Issue 9 March 2005

UNEP Finance Initiative
Innovative financing for sustainability

EPA VICTORIA

Australasian UNEP Finance Initiative Newsletter

'Innovative financing for sustainability'

Contents

Savings & Loans signs up to UNEP FI

Stephanie Morrison, Savings & Loans Credit Union

Savings & Loans Credit Union, Australia's fourth largest credit union, has become the first South Australian based financial institution to become a signatory to the UNEP Finance Initiative.

Greg Connor, Savings & Loans CEO, said that by signing the UNEP Finance Initiative in December 2004, the credit union had put on the public record its commitment to the environment.

From left: The Honourable John Hill, Minister for Environment and Conservation in SA, Kevin Crawshaw, Chairperson of Savings & Loans and Terry A'Hearn, EPA Victoria

"People who invest their money with Savings & Loans will know that their money is working for the environment," said Mr Connor.

"Research of our members tells us they expect Savings & Loans to give back to the communities in which we live and work. They want us to make priorities of environmental and social sustainability.

"We will ensure that environmental and social sustainability is a key objective in every aspect of our business. It will be integrated into our choice of suppliers and business partners, the products and services we offer our members and the companies to which we loan money."

Mr Connor said the Board of Savings & Loans had for some time been looking at ways to support the sustainability of its business, the communities in which it works, and the environment.

"In exploring what we could do, we discovered the UNEP Finance Initiative. It represented a lot of what we were hoping to achieve, and opened up the doors for us to network, learn from and share information with organisations around the world that we otherwise would never have had the opportunity to meet.

And it makes us publicly accountable to our commitment to sustainability.

The environmentally friendly refurbishment of our office building is just one example of our commitment."

Savings & Loans is refurbishing its entire six-storey head office building to reduce its impact on the environment. Three levels have been completed and the remainder of the building is due to be completed by July 2005.

The refurbishment includes the fitting of 'T5' lighting which doubles the globe life from 10,000 hours to 20,000 hours and reduces by 30 percent the kilowatt per hour usage. It also involves a building management system for the air conditioning that will allow for targeted use of air conditioning throughout the building.

"We are also doing a building-wide audit of our energy and water usage and looking at how those elements can be improved to further reduce greenhouse gas emissions and water consumption," said Mr Connor.

"Outside of the office we're helping to reduce our impact on the environment through an arrangement with 'Men of the Trees'. This allows Savings & Loans to have a carbon neutral car fleet by planting trees to offset its fuel emissions." 'Men of the Trees' is a non-profit international society for the planting and protection of trees.

At the same time, the credit union is considering ways to encourage its members to adopt environmentally sustainable practices, and recently unveiled the innovative 'Breathe Easy Car Loan'.

Introduced in October 2004, it is a lower interest rate 'green loan' to encourage members to purchase and drive more environmentally friendly vehicles.

The State Government of South Australia recognised the value of what Savings & Loans is doing by witnessing its signing of the UNEP Finance Initiative.

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HSBC and carbon neutrality

Noel Privett, HSBC

HSBC, one of the world's largest banks, made a double announcement on the opening day of the 10th Convention of the Parties (COP) of the United Nations Framework Convention on Climate Change, in December 2004.

Firstly, it became the first major bank to commit to carbon neutrality, by reducing energy use, buying green electricity and offsetting its remaining carbon dioxide (CO_2) emissions by investing in carbon credit or allowance projects. This is to compensate for the direct impact it has on the environment, through aspects such as the company's building ownership and employee air travel.

Secondly, HSBC has agreed to a £650,000 three-year collaboration with Newcastle University and the

University of East Anglia (UEA), both acknowledged five-star universities for their research into earth and environmental sciences. Called the 'HSBC Partnership in Environmental Innovation', its remit is to research the effects of climate change and society's awareness of the issues, as well as to develop technologies to overcome some of the problems identified.

Francis Sullivan, HSBC's adviser on the environment explains, "We have to keep pushing forward if we want to make a difference. Carbon neutrality is a worthy principle, but it has to be efficient and cost-effective." HSBC has therefore established a carbon management task force to determine the best way forward, ensuring that the action it takes is of the highest quality.

"At present, not all allowances and offsets that can be bought have the same environmental value, and as a matter of principle we will ensure that ours are of the highest credibility, and are genuinely incremental," says Sullivan.

HSBC's group chief executive, Stephen Green, who will directly supervise the bank's carbon management plan, sums up the relevance of action in the carbon neutrality project when he says, "In 2003, HSBC's CO_2 emissions from using electricity, natural gas, fuel oil and business travel was more than 550,000 tonnes. The bank needs to act now to reduce its emissions."

But it may be less obvious how a partnership with two academic institutions will also make a direct impact.

Or rather, it might be until you speak to Professor Paul Younger, who was elected to the new HSBC Chair in Environmental Technologies and Geothermal Energy at Newcastle University in January 2005. "The partnership differs from many academic exercises in that it is about doing as well as learning and research. We aim to understand change in order to change understanding, promoting effective means for renewable energy generation and conservation, actively engaging with the public on ways to think rationally about the way in which they use energy," he says.

Credibility and good cost management are the keys to the success of all HSBC's environmental projects. HSBC is already in the top 50 companies globally in terms of climate leadership, according to the Carbon Disclosure Project's 2004 Climate Leadership Index, and it is the third highest-rated bank in the Dow Jones Sustainability Index, which tracks the financial performance of the leading sustainability-driven companies worldwide.

HSBC has also adopted the Equator Principles, voluntary guidelines that direct the bank not to lend to projects where the borrower is unable or unwilling to comply with certain specified environmental and social standards. It is also developing a range of socially responsible investment funds. This is a very public arena and one in which it is vital to perform at the highest level.

Being in a public arena, of course, has advantages, not least in raising awareness of climate change issues across all stakeholders, from institutional investors to the man or woman in the street. According to Dr Keith Tovey, who was elected professor at the new HSBC Low Carbon Innovation Centre within UEA's Community Reduction unit (CRed) in January 2005, public awareness, ultimately, will be one of the most powerful elements in the challenges posed by the environment, "The keys to ameliorating the effects of climate change are to understand why it's happening, what people think of it, and then develop pragmatic solutions." Solutions, he is keen to point out, that have an impact across the globe, for the globe.

And one thing is for sure, climate change is now a

global concern, and although both partner universities are based in the UK, it is the aim of the partnership to have a worldwide impact, acknowledging that climate change is a global issue. Both universities have extensive worldwide networks and HSBC, with 10,000 offices in 76 countries and territories in Europe, the Asia-Pacific region, the Americas, the Middle East and Africa, will use its own reach to further enhance the project.

As Stephen Green remarks, "Our actions as a global bank affect the world. Our carbon management plan will make great strides towards ameliorating our direct impacts, while the 'HSBC Partnership in Environmental Innovation' will yield knowledge on climate change that will lead to improvements in environmental management globally, as befits the world's local bank. Together, I believe we can make a major contribution to increase our understanding, so that we can take early action to reduce the impacts we are having on our fragile planet."

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Westpac New Zealand's Sustainability Activities

Paul Murton, Westpac New Zealand

Social Impact Report

In September 2004, Westpac New Zealand launched its inaugural Social Impact Report, believed to be the first from a bank operating in this country.

The independently audited report, *'How We Measure Up'*, is a self-assessment of Westpac's performance relating to customers, staff, the community, financial performance and environmental impacts.

The report follows an earlier booklet, *'I Never Knew You Cared'*, which introduced Westpac New Zealand's commitment to Corporate Social Responsibility (CSR) in 2003.

"*I Never Knew You Cared* was our first step in embracing CSR and changing the way we do business," says June McCabe, Westpac's Director of Corporate Affairs and guardian of the bank's CSR activity in New Zealand.

"It resulted from an engagement process with more than 130 external and internal stakeholders to obtain feedback on what they thought a socially responsible bank should look and feel like. As such, it became our stake in the ground and set the scene for our CSR journey."

How We Measure Up is the next step in assessing Westpac New Zealand's performance against this commitment, and also provides insight as to where future challenges may lie. The bank now has the data needed to track ongoing performance and identify areas where it needs to take action to improve poor performance.

"The report also allowed us to focus on the relationships between the economic, social and environmental aspects of our business which ensure profitability and shareholder value are sustainable over the longer-term," continues June McCabe.

The social impact reporting framework used in *How We Measure Up* is based on the Global Reporting Initiative and input from Westpac's New Zealand Stakeholders. This is clearly set out in the Performance Indicators Guide detailed at the beginning of the report.

The report also uses real life case studies to show how Westpac New Zealand is responding to community expectations.

In addition to its sustainability report, Westpac New Zealand is focussing on its community, social and environmental impacts as detailed below.

Community impact: A measure of support

Westpac's most visible community partnership is the Westpac Rescue Helicopter. It covers four services; based in Wellington for 22 years, Auckland for 19 years and Waikato and Christchurch for 16 years each.

In 2004, Westpac New Zealand also announced a new community involvement strategy, aimed at providing

more support for staff volunteering. This will principally include the introduction of a Matching Gifts programme and Community Volunteering leave days, similar to the programs operating in Australia where Westpac matches staff payroll deductions, donations and fundraising dollar for dollar and where staff are provided with an annual entitlement of a paid day's leave for volunteering.

Social and financial impact: Working with Maori

Westpac is proud of its work among ethnic communities across Australasia. One successful initiative has been with Te Uri O Hau hapu from northern Kaipara, New Zealand.

Many iwi and hapu (tribes and sub-tribes in New Zealand's Maori culture) have strong capabilities in the pre-settlement phase of the Treaty of Waitangi process, but have had differing experiences and results from the post-settlement phase.

(The 'Treaty of Waitangi process' describes a process by which indigenous tribes in New Zealand can seek financial redress for land and social grievances resulting from historical actions of the Crown.)

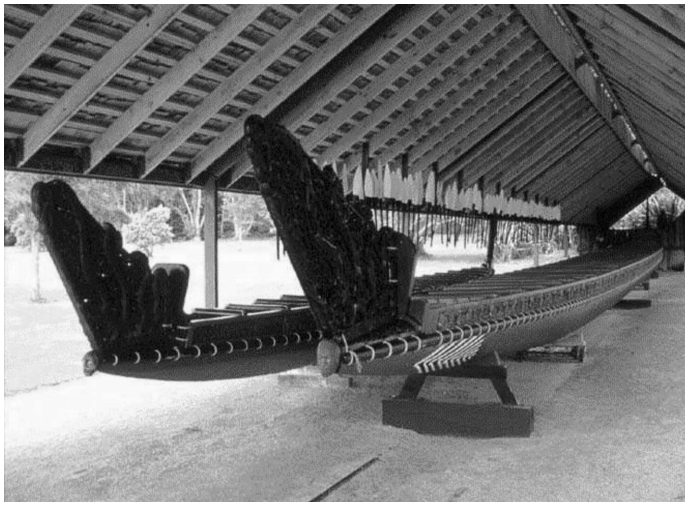
Westpac and the New Zealand Council for Sustainable Business Development developed a blueprint for Maori enterprises to follow in the post-settlement phase.

"Te Uri O Hau was one of the first opportunities we had to put the blueprint into practice," says June McCabe. "The aim is that what comes out of it will help iwi and hapu currently in the claim pipeline, or about to enter it, develop their policies and governance practices to ensure they manage settlement proceeds for the best long-term advantage of their people. This makes it a very exciting programme for Westpac to be involved in."

Environmental impact: Zero Waste

A priority for Westpac New Zealand in reducing its environmental impact will be a 'Zero Waste' initiative, currently being piloted in the bank's Wellington corporate centre.

'Zero Waste' focuses on recycling and reducing the



bank's use of water, energy and paper, which will mean changing some facilities to produce less waste. There will be a particular focus on paper usage, with staff challenged daily to question their need for paper-based material in an effort to reduce printing.

Other aspects of the 'Zero Waste' initiative include installing recycling bins, changing the bank's printers so necessary documents can be printed double-sided and discontinuing the use of polystyrene cups in kitchens.

These examples of Westpac's efforts in New Zealand demonstrate that the journey has truly begun. Westpac New Zealand's CEO Ann Sherry concludes, "CSR isn't a project. It's a commitment to a new way of doing business that we're determined to maintain a leadership position in among New Zealand banks. It's not just for the moment. It's for the future and we expect our commitment to differentiate us from other banks in the longer term."

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Shorts

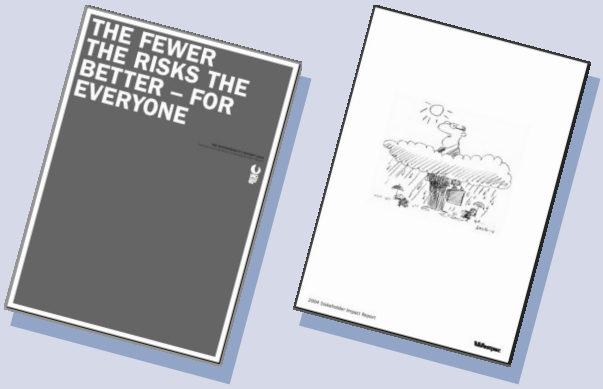
Bronwyn Green, EPA Victoria

New Sustainability Reports

A number of UNEP FI signatory organisations have released sustainability or environmental reports during 2004, some for the first time. The following details those that have done so, the title of the report and where each report can be found on the Internet.

In Australia:

- IAG *'The fewer the risks the better for everyone'* http://www.iag.com.au/pub/iag/sustainability/publications/report/2004/index.shtml
- NAB *'the Year, the Facts, the Future'* http://www.nabgroup.com/0,,58233,00.html
- VicSuper *'What in the world has sustainability got to do with superannuation?'*
- http://www.vicsuper.com.au/resources/documents/Sustainability_Report_20041.pdf
- Westpac *'2004 Stakeholder Impact Report'* http://www.westpac.com.au/internet/publish.nsf/Content/WISP+Stakeholder+Impact+Report+2004



Internationally:

- Abbey (UK) *'Corporate Social Responsibility Report 03'* http://www.aboutabbey.com/home/group_info/group_info-corporate_citizenship_report.htm
- AXA Group Management Services (France) *'2003 Activity and Sustainable Development Report'* http://www.axa.com/navigation/nav/mainframe.asp?id=44
- Bank Ochrony (Poland) *'Environmental Protection'* http://www.bosbank.pl/pub/rap_eko_04.pdf
- CIBC (Canada) *'Annual Accountability Report 2004'* http://www.cibc.com/ca/investor-relations/annual-reports.html
- Development Bank of Japan *'Sustainability Report 2004'* http://www.dbj.go.jp/english/environment/index_2004.html
- HVB Group (Germany) *'Sustainability Report'* http://www.hvbgroup.com
- Nikko Cordial Group (Japan) *'Sustainability Report 2004'* http://www.nikko.co.jp/GRP/environment_e/report/index.html
- Sompo Japan Insurance Inc. *'Corporate Social Responsibility Report'* http://www.sompo-japan.co.jp/english/sustainpdf/2004/re2004e_all.pdf
- Tokio Marine and Nichido Fire Insurance (Japan) *'The Tokio Marine Environmental Report for 2004'* http://www.tokiomarine-nichido.co.jp/e0101/html/global_env_index.html

French invest in SRI

A survey of 40 institutional investors in France by Novethic and Amadeis, and published with BNP Paribas Asset Management in November 2004, has found that 51 percent of them had already invested in accordance with Socially Responsible Investment (SRI) criteria, compared with 46 percent in 2003 and 40 percent in 2002. For more than 60 percent of the institutions surveyed, over €5 million was invested according to SRI criteria and nearly 20 percent

invested more than €50 million.

According to the survey, 98 percent of these investors say they will give preference to management processes that integrate extra-financial criteria, particularly those relative to the environment.

For more information, please see the Novethic website at:
http://www.novethic.fr/novethic/site/novethic/presse.jsp?lang=EN

UN Principles for Responsible Investment

After engaging in a strategic research program on responsible investment through the Global Compact and the UNEP FI, the United Nations Responsible Investment Initiative (RII) has been created. Dialogue between the two organisations 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.

UNEP, in its capacity as an implementing agency for the UN Global Compact, created the RII, which sets out to develop a set of best-practice principles for responsible investment and to offer institutional investors an ongoing platform to learn and collaborate on environmental, social and corporate governance issues. The initiative 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.

A set of best-practice principles for institutional investors will be developed during 2005 and are to be launched at the UNEP FI Global Roundtable in New York City in October 2005. The second phase of the RII, starting in 2006, will build support and capacity from within the investor and policy-making communities globally.

For more information, visit the UNEP FI website at:
http://www.unepfi.org/work_programme/investment/principles/index.html

ASrIA Update

In response to the devastating tsunami that hit coastal Asia on Boxing Day 2004, ASrIA has compiled a summary of financial news from the region relating to the disaster. The library focuses on information about corporate and finance market contributions to the aid effort following the tsunami and aims to be a resource for assessing 'best practice' in the corporate and investor response to this disaster, both in the immediate and long term.

In conjunction with this, ASrIA has published a report titled, *'Asian Tsunami: Best Practice Response'*, which provides a brief review of the corporate response to the natural disaster. It considers the issue of how corporates should move beyond the initial need for a philanthropic response to the disaster to the adoption of more accountable, engagement-orientated approaches to corporate governance and corporate social responsibility.

ASrIA is also hosting an online forum for discussion about the corporate response and is interested in receiving comments on its report. The forum encourages information sharing on how organisations can most effectively respond to the tsunami.

Additions and updated news items for its resources library are also welcomed on its website. This can be found at:
http://www.asria.org/ref/library/others/tsunami/1105504784.

Non-financial performance indicators become law in Germany

New amendments made to the Accounting Law Reform Act, which came into force on 1 January 2005, provide for the integration of non-financial performance indicators into the management reports of large corporations and groups in Germany. However, the German Accounting Standards Committee says that

the accounting standard does not contain any set reporting requirements for individual companies, because different factors are of importance to different branches of the economy. The only examples of non-financial performance indicators mentioned by the committee are 'development of the customer base and information about environmental and employees' concerns'.

The amendments to the law can be found in German at:
http://www.standardsetter.de/drsc/docs/press_releases/BilReG_BGBl_091204.pdf

Sustainability Assurance Practitioner Program

Bronwyn Green, EPA Victoria

AccountAbility launched the AA1000 Assurance Standard in early 2003 to provide a credible foundation for sustainability assurance. The Standard is a combination of traditional auditing methodologies and leading edge practice in stakeholder engagement and indicator development.

As more and more companies now seek external assurance for their sustainability reports, some of which use the AA1000, a gap in the standards governing the emerging profession of sustainability assurance practitioners has been identified.

In the UK, AccountAbility and the International Register of Certificated Auditors (IRCA) have thus established a partnership to provide practitioners in sustainability assurance with a professional qualification. This qualification will be the first of its kind worldwide and will effectively enable practitioners to develop, validate and communicate their competence in a systematic manner.

The program also aims to:

- Make it easier for organisations to source relevant and credible assurance expertise;
- Improve confidence for those seeking assurance, such as organisations' stakeholders, in the expertise of professionals engaged to assess and pass judgment on their behalf; and
- Develop a more systematic understanding of key competencies for providing effective assurance, and so a basis for informing this and other standards in the future.

Built on an AA1000 platform, the Certified Sustainability Assurance Practitioner program is informed by an extensive multi-stakeholder consultation process and it is anticipated that the program will be reviewed one year from its implementation.

The IRCA began taking applications for practitioner certification in January 2005 and has announced its first training course, to be held in Johannesburg, South Africa, in March 2005.

For further information on the program, please visit:
http://www.irca.org/certification/certification_11.html

Enhanced Analytics - the inclusion of extra financial issues in the investment process

Raj Thamotheram and David Russell, Universities Superannuation Scheme Ltd

In order to assist the investment sector to understand sustainability issues, a group of institutional investors are using the investment supply chain to bring about change.

The investment supply chain can be thought of by considering that the role of broker (sell side) analysts is to thoroughly examine company performance. By examining company performance, these analysts provide research and investment ideas to fund managers, who then invest the assets of pension or superannuation funds into particular companies based on advice provided to them from broker analysts.

In the past, broker analysts, as a key part of this investment chain, have not generally addressed sustainability issues in their research. A range of parties, including some environmentalists and investment professionals, has highlighted this. Other aspects of broker research that have sometimes come under question include conflicts of interest, an extreme form of short-termism, and duplication of low-value commentary which is often about past financial statements.

Watson Wyatt, the pension fund actuarial consultancy, noted in a recent report, *'Re-mapping our investment world: thinking ahead: agenda for change'*, Australia edition, April 2004, that "...growing short-termism has become a real problem".

These critiques are accurate but may not appropriately spell out what is needed to increase awareness of sustainability. Arguably, the most important gap at the moment is that extra financial issues, which can affect the value of companies, are very rarely captured in research by the analysts. These factors include corporate reputation (which can affect a company's license to operate), environmental pollution (which can result in regulation, fines and lawsuits) and mergers or acquisitions (which may damage company value).

The failure to include these issues in initial analysis is a key reason for them not being included in the investment process and why investors' long term interests may then be put at risk. This should be of particular concern to long term investors, such as pension funds, as many of these extra financial and intangible issues are likely to impact corporate performance over the medium to long term. It is also the concern of environmental and social activists who would like to see companies externalise less costs on to society, the environment and future generations.

Motivated by dissatisfaction with the current system, a group of institutional investors and fund managers recently established the Enhanced Analytics Initiative (EAI). Initiative members represent €376 billion (£263 billion) in assets and include: AGF Investment Management (France), BNP Paribas Asset Management (France), Deutscher Investment Trust (Germany), Allianz Dresdner Global Investors (Germany), Generation Investment Management (UK), Mistra Foundation (Sweden), PGGM (Netherlands), RCM (UK), SNS Asset Management (Netherlands) and USS Ltd (UK).

The initiative is designed to encourage broker analysts to better fulfil the needs of long-term investors and their clients or members. EAI members have agreed to allocate a minimum of 5 percent of their brokerage

commission budgets to sell-side researchers who are effective at analysing material extra-financial issues and intangibles. EAI members already have €4-5 million allocated for this research for the year 2005.

The strength of this initiative is that it provides brokers with a commercial incentive to produce innovative and differentiated research that captures the value of intangibles on corporate performance. To date, brokers have had little, if any, direct financial incentive to focus on these issues, as the vast majority of investors are driven by achieving short term performance benchmarks, have short term investment mandates and so focus on short term financial issues.

The response from the global broker sector to the EAI has been good. Of the 31 brokers contacted regarding their participation in the initiative, 68 percent indicated that they wanted to take part. In January 2005, EAI identified those brokers which it believed had provided the best research on non-financial information over the past 18 months, and which had made the strongest commitments to improvement in the future.

The top seven, some of which are active in the Australian market are:

- Deutsche Bank;
- DrKW;
- Goldman Sachs;
- HSBC;
- Morgan Stanley;
- UBS; and
- WestLB.

An important point to note is that the types of extra-financial issues EAI are expecting to see covered by analysts are not limited to social and environmental issues. 'Extra financial' covers a wide range of subjects, as the list below identifies and some issues are relevant to a broad cross-section of industry groups, while others are related to specific sectors or become particularly relevant in the context of mergers and acquisitions.

Extra-financial issues include:

- Corporate governance (as traditionally defined), including executive remuneration and board structure (covers all sectors);
- Human rights, occupational health & safety and employment standards (for example for the construction, oil and gas, and mining sectors);
- Intellectual capital management (for example for the pharmaceuticals and IT sectors);
- Alignment of executive remuneration with long-term value drivers and business strategy;
- Carbon constraints (for example for the oil and gas, metals and mining, utilities, building materials, automotive, and transport sectors) and climate change (for example for the insurance, construction, and property sectors);
- Consumer and public health (for example for the pharmaceuticals, chemicals, telecommunications, food and drink and retail sectors);
- Product end-of-life (for example for the consumer electronics and automotive sectors);
- Reputation risk and license to operate (for example for the food, genetically modified organism, pharmaceuticals and tobacco sectors);
- Environmental and social impacts of projects (for example for the oil and gas, mining and utilities sectors); and
- Mergers and acquisitions (across all sectors).

The impact that the EAI will have in the Australian market depends largely on whether major Australian fund managers - the major clients for Australian brokers - choose to allocate 5 percent of their fees. That in turn will depend on what major asset owners like the superannuation funds can enable in their investment supply chain. One of the easiest ways for such asset owners to show their support of sustainability in the investment chain could be to join the EAI as associate members.

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Further information is available online at:
http://www.enhanced-analytics.com

Sustainability Not just an add on at IAG

Brett Maguire, Insurance Australia Group

As Australia's largest general insurance group, Insurance Australia Group (IAG) has a responsibility to ensure it remains viable for the long term so it can continue to pay legitimate customer claims well into the future.

For this reason IAG takes the idea of sustainability seriously and has started addressing issues such as social responsibility, the environment, the community, workplace safety and stakeholder relations as core activities within the organisation and not simply as business 'add-ons'.

“Working to reduce risk, and as a result reducing the number of claims we receive makes good commercial, and good common sense,” according to IAG Chief Executive Officer Mike Hawker.

“Finding a balance between what makes sense for our customers, stakeholders, staff, and the community, and what makes sense for our business will continue to play a key role in IAG's progress as a sustainable organisation.”

IAG developed a sustainability strategy with input from all levels of the organisation in 2003. The strategy includes both internal and external initiatives, focussing on reducing risk in the community and improving the organisation's environmental impact.

IAG also has various programs in place to educate employees about reducing their own personal impact on the environment through improved workplace practices in areas such as paper usage, fuel consumption, energy use and air travel.

As part of the sustainability strategy IAG has implemented a 'Work and Life' program which focuses on ensuring employees are able to balance work and family commitments and provides flexibility and choice around work hours and employee leave time.

Externally, in the two years since launching the sustainability strategy, IAG has developed a number of external initiatives which focus on engaging individuals and local community groups in meeting the organisation's sustainability objectives. These external initiatives include:

Risk Radar

The Risk Radar is a CD ROM driven tool that enables smash repairers to self-assess their business against environmental, health and safety standards and develop an action plan to improve the safety and environmental performance of their workshop.

The Risk Radar was developed by CGU Safety and Risk Services and assists smash repairers in reducing the impact their workshop has on the environment by improving workplace practices.

Communityhelp Grants Program

IAG brands such as NRMA Insurance, SGIO and SGIC coordinate the Communityhelp Grants Program, contributing over $500,000 in financial assistance to local community groups undertaking projects aimed at reducing risk and improving the state of their local environment.

Communityhelp Grants awarded in 2004 helped fund a greenhouse education program for local primary school students based in Bankstown (Bankstown City Council), a first aid course for young people in Albury (Albury/Wodonga Youth), and a smoke alarm installation program in Byron Bay (Byron Bay Rural Fire Service).

The Crime Prevention Van

IAG is currently operating the NRMA Insurance Crime Prevention Van in targeted areas of NSW as part of a trial program.

The Crime Prevention Van aims to educate local residents about home security and provide simple tips on how to reduce crime in the community. The van distributes information on inexpensive security products and offers a property engraving service so local residents can permanently identify their belongings.

The Crime Prevention Van visited Shellharbour, Dubbo and Redfern on a rotating roster during 2004 and early results from the trial activity suggest a reduction in crime in the target areas is achievable.

The HomeHelp Website

The HomeHelp website, features a 3D virtual home, called *The Help House*, where visitors can source hundreds of tips on security, safety and environmental sustainability for use around their own home.

The Help House website assists customers in making informed choices about home safety with special consideration given to the impact certain building and furnishing options can have on the environment.

These initiatives demonstrate the energy IAG is putting into creating business sustainability. Mr Hawker says IAG is proud of the initial steps taken in this area but recognises there is still some way to go.

“We have successfully identified opportunities to evolve our products and practices in ways that meet the changing needs of our customers and the community at large,” Mr Hawker said.

“Creating business sustainability is an ongoing process, IAG has started that process positively and is committed to meeting the challenges that will no doubt come in the future.”

IAG's Sustainability Report 2005 will be released in the latter half of this year. The report covers IAG's management and performance in regard to sustainability initiatives.

For more information on IAG's sustainability initiatives please contact:
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To find out more about IAG's HomeHelp website, please see:
http://www.nrma.com/homehelp

Online library improves access to sustainability reporting

David Pinch, Department of the Environment and Heritage

In addition to the Corporations Act, mandatory environmental reporting requirement and environmental reporting guidelines published in 2003, the Australian Government is continuing to encourage sustainability reporting through the expansion of its online library of reports.

More than 400 reports from 120 companies and other organisations are now registered on the Sustainability Reporting Library (SRL), developed and hosted by the Department of the Environment and Heritage (DEH) to provide a central location for lodging and accessing non-financial reports.

The library hosts reports published by Australian organisations and international companies with major operations in Australia. It is an essential reference for anyone involved in sustainability reporting. For reporters, the library offers recognition of their reporting efforts and a way to disseminate reports to a targeted audience. For report users analysts, investors, government, NGOs and the broader community it makes reports easy to access for analysis and comparison.

DEH has worked with leaders in the finance sector for a number of years to encourage greater consideration of environmental risks and opportunities in the development of investment products. Sustainability

reports can be a first point of reference for both buy and sell side analysts looking to assess the implications of a company's approach to managing its environmental and social impacts.

While comprehensive non-financial reporting remains voluntary in Australia, it is continuing to gain acceptance within companies as a way of demonstrating their sustainability credentials. A recent DEH survey of the top 500 companies found that just over 20 percent released sustainability reports in 2004 a 100 percent increase on the previous year's findings. Producing a report is often a key element in the integration of sustainability into company strategies and operations. So for DEH, the number of reporters in Australia provides an indicator of the extent to which business has adopted sustainability management.

By making sustainability reports more readily available, and encouraging investors and analysts to factor sustainability issues into their decision making, DEH seeks to encourage recognition and market rewards for companies making the effort to improve their environmental and social performance. In order to support its policies, DEH published its own Triple Bottom Line report in October 2004.

About the library

The SRL website currently attracts around 1000 site visits per month. Reports are arranged by organisation name as well as by industry sector, and a new feature cross-references reporters on the library with companies in the ASX 200. The library currently holds 30 reports from companies in the ASX 200.

The library has evolved in line with reporting trends - from a database of environmental reports to one that encompasses the full range of sustainability reporting now being undertaken. The library includes and identifies annual reports with substantial sustainability sections, web-based reports, as well as global and site-based reports.

Unlike other web-based catalogues of sustainability reports, the DEH library seeks the permission of reporters to hold their reports on the library. The library has a simple to use online registration facility and reporters are encouraged to make registration an integral part of their annual sustainability reporting process.

For further information on the Sustainability Reporting Library, please contact:
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To access the Sustainability Reporting Library please visit:
http://www.deh.gov.au/srl

To register a report, please visit:
http://www.deh.gov.au/industry/corporate/reporting/reports/register.html

The Department of the Environment and Heritage TBL report can be found at:
http://www.deh.gov.au/tblreport

The Guide to Reporting Against Environmental Indicators can be found at:
http://www.deh.gov.au/industry/finance/publications/indicators/index.html

ANZ and Sustainability - A Progress Update

Tony Wells and Bruce McMullin, ANZ

In 2003, Australia and New Zealand Banking Group Limited (ANZ), Australia's fifth largest company and one of the world's top 50 banks, undertook an extensive process of consultation with staff, customers and community stakeholders to establish its first business strategy focused on sustainability.

ANZ's aspiration is to achieve strong and sustainable financial success while bringing a 'human face' to all its dealings with customers, shareholders, employees and the wider community. The vision to be 'the bank with a human face' is underpinned by a set of unifying values that guide its actions and decisions.

ANZ's approach to creating long-term business success while making a sustainable contribution to society is called 'Perform, Grow and Breakout'. Each aspect has a specific focus:

- *Perform* - Delivering superior financial performance and value for shareholders. This involves creating high expectations and meeting them.
- *Grow* - Making ANZ truly distinctive in the eyes of its customers, developing and strengthening ANZ's leadership positions and delivering superior revenue growth.
- *Breakout* - Developing the foundations for sustainable leadership and long-term success. Building a vibrant, energetic high-performance culture where employees are passionate and inspired and ANZ's values are the basis for all activity and decisions.

ANZ has made good progress against the specific programs identified within its sustainability strategy.

This has included defining ANZ's societal purpose through a process involving in-depth interviews with 300 of ANZ's senior leaders and workshops with more than 1,000 staff worldwide. The output of this exercise reinforces ANZ's values and focuses on ANZ's four key stakeholders - customers, shareholders, employees and community.

For example, ANZ has generated significant achievements with its community programs by concentrating on the major social issues that involve the financial services industry such as financial literacy, financial inclusion and savings through innovative partnerships with community organizations.

ANZ is also enhancing its ability to manage the direct and indirect impacts of its wholesale banking business activities on the environment and communities. A detailed review of this aspect of ANZ's business model identified that staff, clients and external stakeholders all expect ANZ to more rigorously pursue these issues by efficiently and effectively incorporating them into its decision-making processes.

Specific elements of ANZ's ongoing focus in this area include:

- Instituting an enhanced environmental and social issues management approach at a company level to improve comprehensiveness and consistency in decision-making;
- Updating its lending policies and procedures to ensure they adequately address emerging environmental and social issues and risks, including climate change, water management, land clearing, salinity, air quality, safety, community well-being and human rights;
- Building the environmental and social competency and confidence of ANZ's relationship and credit managers to assist them in engaging

with clients, assessing risks and making effective business decisions; and
- Developing specific industry and product focused mechanisms, including risk rating tools, guidance notes and a referral service, to directly enable and support front-line staff in their day-to-day encounters with these issues.

To this end, ANZ has recently appointed Gavin Murray as Director, Institutional and Corporate Sustainability. One of Gavin's key responsibilities is to develop ANZ's implementation strategy and action plan in response to the findings of the above wholesale banking review, ensuring environmental and social considerations are fully integrated into ANZ's business processes.

Key to this strategy will be Gavin's input in ensuring ANZ's leadership on key sustainability issues significantly impacting ANZ's institutional and corporate customers. Gavin's wider ANZ Group responsibilities include:

- Providing leadership for ANZ's sustainability strategy and policy framework;
- Developing and maintaining strategic relationships with key external stakeholders; and
- Coordinating ANZ's response to, and position on, major public environmental and social issues in Australia and internationally.

Gavin was previously Director, Environment and Social Development at the International Finance Corporation, a member of the World Bank Group, based in Washington DC, USA. He has senior executive experience in the natural resources sector and in multilateral private sector finance, focusing on responsible development and the environmental and social dimensions of business sustainability.

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For more information about ANZ's values and approach, please see:
http://www.anz.com/australia/aboutanz/

For more information about ANZ's community partnerships, please see:
http://www.anz.com/aus/aboutanz/Community

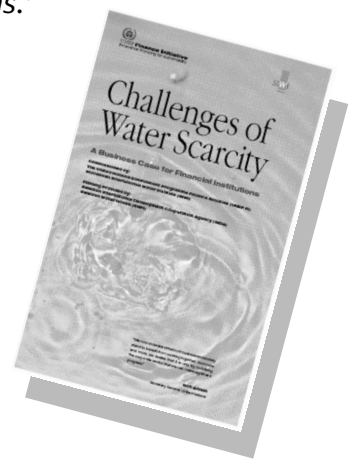
Water Scarcity and the Finance Sector

Moira O'Hagan, EPA Victoria

Freshwater scarcity presents a critical problem in many parts of the world, referring to a situation where water resources have become so depleted or contaminated that they are unable to meet ever-increasing demands. In developing countries where 95 percent of the world's new population is born each year, the challenges are even more prominent and the United Nations estimates that by the year 2025, up to 40 percent of the world's population could live in water scarce regions.

Over the last twenty years, the focus on water scarcity and its impact on all aspects of development has increased and there is mounting recognition that financial institutions have a vital role to play in effecting positive development decisions and outcomes.

The business case for strategically addressing water challenges is explored in a new report commissioned by the United Nations Environment Programme Finance Initiative (UNEP FI) and the Stockholm International Water Institute (SIWI), *'Challenges of Water Scarcity – A Business Case for Financial Institutions.'*



Based on a review of different case studies from Africa and Latin America, the report provides an informative assessment on the issues that arise from dealing with water scarcity, and identifies opportunities for the financial sector to contribute to sustainable development through active engagement in mitigating water related risks. As some of the examples in the report indicate, it is expected that financial institutions will need to become more familiar with issues that may arise in 'the entire value chain of water intensive sectors.' Impacts may range from affects of future water shortages through to risks related to transport on waterways and water related conflict.

A series of risk drivers and consequences are presented, summarising various water scarcity risks and their relationship to specific risk potentials affecting business operations, financial performance and financial partners (Refer Table 1).

Table 1. Water Scarcity Risk factors and Potential Impacts

Factors Producing Water Scarcity Risks	**Risk Situation**	Business and Financial Impacts
Drought and drought cycles	Lack of sufficient water at project level for specific operation Lack of sufficient water quality for specific operation Temporary suspension of water use license	Disruption of operation Increased costs to secure alternative supplies Constraints on expansion or growth
Deteriorating Water Quality	Pollution of water resources by the enterprise or as a result of external factors Inability to find clean water sources in due time or within reasonable costs	Disruption of operation Reputation risk Financial liabilities due to legal liabilities or clean up costs or impact on quality of assets
Changing Political and Regulatory Conditions	Change in water policy unfavourable to certain business sectors, allocation rights etc. Change in Tariffs Change in liability laws (contamination) Political manipulation of water issues	Constraints on expansion of a facility or growth in a business sector due to uncertainty Financial Performance risk due to increased costs of water charges or discharges Impacts on assets value
Lack of institutional managerial capacity for effective water governance	Lack of capacity at the national or regional level to provide effective water governance Mismanagement of watershed, waterways Fragmentation of responsibilities Ineffective enforcement of water regulations and allocation rights	All these situations create uncertainty for long term planning
Cross boundary concerns	Risk of conflict Decisions upstream with consequences for users downstream impacting quality or quantity	Disruption of operation Financial performance risks (due to quantity or quality issues)
Local community and stakeholder concerns	Competing claims and priorities resulting in changes in water use rights Mishandling of stakeholder concerns, or perceptions of abuse, or lack of attention on the part of the company to address local community	Reputation risk Loss of water license to operate Customer boycotts

Although there are clear opportunities for addressing water scarcity through the role of risk management, findings from the project reveal that many financial institutions 'do not have an explicit policy or approach to water-related risks.' Moreover, 'water scarcity issues are still not high up on the agenda to warrant specific attention in risk evaluations.'

The report highlights the importance of private sector participation in the water sector for the benefit of water sustainability, concluding that:

- Water scarcity challenges pose different and sometimes considerable risks to projects and investments;
- Financial institutions, which assume the risk of companies and projects, can exercise considerable influence - in some cases - and control over investment and management decisions that could be brought into play for the benefit of both their own business and the environment;
- There is a need for incorporating water scarcity risk assessment into project planning decisions, business projections, and business opportunity due diligence; and
- Water supply problems can create new opportunities for improving a company's competitive position through improvements in operational performance and efficiency.

UNEP FI and SIWI commissioned the report with funding from the Swedish International Development Corporation Agency (SIDA) and the Swedish Water House (SWH).

Copies of the report are available online at:
http://www.unepfi.org/publications/water/index.html

UNEP FI International Update

Latin American Task Force

Mareike Hussels, UNEP FI, Geneva

Experts from emerging markets in Latin America, Asia, and Africa gathered in Sao Paulo, Brazil, on the 22 and 23 September 2004, for the conference on Sustainable Finance in Emerging Markets, organised by the Fundação Getulio Vargas' Business School and sponsored by the International Finance Corporation (IFC).

The event included the participation of highly renowned speakers who provided inspiring discussions and cross-continental exchange. International participants also had the opportunity to join the organisers on an excursion to a number of sustainability projects, including the natural cosmetics producer NATURA, a microfinance operation in a low income community in Sao Paulo, the methane plant providing energy for Unibanco's Sao Paulo branches, and an organic coffee farm and wind park near Fortaleza in the northeast of Brazil. In addition, UNEP FI's Latin American Task Force (LATF) and advisory group members attending the conference took the opportunity to gather for an informal meeting.

In 2005 the LATF will focus on training activities for environmental credit risk and a pilot workshop is planned for March in Bogotá, Colombia. The LATF is

currently developing training material and organising the logistics of the workshop which will be held in collaboration with the Costa Rican Business School, INCAE, and the Colombian chapter of the World Business Council, CECODES. The workshop will serve as a training model, which the LATF aims to roll out in several other Latin American countries over the course of the year.

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UNEP FI's Climate Change Working Group

Lisa Petrovic, UNEP FI

An important area of activity for UNEP FI's Climate Change Working Group (CCWG) is to educate the public at large, particularly government and policymakers, about the challenge of climate change and to influence the policy process both at the national and international levels. The CCWG has always had a strong presence at the annual Conference of the Parties (COP), part of the United Nations Framework Convention on Climate Change, and 2004 was no exception.

On 15 December 2004, the working group held a side event at COP 10 in Buenos Aires, where it launched its latest CEO Briefing, *Finance for Carbon Solutions: The Clean Development Mechanism – The Financial Sector Perspective*. The side event highlighted what the financial sector can offer in terms of carbon solutions, with a focus on the Clean Development Mechanism (CDM), and, more specifically, the risks and opportunities associated with the CDM as viewed by the financial sector. The event included presentations from Sascha Lafeld of 3C and Dresdner Bank, the author of the CEO briefing and member of the CCWG, Charles Cormier of the World Bank, Rodrigo Sales of Baker & McKenzie, Maria Teresa Szauer of CAF, a Venezuelan based financial institution and active member of the Latin American Taskforce, as well as Hernan Carlino from Argentina's Designated National Authority.

The CDM is one of the Kyoto Protocol's Flexibility Mechanisms and was designed to achieve cost-effective emission reductions. Other mechanisms include emissions trading and joint implementation,

which provides for the implementation of projects that reduce emissions, or remove carbon from the atmosphere, in return for emission reduction units. The CDM allows an industrialised country to invest in a project in a developing country for which it obtains credits for achieved emission reductions called Certified Emission Reductions (CERs). The CDM is intended to provide specific benefits to developing countries, including transfer of clean technology, foreign direct investment, local environmental improvements and an income stream from the sale of tradable CERs.

As the CCWG argues in its CEO briefing, getting the CDM into gear will require significant financial resources. The financial sector can play an important role in this respect, by providing project financing, lending and insurance for CDM projects. However, the current involvement of private financial institutions in CDM projects is rather low. There are various reasons for this, but it is generally due to the specific risk structure of CDM projects, various institutional barriers and the complexity of implementing such a project.

There was a general consensus among the presenters at UNEP FI's side event that in order for the CDM to become a success, there needs to be greater participation from the finance sector. To make this a reality, the CCWG argued that a number of critical issues have to be considered. One of the group's key points was the simplification of the CDM process - a faster, more efficient and more user-friendly project registration method must be in place. In addition, prompt and clear guidance must be provided on CDM regulations beyond 2012, since without a long-term framework for the CDM and the Kyoto process as a whole, it will be difficult to attract the involvement of financial institutions.

The Kyoto framework beyond 2012 was a major sticking point at COP 10. The Kyoto Protocol officially went into force on February 16, establishing the first binding international commitments to limit greenhouse gas emissions. Despite this significant achievement, there is major disagreement amongst parties to the convention over the terms for possible consideration of next steps in the international climate effort.

In the two weeks of talks at COP 10, negotiators had discussions on technical aspects of the Protocol, produced a new Buenos Aires Work Programme on adaptation, and agreed to convene a Seminar of Government Experts in May that provides an opening for discussing possible future efforts but explicitly 'does not open any negotiations leading to new commitments.' This could prove problematic in establishing the long-term framework necessary to engage the finance sector in the CDM and other flexibility mechanisms.

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The CEO briefing and side event presentations are available online at:

http://www.unepfi.org/events/2004/cop10/index.html.

New UNEP FI Signatories:

- ABN AMRO Holding N.V. (Netherlands)
- Croatian Bank for Reconstruction and Development (Croatia)
- European Bank for Reconstruction and Development (UK)
- Insight Investment (UK)
- Savings & Loans Credit Union (Australia)

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