forum, AccountAbility and from drafts of the forthcoming book The Civil Economy, by Stephen Davis, Jon Lukomnik and David Pitt-Watson

www.davisglobal.com

An Agenda to Empower Citizen-Owners

Millions of citizens increasingly own powerful corporations through their pension, insurance and investment savings. They represent the engine of the civil economy but only if public policy gives them the tools they need to ensure that markets address social interests.

- Governments should foster employee pension funds. Big pools of capital help keep ownership of domestic corporations close to home. Pension funds can also drive companies toward social responsibility.
- Pension trustees should be paid, trained and invested with authorities similar to those of a corporate board.
- Trustee boards should be accountable to the fund membership so that their decisions are aligned with beneficiaries. Governments can ensure that a certain percentage of pension fund trustees are elected by employees and retirees themselves.
- Policy should spur the establishment of a formal profession of governance analysts at investing bodies.
- Government policy should aim to ensure that trustee boards meet high disclosure standards so that members can monitor whether their funds are exercising ownership responsibilities. Share voting records should be made available.
- Investors in each jurisdiction should found civil society organisations to support this agenda.

Dr Stephen Davis

Changing mandates

Yusuf Samad, Associate,
Hewitt Bacon and Woodrow (pension consultants)

Corporate governance and socially responsible investing are increasingly an aspect of mainstream institutional investment. Indeed, the world's largest pension funds are waking up to the scope of influence they have over the companies in which they invest.

Rather than being confined to separate specialist mandates, governance and social responsibility issues are starting to affect day-to-day management across pension funds' entire portfolios. This integration now forms part of the overall investment framework.

There are also important benefits in institutional investors working together. As collective owners of international companies, investors can genuinely influence companies' corporate behaviour. In isolation, pension funds are less effective. Past experience has shown that companies only take notice and make steps to change when all investors – including mutual fund investors – voice their concerns.

What is needed is a change in the way fund managers operate. There needs to be a fundamental change in the way mandates are structured and measured – both the alignment of manager fees and incentives need a radical overhaul. Ultimately, pension funds' collective clout can bring about real change, which will reduce risk and improve investment returns.

One example of institutional investors working together is an initiative by the Universities Superannuation Scheme (USS) and Hewitt called the Marathon Club. It is a consortium consisting of 24 pension funds that aim to carry out research in two emerging key areas: long-term mandates and corporate social responsibility briefs.

The consortium's overall goal is to stimulate pension funds and their agents to be more long-term in their thinking and actions, as well as to place a greater emphasis on social responsibility. It aims to develop and to promote templates for mandates that encourage long-term, responsible and active investment approaches.

In addition, the Marathon Club will supplement other approaches to continuous professional development of trustees, investment consultants and other critical parties so they are better able to contribute to overall goals.

The club will also publish best practice guidelines for the whole industry. Similar research into both investor best practice and corporate policy making is being conducted by the United Nations.

Today, mandates are measured against an index benchmark. But as pension funds start to construct briefs with longer-term time horizons, investment returns cannot be the sole criteria for measuring mandates; socially responsible behaviour and corporate governance will have to play a part.

Each of the three intermediaries – fund managers, consultants and brokers – will need to focus carefully on these governance issues. Brokers, in particular, will, in addition to the status quo, need to add new risk elements to their research such as climate change, environmental change, pollution and labour issues.

These steps, over time, will create a new landscape for global pension fund investment.

www.hewitt.com

Pension funds are waking up to the scope of influence they have over the companies in which they invest

Insights into outsourcing

UK fund manager (and new UNEP FI signatory) Insight Investment has been appointed by the Wellcome Trust – the UK's largest research charity – to provide a shareholder activism service on governance and corporate responsibility issues for the Trust's £3 billion equity portfolio.

Steve Waygood, a Director of Investor Responsibility, explained that Insight developed a free-standing activism overlay service to allow external funds to have access to its capability in this area.

"The approach to activism taken by many trustees has been simply to leave it to their existing fund managers, whether or not they have any specialist competence. It makes sense for charitable foundations and pension funds that do not have the specialist staff to engage with companies to outsource those activities to a specialist manager, such as Insight or ISIS."

"We are very excited about the UNEP Responsible Investment Initiative and its potential to provide a framework for investors to use when choosing fund management services. Insight has been developing its own approach to responsible investment based on internationally recognised norms of corporate governance, human rights and environmental protection. UN-backed principles are sure to increase investor confidence that social, environmental and financial considerations are, in fact, mutually supportive."

www.insightinvestment.com

The new frontier: responsible investm

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Cecilia Bjerborn, Project Manager, UNEP FI Emerging Markets Investment Project

Long-term, stable investment is essential for the economic development of emerging markets. Many people also believe it is part of the solution to the pensions crisis facing the ageing populations of the developed world.

0.618... asks the question: can sustainable and responsible investment in emerging markets produce a win-win-win for pensioners, the poor and the planet?

From ageing to emerging markets

Lower fertility, lower mortality, increasing early retirement and changing family support structures are putting unprecedented pressure on the ability of developed world economies to sustain current levels of social protection for their elderly populations. The problem is most acute with pay-as-you-go public pension schemes, where a stable or shrinking working population is unable to support the cost of a swelling retired population. This 'demographic time bomb' is driving the transfer of the

Turning on the taps

Emerging markets portfolio equity flows are notoriously speculative and short-term in nature

David Gait, Investment Manager, First State Emerging Markets Team, Edinburgh

For developing countries, sustainable and responsible investment (SRI) helps to ensure that economic growth goes hand-in-hand with sustainable development. For emerging market investors, it provides a powerful tool for controlling risk in an asset class well known for its potential pitfalls.

Despite this, SRI in emerging markets still remains in its infancy for several reasons.

Firstly, emerging markets portfolio equity flows are notoriously speculative and short-term in nature. Investors, who are focused on next quarter's profits and the realisation of a quick paper trading gain, are unlikely to be interested in a company's long-term environmental liabilities or labour policies. SRI involves a commitment to purchase part of a real business with all the rights and responsibilities that go with this. It is about much more than trading electronic tickers on a Bloomberg terminal.

Secondly, there is the shortage of information. Many emerging markets are characterised by low levels of disclosure and transparency, even for standard financial information. Reliable information on sustainability issues is even scarcer. The lack of local press freedom in some markets and the absence of good quality independent research compound the problem.

Thirdly, most investment mandates still focus exclusively on fund managers' meeting specific performance criteria. Fortunately, there are strong links between a company's sustainability policies and long-term profits. However, there are occasionally times when this relationship does not apply. In these cases, fund managers require firm guidance from clients.

SRI aims to change the behaviour of companies. However, emerging market minority shareholders often struggle to be heard, due to the prevalence of closed registers and the lack of effective independent directors.

ment in emerging markets

responsibility for retirement funding from the state to the private sector and increasing the pressure on both public and private pension funds to deliver higher returns. With relatively stagnant economic growth in developed markets, and effective saturation in the exposure of investors to traditional markets, the income and diversification that investors need will have to come from elsewhere.

In contrast, many developing nations have large and enterprising active populations. But they cannot secure sufficient access to capital to leverage that labour force to its full potential. Capital-hungry markets like China, India, Brazil, and Russia are therefore obvious destinations for investment, providing opportunities for both financial and social returns.

But the fact that the current proportion of assets invested in emerging markets by institutional investors is 1–2% provides clear evidence that some pieces of the puzzle are missing. Issues such as political and market stability, reliable corporate disclosure, corruption and lack of regulatory frameworks must all be addressed before funds will flow.

These funds must also be invested in a financially, socially and environmentally sustainable way. There are countless examples of short-term investment strategies undermining economies, the environment and local communities. Responsible investment is the final piece of the puzzle – a way of leveraging financial, human and natural capital to ensure long-term increases in all three.

Creating the conditions for sustainable and responsible investment in emerging markets will require a major collaborative effort by international organizations, governments, investors, companies and civil society.

The UNEP Emerging Market Responsible Investment project aims to be a catalyst for this effort. Sponsored by the Dutch and Swedish and Governments, it will coordinate a global collaborative work programme to find out how to overcome these obstacles and work with stakeholders to do so.

The EMRI project will begin in November 2004. By March 2005, a global forum will be convened to develop and carry out the work programme.

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The fact that the current proportion of assets invested in emerging markets by institutional investors is 1–2% provides clear evidence that some pieces of the puzzle are missing

Ministerie van
Buitenlandse Zaken

Statement from the Ministry of Foreign Affairs, Netherlands

The EMRI project is an important initiative for the Dutch Government. The purpose of development assistance is to strengthen institutions and policies so that services for sustainable poverty reduction can be delivered effectively. This innovative partnership with the financial sector is an opportunity to aid more stable and sustainable portfolio investment in developing countries. The Dutch Government recognises the need for a collaborative approach and encourages institutional investors and companies globally to join us in building the social and environmental capital of those countries.

Fortunately, all these barriers are surmountable. For example, investment time horizons can be lengthened through the alteration of industry incentive structures and judicious regulation. Pension mandates are easily amended, while the establishment of regional engagement groups would offer investors both the chance to have a louder voice and to share valuable information with each other. As a result of these and other initiatives, it is hard not to be optimistic about the future development of sustainable investment in emerging markets.

Regulator perspective

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Business needs to be given a clearer sense of the future impacts of public policy and investor preferences

Winston H. Hickox, Portfolio Manager: Environmental Initiatives, California Public Employees' Retirement System (CalPERS), and former Secretary for Environmental Protection, California

Let us start by stating the obvious; the last 30 years of "command and control" government regulation on behalf of the environment has been incredibly successful, resulting in significant public health and environmental benefits. Rivers and lakes no longer spontaneously combust and air quality improvements have been realized all over the country, even in the worst of our cities. Yet the job is far from done, as is made clear by childhood asthma rates, water quality threats from perchlorate, MTBE, and other chemicals in our environment that are yet to be dealt with.

During my time as California's Secretary for Environmental Protection, I began to see the signs of a change in attitude of industry, regulators, and more recently, institutional investors.

- Industry, while recognizing the progress described above, laments the ever-increasing demands of the regulatory system;
- Regulators, facing a loss of financial resources to continue the "command and control" structure at current levels are rethinking their approaches; and
- Institutional investors are beginning to take corporate governance to new levels that include a fuller appreciation that long-term views are essential to realizing a greater alignment of interests among investors, regulators, and the business community.

It is because of these forces for change that these parties are beginning to better understand each other's roles, and the tools they have available to meet these challenges. The regulators have begun to better understand what institutional investors are, and how they look at regulators. Institutional investors can do more to appreciate the regulator's role on behalf of the public, and to try to discern the market trends created by the implementation of public policy. In the middle, business needs to be given a clearer sense of the future impacts of public policy and investor preferences in order to reduce uncertainty and to insure a more level playing field.

CalPERS has developed or is in the process of developing a number of initiatives in the environmental arena:

- In March this year, the trustees approved $200 million in clean technology investments from their private equity portfolio;
- In April of this year, the trustees approved the investment of up to $500 million from the global public equities portion of their portfolio in corporations that demonstrate a higher level of environmental stewardship;
- An effort to measure and improve the relative "greenness" of the System's near $20 billion in real estate holdings is being discussed; and
- Various corporate governance initiatives are being considered, including joining investor transparency initiatives and the development of possible investment preferences that recognize sustainability as a meaningful concept for long-term investors*

The key thing to take from this growing trend is the tremendous need for education on the part of regulators, investors, and businesses regarding this historic intersection of forces. There is little doubt that the landscape for investing, regulating and doing business will be dramatically different, for the better. Stay tuned!

www.calpers.com

*see *The Rise of Fiduciary Capitalism*, by Hawley and Williams, University of Pennsylvania Press, 2000 and *Governance and Risk* by George Dallas, McGraw Hill, 2004.

Regional updates

Brazil

Luiz Carlos Aguiar
Chief Investment Officer, PREVI

For seven years, the corporate social responsibility (CSR) report has been the tool used by PREVI to seek disclosure of and to monitor the social performance of companies. As key elements of its CSR agenda, the outreach activities of PREVI are implemented through programs and projects focused on a wide variety of topics, responding to the many challenges faced by Brazilian society.

Along with their annual financial statements, companies must submit a management report analyzing the factors influencing the company's results. The report should mention macro-economic aspects, competition effects, investment and indebtedness strategies, as well as off-balance sheet items and information on non-recurring effects.

We encourage companies to disclose CSR performance indicators. We suggest they use the social reporting methodologies defined by leading NGOs. As described in the PREVI Code of Governance Practices Manual, companies should respond promptly to social issues by giving priority to ethics, development and environmental protection. We promote employee share distribution and option plans as well as requiring employee representation on the Board.

In the companies where we have control, the relationship with the CEO and senior management allows us to encourage a focus on sustainability. The great challenge has been with the companies in which we are minority shareholders. In these cases, we try to talk to important shareholders, especially pension funds, about engaging with companies.

Pedro Angeli Villani
SRI Portfolio Manager, member of UNEP FI Asset Management Working Group

The first SRI mutual fund in Latin America was The Ethical Fund, launched in November 2001 by ABN AMRO Asset Management, Brazil. As of August 2004, it has achieved an excess return of 8.3% over the market index and has played an important role in raising awareness and increasing understanding about SRI, which was initially misinterpreted as philanthropy by the local investor community. In a parallel move in 2003, Abrapp, the national pension funds association, created voluntarily social responsibility guidelines for its members in cooperation with Instituto Ethos.

There are indications that interest in CSR is increasing in Brazil, especially at the corporate level. Many companies have joined the UN Global Compact and have implemented social certifications like ISO 9000, ISO 14000 and SA8000. Several hundred have prepared social reports under the IBASE model. Six companies are using the GRI guidelines. The launching of an SRI index in March 2005 under the leadership of the São Paulo Stock Exchange will be a watershed for the growth of SRI in Latin America.

For seven years, the corporate social responsibility report has been the tool used by PREVI to seek disclosure of and to monitor the social performance of companies

UNEP Latin American Taskforce

The LATF's mission is to promote sustainable finance in the Latin American financial sector and to assist financial institutions in integrating environmental and social aspects throughout their operations. Building on the first meeting in July in Lima, Peru, the LATF's 2005 work programme will focus on two critical areas of finance and environment:

- Training in environmental and social aspects of credit risk and sustainability management and reporting
- Communicating the business case for sustainable finance in Latin America

The LATF looks forward to active participation in other global UNEP FI projects such as the Emerging Markets Responsible Investment project and Environmental Performance Indicators work. The LATF will provide a Latin American perspective to these initiatives, communicating the needs of its financial institutions based on their specific regional and local market context.

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Regional updates

Japan

Masafumi Hikima,
Former President and now Special Adviser,
Nikko Asset Management

Responsible investment in Japan has evolved around retail funds. In the pension fund arena, it is still immature. But there is movement, especially in the traditional corporate governance area.

The Pension Fund Association (PFA), which represents private sector pension schemes, has started a fund that screens on corporate governance criteria. They include issues such as the separation of the board from management, independence of directors, disclosure and accountability, remuneration, and compliance and risk control. The screen does not address social and environmental issues. The PFA admits that its criteria need further review.

The current focus is on structural governance issues rather than any qualitative assessment of corporate performance. Still, it has had some interesting outcomes. Toyota – normally considered a good corporate citizen – was not included because it has no independent directors.

The emergence of this fund is certainly notifying companies and the public that these issues are important.

The PFA has started to engage with companies on a limited scale to obtain the information required to apply the screen. They are talking with each company one by one and if they identify problems, they try to persuade the company to change.

Another recent development is the availability of broad-based SRI products for pension fund sponsors. KDDI and Shinsei Bank pension funds have applied an SRI mandate to a small percentage of funds under management. The criteria are based on environmental, social and governance performance. But they have allocated only 5 billion Yen (USD 50 million) – this is still very small.

A regulatory framework may be necessary to push pension funds in this direction. There are still concerns that SRI approaches may lead to lower returns and conflict with trustees' fiduciary duties. Proxy voting by pension funds is certainly on the rise, but again is limited to a narrow interpretation of corporate governance.

UNEP

Asia Pacific Task Force

UNEP FI is continuing to expand its regional outreach activities with the establishment of the Asia Pacific Task Force, to be launched officially in January 2005.

The Asia Pacific Task Force (APTF) work programme aims to focus on:

- setting of "sustainability" priorities for the Asia Pacific financial sector;
- creating a critical mass of Asia Pacific signatories that are able to exchange ideas and best practice facilitated by a UNEP FI network;
- integrating a triple bottom line approach to the operations of the Asia Pacific financial sector.

Currently UNEP FI works closely with the Environment Protection Authority, State of Victoria, Australia to carry out its activities in Australasia, and cooperates with and supports the Association for Sustainable & Responsible Investment in Asia (ASrIA).

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Regional updates

Emerging Europe

Natasha Landell-Mills, SRI Advisor, OTP Fund Management (the largest fund manager in Hungary)

In 2004, eight Central and Eastern European countries acceded to the European Union. Three more are close behind. While the road from socialism has been bumpy, the rewards are already significant. Average economic growth in 2005 is expected to be between 4 and 4.5%, twice that of Western Europe. Combined with falling economic and political risks, these economies offer exciting opportunities for investors – particularly socially responsible investors.

Social screening, shareholder engagement and sustainable venture capital have all been on the rise in the West, especially in the US and the UK. However, Central and Eastern European investors are almost entirely unaware of the concept of SRI. Ethically-screened products and shareholder engagement are virtually unknown. The region's short history of shareholder capital, combined with mismanaged privatisation efforts that created a class of controlling shareholder groups and individuals, has resulted in a difficult environment for shareholder activism.

The situation, however, is extremely dynamic. Private saving is booming and new products are being offered. Pension funds, life insurance and mortgage products are coming into their own. If we look at the levels of private saving and investment in Western Europe, we can see the potential for growth in the East. Eurozone pension, mutual fund and insurance investment is over 22 times the average for Hungary, Poland and the Czech Republic.

As customers become more sophisticated in their investment decisions, there is likely to be significant scope for SRI products. New EU regulations relating to corporate disclosure will force the pace of change. If passed, rules mandating the disclosure of investment managers' policies on environment and social issues will also have a major impact.

For the moment, though, important challenges remain. Inadequate information on companies' social, environmental and corporate governance performance – rooted in a poor understanding of corporate social responsibility – is the largest obstacle. Despite these significant hurdles, OTP is the first bank to be pioneering SRI in Central and Eastern Europe. Given its long history in the region, its deep understanding of how the corporate sector works, and its growing branch network in Hungary, Slovakia, Bulgaria and Romania, it is well placed to take the lead.

SRI in Central and Eastern Europe is only just beginning. The challenges faced by the SRI community in Western Europe and North America 10–15 years ago are now being faced further east. The region, though, has a huge advantage – it can learn from Western experience. It will not be long before individual savers and pension funds are asking themselves which SRI fund or approach best suits their needs.

UNEP Central and Eastern European Task Force

In 2004, UNEP FI established a working group of finance practitioners from the largest financial groups in Central and Eastern Europe to take action to support and expand sustainable finance practice in Central and Eastern Europe. The inaugural meeting was held in May 2004 and chaired by the European Bank for Reconstruction and Development. A survey of 26 financial institutions in 14 countries was then conducted to gain an understanding of the current status of sustainable finance and the main drivers and barriers to its growth. The full study can be downloaded from www.unepfi.org/fileadmin/documents/ceetf_finance_sustainability_2004.pdf

In light of the results of the survey, the 2005 work programme will focus on three main areas:

- Awareness-raising about the opportunities of sustainable finance in the region
- Environmental credit risk management
- Training and capacity-building

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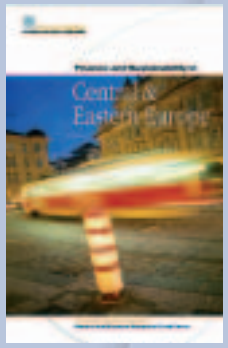

Average economic growth in 2005 is expected to be between 4 and 4.5%, twice that of Western Europe

Natasha Landell-Mills, OTP Fund Management

Regional updates

South Africa

The lead taken by the Johannesburg Securities Exchange in forming the JSE SRI Index and in requiring all listed companies to comply with the King II Report on Corporate Governance has energised the South African responsible investment market.

The Community Growth Management Company (Comanco), co-owned by Unity Incorporation and Old Mutual Asset Managers, is one beneficiary of the reforms to the JSE. Comanco offers investors access to three socially responsible investment vehicles covering equity, fixed income and money market investments.

Founded in 1992, Comanco's Community Growth Fund (CGF) is the oldest SRI fund in South Africa and concentrates on investing in the equity of JSE-listed companies that are concerned with job creation, skills development, affirmative action, sound environmental practices and effective corporate governance.

The CGF not only screens companies on environmental, social and governance criteria, but also takes a lead in active shareholding, engaging with such companies as De Beers, Southvaal, Nedcor, and Dimension Data and pressing for more corporate transparency. The Fund has been acclaimed both locally and internationally for its role in the transformation of industrial relations in South Africa.

In addition to consistently outperforming the FTSE/JSE All Share Index (by an average 2%), the CGF has also inspired the introduction of other SRI funds, notably the Frater Earth Equity Fund, which positions itself as the first South African SRI fund to employ a shareholder engagement 'overlay' approach.

www.jse.co.za/sri
www.omam.co.za
www.earthequity.co.za

The Community Growth Fund has been acclaimed both locally and internationally for its role in the transformaion of industrial relations in South Africa

Cromwell Mashengete, Old Mutual Asset Management, Portfolio Manager for the Community Growth Fund

UNEP African Task Force

The *Sustainability Banking in Africa* report, produced by the African Institute of Corporate Citizenship (AICC) Centre for Sustainability Investing, was launched at the AICC Convention on 21 September 2004 in Johannesburg. ATF members are delighted to see this report come to fruition following their active support in its development over the past year. This comprehensive benchmark study on the current status of sustainability banking practices in five African countries – South Africa, Botswana, Kenya, Nigeria and Senegal – will advance sustainable finance throughout the continent.

In addition to capacity building throughout the region, the 2005 work programme will coordinate the following two projects:

- Production of standards and guidelines for non-financial risk management and corporate governance for the South African – and eventually the broader Sub-Saharan African – credit and project finance sectors;
- Development of a pan-African partnership on sustainable investment and corporate governance in Africa.

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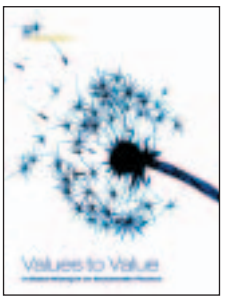
UNEP FI publications

Values to Value: A Global Dialogue on Sustainable Finance



What is the present state of sustainable finance? Who is involved? How can the ideals of sustainable development be incorporated into the business practices of the finance sector? How can capital markets support the "people, planet, prosperity" ethic?

These questions and more are addressed in the 550-page UNEP FI report entitled 'Values to Value – A Global Dialogue on Sustainable Finance'

The Values to Value package includes a CD ROM containing over 150 presentations, a PDF version of the report, and various reports, studies and publications that have come out of two years of UNEP FI work.

Launch of the new website – www.unepfi.org

Time flies on the Internet, and the UNEP FI website was starting to show its age. Working with Communicopia Internet, we are delighted to release a completely redeveloped and redesigned website to showcase the work of UNEP FI and its signatories.

The new UNEP FI website has been completely restructured, making it easier to find anything from asset management publications to signatories in Venezuela. A new signatory extranet consolidates all private documents and events in a secure central location.

If you have ideas of tools and information you would like to see, let us know!
Send a message to our team at web@unepfi.org.

www.unepfi.org

The Materiality of Environmental, Social and Corporate Governance Issues to Equity Pricing

This publication is based on eleven sector reports by brokerage house analysts and was produced for the UNEP FI Asset Management Working Group.

It presents the first evaluation of the financial impact of environmental, social and corporate considerations and criteria as they relate to the portfolio management of mutual,

pension and other institutional funds.

Industry sectors covered by the research include aviation, clothing, electronics, oil and gas, insurance, pharmaceuticals and utilities. The resulting eleven reports provide a rich insight into how mainstream financial analysts are tackling a range of complex new threats and opportunities in their assessments of corporate performance.

www.unepfi.org/stocks

Risks of Water Scarcity: A Business Case for Financial Institutions

We have seen images and news from around the world about how water scarcity is affecting communities and livelihoods. Recent estimations predict that over 40% of the world's population will be living in a water-scarce region by 2025. But how will water scarcity affect investors and financial institutions?

UNEP Finance Initiative and the Stockholm International Water Institute (SIWI) have launched a study examining the risks faced by the financial sector from water scarcity. The report identifies six risk drivers that need to be tackled. Addressing these risks can provide a platform for both good business and sustainable resource use.

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CEO Briefing on Renewable Energy

The UNEP FI Climate Change Working Group launched its latest CEO Briefing at the International Conference for Renewable Energies in Bonn in June. The briefing presents the business case for renewable energy, calling for more leadership from policymakers and action by financial institutions. One of the major recommendations is for governments to create "tough targets and 15-year schedules for the production of renewable energy". It also details several important case studies highlighting the opportunities and challenges in renewable energy finance. Finally, the briefing emphasizes that the most important thing that policy makers can do is create confidence in the long-term future of the renewable energy market by policies that make the 'deal on the table' financially attractive.

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Innovative financing for sustainability

Why 0.618...?

The UNEP FI newsletter is named: 0.618.... Many readers will ask "Why?". The reason behind our choice of name for the newsletter is given in Peter L. Bernstein's book: "Against The Gods. The Remarkable Story of Risk."

In a fascinating section in Chapter two – covering the very beginnings of our modern day understanding of risk – Bernstein explains: "The Greeks knew this proportion and called it 'the golden mean.' The golden mean defines the proportions of the Parthenon, the shape of playing cards and credit cards, and the proportions of the General Assembly Building at the United Nations in New York ...The golden mean also appears throughout nature – in flower patterns, the leaves of an artichoke, and the leaf stubs on a palm tree".

Also known as the Fibonacci ratio, after the 13th century Italian mathematician of that name, the ratio defines the shape of a spiral which appears in some galaxies, seashells and the coil of ocean waves. The journalist William Hoffer remarked: "the great golden spiral seems to be nature's way of building quantity without sacrificing quality."

0.618... believes that for financial institutions the challenges and opportunities posed by sustainable development centre around an ability to build wealth for shareholders and communities while contributing to the protection of the natural environment – in essence, building quantity without sacrificing quality.

About UNEP FI

The United Nations Environment Programme Finance Initiative (UNEP FI) is a unique global partnership between the United Nations Environment Programme (UNEP) and the private financial sector.

UNEP FI works closely with over 200 financial institutions that are signatories to the UNEP FI Statements, and a range of partner organizations to develop and promote linkages between sustainability and financial performance.

Through regional activities, a comprehensive work programme, training and research, UNEP FI carries out its mission to identify, promote, and realise the adoption of best environmental and sustainability practice at all levels of financial institution operations.

Benefits of joining
Financial institutions are under closer scrutiny than ever before. Investors and regulators are increasingly asking challenging questions about corporate governance, the social and environmental impacts of operations and investments and how institutions support their local communities.

Answering these questions is not easy and requires organisations to change policies and practices. This may seem a daunting task. But membership of the United Nations Environment Program Finance Initiative (UNEP FI) has proved invaluable, helping hundreds of signatories since 1992 to understand stakeholder concerns, exchange best practice and stay on top of the issues.

Membership in UNEP FI is about learning how to turn sustainable development into an opportunity for growth.

New UNEP FI signatories

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