



# The role of the Emerging Markets in globalizing sustainable & responsible investment

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UNEP FI Roundtable, October 2003





INTERNATIONAL FINANCE CORPORATION  
World Bank Group

**IFC's mission is to promote sustainable private sector investment in developing countries as a way to reduce poverty and improve people's lives**

- Member of World Bank Group
- The largest multilateral source of loan & equity financing for private sector projects in the developing world
- Invests on a commercial basis (market-rate investments)
- Net worth of \$6.3 billion
- Committed loan and equity portfolio of \$15.1 billion
- In FY02, IFC approved \$4.0 billion of financing for 223 new investments with a total project cost of \$15.5 billion

Global industry and local country knowledge

Understanding of government policies

Commercial and technical skills in emerging markets

IFC's Products

### Long-Term Financing

- ✓ Debt – Project finance and corporate finance
- ✓ Equity / Quasi-equity

### Capital Mobilization

- ✓ Syndication with commercial banks (B loan program)
- ✓ Co-financing

### Advisory Services

- ✓ Financial structuring
- ✓ Industry and technical
- ✓ Government (capital markets, foreign investment)

Special initiatives for high priority sectors: Environment, Social Development, SMEs

## IFC's Guiding Principles

### ⚡ *Catalyst*

- Mobilization of capital
- Minority position, non-operating role
- Investment limit of 25%-35%
- Complements, not displaces, private sector

### 🌍 *Sustainable*

- Benefits host country economy
- Commercially viable
- Environmentally sound
- Socially sound

### ↔ *Partner*

- Same risks/returns as other investors
- Market pricing
- No government guarantees
- Honest broker/neutral partner

## IFC and Sustainability:

- Investment appraisal and supervision procedures incorporate 'baseline' environmental & social standards:
  - Excluded activities
  - Safeguard policies
  - EHS Guidelines
  - Public disclosure
- Sustainability framework for selecting 'high development impact' projects
- Guidance on best practice
- Evidence for the business case (e.g. "Developing Value" report)
- Improving projects through influence, experience and technical assistance
- Leveraging our leadership position to cause wider change (e.g. Equator Principles)

# IFC's Sustainable Financial Markets Facility

Improve the capacity of IFC's financial intermediaries to operate in an environmentally and socially sustainable manner

Strategically support and influence the sustainability agenda in the broader financial community

Enhance the environmental and social development impact of IFC's investments in and via financial intermediaries

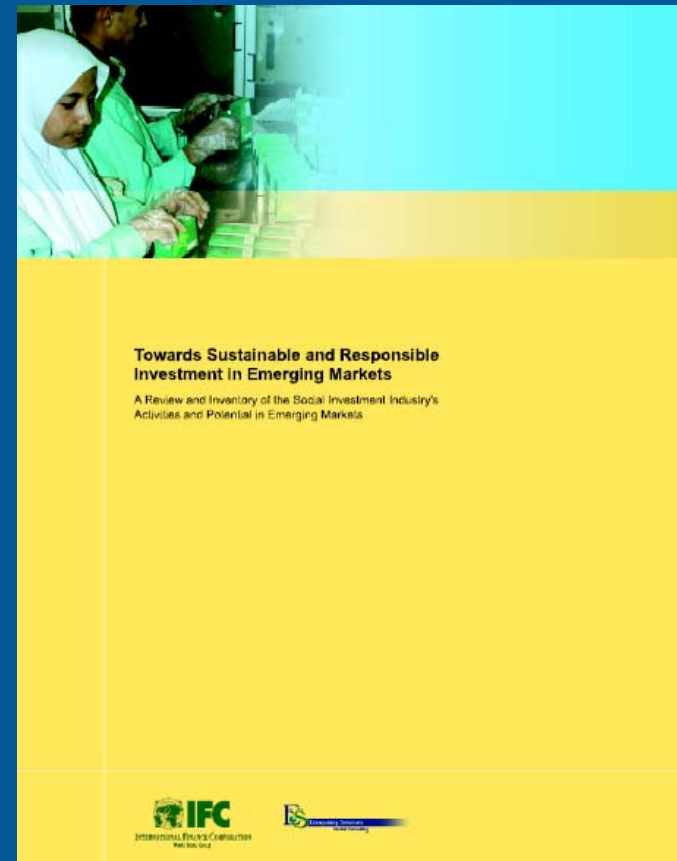
Help the financial sector to use sustainability as a tool to build better businesses and increase long-term competitiveness

Increase the quality and amount of environmentally and socially responsible lending and investment in developing countries

- Donor-funded technical assistance program within IFC
- US\$15M, 5 year program
- Currently funded by IFC, Switzerland, Netherlands and Norway
- Focused on IFC's financial intermediaries and the broader financial sector
- Project development and feasibility studies
- Project implementation TA and grant support
- Capacity building and training
- Information resources, networks and strategic partnerships
- Input to standards, codes and best practice

# “Towards Sustainable and Responsible Investment in Emerging Markets”

- Undertaken by Enterprising Solutions Global
- ‘Inventory’ of current SRI activities and trends in emerging markets
- Preliminary assessment of demand for sustainable investment in emerging market listed equities
- Barriers to growth of emerging market SRI
- Opportunities for market-making interventions



# SRI assets in emerging markets are estimated at US\$2.7 billion

17 emerging market funds  
Total value US\$1.2 billion

38 developed country funds  
Total value US\$1.5 billion

South African institutional funds

Emerging market institutional assets  
US\$956M

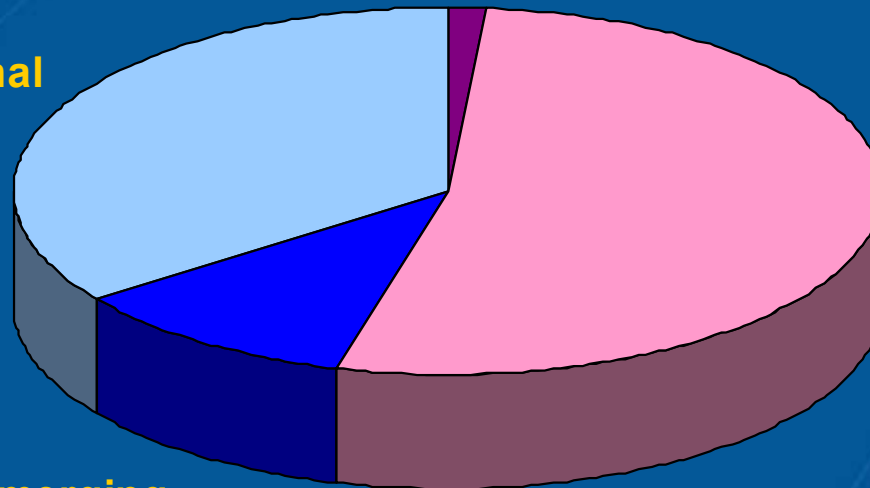
US\$40M  
Developed country retail assets

CalPERS

Developed country institutional assets  
US\$1,440M

South African retail assets are US\$228M

Emerging market retail assets  
US\$290M



# SRI assets in emerging markets are estimated at US\$2.7 billion

...or less than  
0.1% of 'socially  
responsible' or  
'sustainable'  
assets globally

- 4 billion people (c. 2/3rds of the world's population) have per capita incomes of <\$1500 per year
- Over a billion people live on under \$1 a day
- Emerging markets among the world's fastest growing economies

Table 2  
Developed Country Social Investment

	SRI All Investments (\$US billions)		SRI as % Total Market Capital
	Assets		
	1999	2002	
U.S.	2,160	2,300	12%
U.K.	2	354	19%
Canada	32	30	3.2%
Europe	N/A	17.6	1%
Australia	6.3	8.3	<5%
Asia	NA	1.0	Negligible
<b>Total</b>	<b>2,280</b>	<b>2,710</b>	<b>--</b>

# Limited available data indicate mixed performance of 'domestic' emerging market SRI funds

	3 months	% 1 year	3 years
Futuregrowth Albaraka Equity Fund	7.7	4.0	26.2
Community Growth Fund	11.7	-4.9	7.0
<i>FTSE/JSE Free Float All Share Index</i>	<i>9.7</i>	<i>-8.3</i>	<i>6.8</i>
Kingsway China Fund	NA	-9.0	-24.0
Kingsway Emerging Economies Fund	NA	-26.0	-49.0
<i>MSCI China</i>	-	<i>-1.0</i>	<i>-51.0</i>
ABN AMRO Fondo Ethical	NA	1.57	NA
Ibovapex	-	-17.8	-

# SRI “infrastructure” in emerging markets is under-developed and fragmented

Table 6  
Emerging-Markets SRI Infrastructure

	Main Geographic Focus			Issue Focus		
	Developed Country	Emerging Market	Global	SRI	CSR*	SRI & CSR*
Research Organizations						
Primary	7	2	0	9	0	1
Secondary	10	1	2	2	4	2
Business Leaders	0	3	0	3	NA	NA
Independent Issues Leaders/Initiatives	0	2	6	0	1	5
Support Organizations	NA	NA	4	–	–	4
<b>Total</b>	<b>17</b>	<b>8</b>	<b>12</b>	<b>14</b>	<b>5</b>	<b>12</b>

\* Corporate social responsibility (CSR)  
See Appendix D for the complete list of institutions included in this report.

***Developing countries must play a key role in defining what ‘SRI’ means in their economies, reflecting their specific social and environmental challenges, their societal values and business cultures as well as international practice and expectations.***

- Scarcity of reliable sustainability information on emerging market companies is a major barrier
- Methodology for ‘SRI’ in emerging markets needs to be customized
- Organizations such as ASrIA play a vital role
- Profusion of relatively uncoordinated international initiatives

# There are indications of significant latent demand from investors

- SRI community's current appetite estimated at USD\$690M
- If 6% of SRI investors placed 0.75% of assets in emerging markets, value would be USD4.5 billion
- Key market development issues:
  - Confidence in demand
  - Confidence in performance potential
  - Economies of scale
  - Better regulatory environments
  - Multi-year track records
  - Cost & credibility of data and methodology
  - Retail structure & commission incentives
  - Competing investment opportunities

Table 5  
Social Investment in Emerging-Markets  
Stakeholder Market Estimates \*

Interviewees	Believe Market Exists	Estimated Demand (USD millions)
Retail Fund Management Companies	19	195
Institutional Fund Companies	10	495
Support Organizations	4	NA
<b>Total</b>	<b>33</b>	<b>690</b>

\* Total interviewed 35. Not all interviewed provided an estimate.

**!** **ALSO: Significant potential to engage 'mainstream' emerging market investors on sustainability issues**

# There is a compelling *development* case for SRI in emerging markets

- Mobilize additional international capital for responsible private sector investment in developing countries
- Ensure and enhance the positive environmental and social impact of 'mainstream' international capital flows
- Create effective vehicles for developing nations to invest in the sustainability of their own economies and extend their sphere of influence (e.g. 'South-South' and 'South-North' investment)
- SRI leads to production and disclosure of corporate social and environmental information and significant changes in corporate behavior
- Positive impact on shareholder rights, corporate governance and securities regulation
- Awareness and tangible geopolitical impact of global sustainability problems
- Potential role in international relations e.g. synergies between SRI and Islamic finance

# The *business* case for emerging market SRI is potentially promising

- *Developing Value* report: analysis of 240 businesses in 60 developing countries: sustainability produces measurable business benefits
- CLSA: stocks of emerging market companies with high corporate governance performance outperform those with lower ratings
- Hart et al studied multinational companies with significant emerging market operations: those that apply stringent global environmental standards have higher market values
- Developed markets at saturation point, developing countries have fastest growing economies
- Globalization of economies, supply chains, stakeholders and information
- Low correlation between emerging market and developed market securities means developed market investors may reduce beta in their overall portfolios by including more emerging market investments
- Potential to capitalize on information and performance inefficiencies in emerging markets

# Key recommendations

## 1. Support network and knowledge structure

- Support and expand national and regional networks
- Establish a global network

## 2. Build capacity for SRI corporate performance data

- Support SRI analysts and data providers in developing countries
- Maintain an inventory of information sources

## 3. Motivate more investment

- Engage with key institutional investors
- Focus on establishing a 'pathfinder' fund

## 4. Dialogue and common vocabulary between different actors with convergent goals (e.g. development banks, Equator Principles banks, SRI & mainstream community)

## 5. Bring great minds together to discuss

# IFC's next steps

- IFC offers to host a roundtable of key actors in early 2004 to raise awareness, debate the issues and scope out future action
- IFC supports UNEP FI's work in this field - discussions underway on joint action and coordination
- IFC will continue dialogue with interested stakeholders - feedback and ideas needed on steps leading up to proposed 2004 roundtable



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