UNEP Finance Initiatives
Innovative financing for sustainability

0.618...

UNEP FI, Issue 4, October 2003

The golden ratio... building quantity without sacrificing quality

Sustainable finance in Japan

It is widely recognized that Japanese financial institutions have lagged behind both their western counterparts and other Japanese sectors in tackling sustainability, writes the Development Bank of Japan. Financial institutions are considered to have a relatively small direct impact on the environment – the element of sustainability that receives the greatest attention in Japan. No Japanese financial institution has yet faced charges on environmental offences. Excepting some non-life insurance companies that have incorporated environmental risk into their products, the sector has traditionally done very little.

Encouraging developments

However, there has been encouraging progress in recent years. First, it has been increasingly apparent that, even if financial institutions are not significant direct polluters themselves, their indirect influence on the environment as financial intermediaries is much more far-reaching. Secondly, the recent success of Japanese socially responsible investment funds has focused attention on broader corporate sustainability performance. Another recent development has seen pension trust products widening their scope to include other aspects of CSR, in addition to the environment.

Another factor helping to instil more sustainability-conscious financing is the growing attention given to issues such as climate change and soil contamination. With respect to climate change, financial institutions are interested in the prospect of emissions trading. They are particularly attracted to the clean development mechanism (CDM) as a possible win-win solution to both achieve the Kyoto target and

continued on page 2

Tipping point test for finance

As the global finance community gathers in Tokyo this October for the 2003 UNEP FI Global Roundtable a powerful array of forces are driving the financial services industry to play a full role in sustainable development. Some would see a "Tipping Point" for the world of finance as banks, insurers and asset managers face the choice between being seen as a key driver of the "People, Planet, Prosperity" ethic or a reluctant partner dragging itself forward.

The rapid acceleration of interest in sustainable development amongst the financial community in Japan, as well as broader Asia-Pacific, highlights a global awakening and realisation that sustainability is about returns and reward not just risk management.

Need to lead

Several key developments, which have emerged since the 2002 Johannesburg Earth Summit, herald a new appreciation amongst some financial institutions of the need to take a leadership position.

continued on page 3

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Environmentally Sustainable Development Group

Development Bank of Japan

DBJ is a policy-based financial institution with missions to, through long-term financing and related services and by complementing commercial financing, contribute to vitalization and sustainable development of the economy, enhanced quality of life, and development of self-reliant regions in Japan.

DBJ is the first Japanese bank to join the UNEP FI and is the co-host to the UNEP FI Global Roundtable to be held in Tokyo, 20-21 October 2003.

continued from page 1

promote sustainability in other, especially East Asian, countries. On soil contamination a new law came into force in February 2003, so Japanese banks are developing mechanisms to manage the risk that the property they take as collateral might decrease in value.

Moreover, Japan has also seen new loan and investment programs for environment-related industries and new insurance products that deal with climate derivatives. It is evident that environmental consciousness is no longer merely a way for financial institutions to improve their corporate image, but an important strategic issue directly affecting their core business.

There will be more challenges ahead in encouraging this trend. We will need to address sustainability issues locally and globally, bearing in mind that there exists a wide range of differences in values, culture and practice by region and by country, which makes it quite difficult to simply adopt new ideas and practices.

For these reasons, the first UNEP FI Global Roundtable to be held in Tokyo this October is even more timely and significant. Through information exchange and substantive discussions among hundreds of UNEP FI signatories and other leaders we sincerely hope that this high-profile occasion will make a great difference in promoting the sustainability consciousness and practices of financial institutions in Japan and the rest of Asia.

Small, slow, sensitive

This Earth that is host to countless species is a miracle amongst the stars. The human species became part of this planet later than most others. But because of this one species, countless other species are about to become extinct.

10,000 years ago, people lived in tune with the Earth's natural balances and nurtured ethnic and cultural differences. However in the last 500 years, around the time Columbus found the New World, we have become a threat even to ourselves. Since then, modern civilization has been destroying cultural diversity.

Since becoming a UNEP Special Envoy in 2000, I have travelled extensively across Asia. In Mongolia I was told that during the times of Genghis Khan a code restricted the digging of holes underground. Today, I saw how permafrost is at risk of thawing following decades of human effort to reshape the desert. The loss of forests in Thailand and Indonesia, the alarming desiccation of the Aral Sea in Uzbekistan and many other examples of ecological destruction I witnessed were all due to the overwhelming power we now have at our fingertips.

For us to be sustainable, we must respect and revive local wisdom. Financial sensitivity is required to support locally rooted economic activities that do not harm the earth and that protect diverse skills and creativity. In the past few decades, we have placed too much value on things that are big, strong and fast. From now on, we must value the things that are small, slow and sensitive.

Tokiko Kato
UNEP Special Envoy

continued from page 1

Developments since Johannesburg include:

- First movers and sustainability leaders in the sector are – time after time – proving there is a cast iron business case for financial institutions to embrace a sustainability approach. Entries in the Royal Awards for Responsible Investment – to be awarded at UNEP FI's Tokyo event – showcase how there are bottom line gains to be made from allocating funds to sustainability programmes;
- The Equator Principles, sustainability standards for project finance, have marked a new awareness amongst the world's largest banks that accountability must sit at the heart of their global lending activities;
- More than 100 civil society/NGO groups, now continually deepening their knowledge of the dynamics which rule the finance sector, have signed the Collevechio Declaration and will be increasingly active holding institutions to account for their activities; and
- The Global Reporting Initiative (GRI) and UNEP FI have forged a partnership to create an environmental indicator standard for the international finance sector to join the GRI social indicator set that already exists.

Despite these positive developments, there are other indications that, globally, all too few financial institutions take sustainability seriously and build it into every level of their operations. For example:

- The October 2002 UNEP FI climate change study concluded that many financial institutions are "unaware of the gravity of" climate change "or see no financial reason to tackle it";
- Governance failures in some financial institutions contributed to the loss of public trust that between 2001 and 2003 impacted global capital markets and destroyed corporate value in a tidal wave of scandals; and
- The reluctance of the mainstream financial community to give an equal footing to qualitative risks, often captured by a sustainability approach, demonstrates a refusal to accept the long term risks that inequality, poverty and environmental destruction, pose for the global community.

The UNEP FI Tokyo Roundtable, graciously hosted by the Development Bank of Japan and a task force of UNEP FI member Japanese institutions will call for a sufficient number of financial institutions to become sustainability leaders so the sector moves past the critical "Tipping Point" and emerges as a powerful business catalyst for sustainable development.

Paul Clements-Hunt is Head of UNEP FI

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NGOs and FIs hold different views of sustainable finance, with NGOs encouraging a broader vision of sustainability. They suggest FIs confront the indirect as well as the direct impacts of their operations, and reassess current economic structures and systems.

Michelle Chan-Fishel is a finance campaigner with Friends of the Earth USA

NGOs chart a new course for financial institutions

NGOs and responsible financial institutions (FIs) both recognize that as a facilitator and manager of capital, the financial sector plays a unique and powerful role in shaping the course of human events, and it can be an important trailblazer on the path to sustainability, writes Michelle Chan-Fishel. However, civil society's vision of sustainability for the financial sector often differs from that held by financiers themselves.

From here to there

A perusal of FIs' sustainability materials reveals that while the financial sector takes a very broad view of sustainability, it takes a relatively limited view of its role and responsibility in advancing this goal. FIs often emphasize the relatively less significant impacts of its paper and energy use, and ignore the far more important indirect effects of their portfolios. NGOs, in contrast, look to the social, environmental and economic impact of an FI's transactions as a key measure of whether the firm is advancing sustainably.

A second major difference between FIs' and civil society's vision of sustainability relates to the issue of globalization. Environmental, social justice and development NGOs realize that they are fighting a losing battle against the same root problem: the dysfunctions of a profit-driven global economy. The financial sector has played an important role in writing the constitution of the global economy, and NGOs view FIs' lack of positive vision and action in global policy matters (such as third world debt and tax havens) as a critical deficiency.

Finally, NGOs, unlike financial institutions, recognize that the market and its inherent dynamics may hinder sustainability. For example, the current economic system is based on continuous growth, which the earth's life support systems cannot sustain unless the world can truly "dematerialize" – uncouple economic growth from resource use. This will be the ultimate test of whether our current market system is compatible with sustainability or not. Likewise, fundamental sustainability imperatives, such as poverty alleviation and stakeholder-based models of corporate and financial governance, ultimately translate into struggles to share resources and power more equitably between financiers and other stakeholders.

Going on means going far

Since Rio, the financial sector has taken important steps on the path to sustainability. But to reach this goal, it must embrace a broader vision of its role and responsibilities. In the next ten years, FIs must look beyond greening their internal operations to changing their portfolios, addressing market dysfunctions, and re-writing the rules of the global economy in ways that protect communities and the earth. In 2003, civil society groups released the Collevecchio Declaration (www.financeadvocacy.org), a road-map for the financial sector that emphasizes commitments to sustainability, harm avoidance, to responsibility, accountability, transparency, sustainable markets and good governance. We now look to the financial sector to respond to this roadmap. NGOs, for our part, must continue to provide assistance and incentives for the financial sector to undertake this journey that, though arduous, will result in the ability of humankind to ensure its own future.

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African Perspectives

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For finance and sustainability, context is critical, writes Cas Coovadia. The ability of the financial sector to conduct sustainable and responsible business in Africa is influenced by social, economic, political and regulatory factors. The economic challenges are significant:

- Lack of access to markets for exports;
- High levels of debt;
- Inadequate infrastructure;
- Human resource development constraints;
- Lack of capital for financing of major infrastructure; and
- Lack of depth in capital and financial markets.

These economic challenges are complicated by social problems such as poverty, famine, conflict and instability. Many countries on the continent also experience political challenges as a result of undemocratic governments, poor governance and corruption. The regulatory environment is complicated by ineffective legal systems, inadequate protection of property rights, and government interference in, and less than optimal regulation of, financial institutions.

The wide view

The finance sector needs economic, political and social stability to be sustainable. Governments need to:

- Create sound macro-economic policies, and for example build independent institutions such as an autonomous Central Bank;
- Ensure a regulatory environment that promotes property rights and frees the financial sector from the burden of excessive red tape;
- Foster public-private partnerships to improve infrastructure, enabling financial institutions to operate efficiently;
- Take responsibility for sound governance by maintaining functional and credible justice systems; and
- Ensure safety and security.

In turn, financial institutions need to consider mechanisms to deepen financial markets and generate capital locally to supplement foreign investment.

Local solutions in focus

The challenges of sustainable development must be seen within the African context: we must avoid imposing western values. We need to ask how we address:

- The preservation of forests when most people are forced to destroy trees for firewood;
- Soil erosion within a context where most people need to use the land for day-to-day survival; and
- Issues of corporate governance in places where the authorities lack governance structures.

There are immense challenges facing Africa, but there are compelling reasons to remain optimistic. A growing cadre of leadership on the continent is beginning to grapple with these challenges. South Africa's President Mbeki has championed the cause of Africa and was one of the architects of the New Partnership for Africa's Development (NEPAD). This initiative has facilitated the involvement of all stakeholders to address these challenges and in so doing has put in place the building blocks for Africa's resurgence. UNEP FI and other agencies promoting sustainable development must encourage the African financial sector to support NEPAD's principles. In this way, the sector can develop in a manner that incorporates sustainability.

Africa faces enormous political, social, and economic challenges. The New Partnership for Africa's Development (NEPAD) Initiative provides a way forward, and demands support from financial institutions seeking to embrace sustainability.

Cas Coovadia, of the Banking Council of South Africa, is Chair of the UNEP FI African Task Force.

Creating a market for GHG emissions re

Climate change may be the single biggest threat facing the planet. As we move towards a carbon-constrained future, society must develop cost-effective ways to mitigate the potentially catastrophic effects of greenhouse gas (GHG) emissions. Market-based mechanisms such as emissions trading – an approach formally endorsed at Kyoto – are gaining widespread acceptance. There are now numerous governmental and private initiatives around the world to promote GHG reductions and trading, even in the absence of mandatory rules or regulations. Two such schemes are the new Chicago Climate Exchange (CCX) and the Hesse-Tender supported by Dresdner Bank.

What is the Chicago Climate Exchange?

Chicago Climate Exchange, Inc. (CCX) is a self-regulatory exchange that administers the world's first multi-national and multi-sector marketplace for reducing and trading greenhouse gas (GHG) emissions. It represents the first voluntary commitment by a cross-section of North American corporations, municipalities and other institutions to establish a rules-based market for reducing GHG emissions. CCX enables members to receive credit for reductions, and to buy and sell credits to determine the most cost-effective means of achieving emission reductions. Members of the scheme include:

Ford Motor Company; DuPont;
Waste Management Inc; International Paper;
Motorola; and the City of Chicago.

These leading U.S. and international companies and the City of Chicago have made a legally binding commitment to reduce their emissions of greenhouse gases by four percent below the average of their 1998-2001 baseline by 2006, the last year of the pilot program. Other entities eligible to participate include liquidity providers and owners of 'offset'; projects in North America and Brazil that reduce GHG emissions in various ways such as destroying landfill methane and sequestering atmospheric carbon in agricultural soils or forest land.

Although no regulatory framework is required for the operation of the CCX, NASD, the world's leading private-sector provider of financial regulatory services, will act as the market regulator, providing transparency, liquidity and the highest degree of market integrity for this pilot program. CCX market architecture incorporates input from a wide range of economic sectors as well as technical experts in the engineering, forestry, agricultural, academic, NGO and public sectors. In total, more than 50 corporate entities and hundreds of experts have contributed to the design phase.

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What is CCX trying to achieve?

CCX has nine goals, which are to:

1. Demonstrate unambiguously that a cross-section of North American industry can reach agreement on a voluntary commitment to reduce greenhouse gases and implement a market-based emission reduction program.
2. Establish proof of concept by demonstrating the viability of a multi-sector greenhouse gas emissions cap and trade program supplemented by project based offsets.
3. Establish a mechanism for achieving price discovery as well as developing and disseminating market information.
4. Allow flexibility in the methods, location and timing of emission reductions so that greenhouse gas emissions can be reduced cost-effectively.
5. Facilitate trading with low transaction costs.
6. Build market institutions and infrastructure and develop human capital in greenhouse gas emissions trading.
7. Encourage improved emissions management.
8. Harmonize and integrate with other international or sovereign trading regimes.
9. Develop a market architecture that rewards innovative technology and management and encourages sustainable farming and forestry practices.

How will the trading work?

CCX will open with a sealed-bid, discriminatory price auction in late September 2003 before continuous electronic trading begins some ten days later. Auctions provide both a distribution and price discovery function. Their prevalence in the market for U.S. Treasury securities indicates their importance in one of the largest markets in the world. The annual auction in the SO2 market created by the Clean Air Act of 1990 has helped generate price and volume information for this market in its early stages, and it still serves as an indicator of market trends. The price and volume information from the auction will be one of many indicators that CCX members can use to develop least-cost strategies for complying with their emission reduction commitments or for their trading strategies.

First big test for emissions trading

The membership of CCX indicates the growing belief that a pro-active approach to climate change is a sound business strategy. CCX is an immediate opportunity for GHG-emitting entities in North America to participate in a multi-sector, multi-national greenhouse gas emissions trading market operating as self-regulatory exchange. Voluntary efforts and pilot emissions trading programs are important because they can help inform the debate on the real cost of GHG mitigation, providing valuable information for policymakers, corporations and the public. CCX will offer the first test of the GHG emissions trading concept on a scale with global potential.

Through a different lens is a regular column in *0.618...* that dives below the surface of the sustainability and finance debate.

Richard Sandor, Chairman and founder of the Chicago Climate Exchange, Inc. and a Research Professor at the Kellogg Graduate School of Management at Northwestern University.

Dresdner Bank primes emissions trading

Dresdner Bank, an active member of the UNEP FI Climate Change Working Group, is well aware of the potential financial impacts of the imminent emissions trading schemes. Dresdner was one of the initiators of the 'Hesse-Tender', Germany's largest emissions trading pilot project established in 2002 by the Hesse Environment Ministry. Within the Hesse-Tender auction, approximately 120,000 metric tonnes of CO_2 equivalent emissions reduction credits were traded.

With the support of Dresdner Bank and other active members of the UNEP FI CCWG, an emissions trading 'handbook' is presently under development. The group endeavours to identify risk management tools the financial sector could provide, both on the insurance and banking fronts, in response to emerging emissions trading markets. The publication will be released in time for the United Nations Framework Convention on Climate Change (UNFCCC) 9th Conference of the Parties in December.

A memorandum of understanding was signed between ASrIA and UNEP FI in 2002 to work together on sustainable investment in Asia.

New resources for investors in Asia

AsrIA, the Association for Sustainable and Responsible Investment in Asia, continues to clarify the picture of SRI in Asia with two recently published reports.

"From our second International Conference on SRI in Tokyo last autumn, it was clear that differing SRI priorities and expectations can lead to confusion and even hostility about SRI", comments Tessa Tennant, Chair, ASrIA. "SRI Perspectives in Japan and the West", seeks to improve understanding between international investors and their Japanese counterparts on relevant SRI criteria and appropriate methods of communication when analysing Japanese corporations.

Despite dire markets since 2001, SRI funds have been launched in Hong Kong, South Korea and Malaysia. According to Melissa Brown, ASrIA's new Executive Director, "Asian markets and investors' needs are maturing rapidly, creating huge demand for fresh approaches to long-term investing which will benefit the region."

Exploring this trend, "Development of SRI in Asian Emerging Markets'" surveys SRI trends in 11 Asian countries. The report is a series of succinct reviews, written by ASrIA's network of local researchers, on the current status of sustainable investment issues and levels of awareness in each Asian emerging market.

ASrIA is also promoting the following activities in Asia:

- The development of SRI products and services for the region;
- Information, Education and Training to build capacity for Sustainable Investment;
- Corporate Accountability on CSR for Investors;
- SRI for Pensions;
- Market Mechanisms to Reduce Carbon Emissions; and
- Private Sector Finance support for Microfinance.

For more information on ASrIA, and for copies of ASrIA's reports, visit www.asria.org, or contact sweeta@asria.org

From hardball to hardwood

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The list of sports stars who have turned their hand to tree-farming surely has only one name on it: baseball legend Stan Javier. The spare outfielder, who batted .269 with 1,358 major-league hits, is now running a mahogany and teak farm in his native Dominican Republic. The business has clearly stated economic, environmental, and social goals:

1. The establishment of forest projects that are sustainable and economically feasible.
2. The establishment and maintenance of separate reforestation and rain forest renewal projects.
3. Providing jobs and other assistance to the rural communities of the Dominican Republic.

With a $31million investment from the partners of Japanese software company Sourcenext Inc, Javier is not playing minor league. Demand for mahogany is still outstripping supply to the extent that the investment is expected to realise an astonishing $476million profit once the first crop of trees are harvested in 2013. Until then, Javier is happy to provide employment for about 250 locals, look after his trees and occasionally daydream about that flyball that got away.

Creating the climate for change

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The recent massive power failures in the US and Europe combined with this summer's unprecedented European heatwave highlight two of the world's most pressing issues: energy security and climate change. Although they have different impacts in different countries, both issues can create significant economic and social pain in every region, with effects that may last for years or even decades.

The economic losses for climate change have been documented in a landmark 2002 UNEP Financial Initiatives study where a group of major global financial corporations stated unequivocally that climate change poses "a major risk to the global economy". They also noted that worldwide economic losses due to natural disasters appear to be doubling every 10 years and, on current trends, annual losses will reach almost $150 billion in the next decade.

Changing old habits

The solution to the challenges of energy security and climate change does not lie in the mindset that created them. Large centralized fossil fuelled power stations supported by large centralised distribution systems will continue to be vulnerable - even after the US spends the estimated $100 billion to upgrade its systems.

For developing countries in particular, this centralized fossil fuel energy path will not serve the vast majority of people in rural areas where the economic benefits flowing from access to a modern energy system are elusive, although the environmental costs are not. Nearly three billion people - half of the world's population rely on biomass and charcoal for cooking and heating in simple devices producing large amounts of indoor and local air pollution. According to the 2001 World Energy Assessment, this pollution is linked to between four and five percent of the global disease burden. In these countries, the energy needed to drive development while protecting human and environmental health means providing technology and services that are accessible, affordable and clean.

However, if the billions of dollars to be invested in new energy infrastructure in the next two decades follows the fossil fuel "business as usual" mindset, the resulting serious and irreparable environmental and social harm could dramatically affect the health of human societies, economies and the ecosystems on which they depend.

We've got the power

Modern renewable energy and energy efficiency technologies are poised to make a significant contribution to this challenge. Technologies such as windpower and solar cells have advanced rapidly and costs continue to fall.

Although some financiers are starting to shift some finance towards the sustainable energy sector, the transaction costs and market uncertainty has led most to adopt a "wait-and-see" attitude. This is compounded by lack of information, experience and the tools needed to quantify, mitigate and hedge project and financial product risks.

The Sustainable Energy Finance Initiative (SEFI) is a new programme that aims to change this attitude by convincing mainstream financiers to consider renewable energy and energy efficiency as not just niche solutions, but key components of secure energy systems. To achieve this, SEFI will develop UNEP's work to date in helping financiers overcome the barriers that prevent them from building sustainable energy investment portfolios.

The Sustainable Energy Finance Initiative (SEFI), launched in October 2003, is a new program aiming to encourage mainstream financiers to include renewable energy and energy efficiency investments in their portfolios.

For further information contact Eric Usher, UNEP Energy; eric.usher @unep.fr

Australasian update

From the Minister

Since November 2000, when EPA Victoria first signed its agreement with UNEP FI to co-ordinate and promote the Finance Initiatives in the Australasian region, there has been a significant increase in awareness by the finance sector of the imperatives of sustainability issues. Organisations are committing more resources to developing approaches to sustainability, environmental and socially responsible products are appearing in the market place and a number of financial organisations produce or contribute to Corporate Social Responsibility Reports.

The Victorian government is proud of its continued association with UNEP FI and looks forward to continuing its facilitative role in fostering the inclusion of environmental, social and other economic considerations throughout the operations of all financial institutions in the Australasian region.

The Honourable John Thwaites, Victorian Minister for Environment

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Risky business

Australasian insurance providers can help reduce environmental impacts by developing innovative insurance products. This is one conclusion of a report called 'Risk, the Environment and the Insurance Industry' published recently by The Australasian UNEP FI Insurance Advisory Committee.

The report assesses the management of environmental risks, including the use of insurance, within companies. Reviewing the environmental legislative framework in Australia, it highlights the availability of environmental insurance products both internationally and within Australia. The paper also considers the opportunities that sustainability issues provide for the insurance sector and includes case studies exploring the relationship between lower insurance risk and reduced environmental impact.

The report aims to stimulate debate and help promote new environmental insurance products.

Trialling Sustainability Tools

EPA Victoria is working with Finance Sector companies to trial and implement a number of sustainability tools:

- Australian and New Zealand Bank Group (ANZ) has trialled the Ecological Footprint concept. This tool quantifies how much land is needed to sustain the level of resources consumed and to manage the wastes produced. In ANZ's case the tool is being used to measure how much land is required to sustain their office-based activities;
- AMP has applied environmental management accounting to calculate the financial costs of some of its environmental impacts; and
- VicSuper has signed a Sustainability Covenant, a statutory agreement, committing it to integrating sustainability principles throughout its business.

Three new signatories

Three new signatories to UNEP FI attest to the uptake of sustainability issues by Australasian financial institutions. Joining Westpac and QBE are:

- National Australia Bank, which became the second Australian bank to join the initiative in December 2002;
- Insurance Australia Group, Australia's largest general insurer, which signed up in May 2003; and
- In mid 2003, VicSuper, a superannuation company with over 170,000 members and $A1.7 billion funds under management became the fifth Australian signatory.

For further information, or copies of any of these reports, see www.epa.vic.gov.au

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UNEP FI Activities

Sustainable banking in Africa

The AICC Centre for Sustainability Investing and the UNEP FI African Taskforce (ATF) have together launched the Executive Report of Sustainability Banking in Africa. A full report is expected to be released early in 2004.

The finance sector in Africa has reacted more slowly to the challenges and opportunities that sustainability presents, than companies in the extractive industries for example. Private sector financial institutions' performance is particularly poor in this respect. Many banks discourage the integration of sustainability issues into the private sector, hiding behind issues such as:

- The inability of governments to enforce laws;
- High levels of corruption;
- The suggestion that sustainability initiatives add unnecessary costs; and
- A fixation on short term results.

The Sustainability Banking in Africa report does however identify a number of innovations occurring in different countries in Africa that together provide a clear indication of change. FIs in Africa are moving away from the traditional defensive standpoint, realising that there is a competitive advantage to be gained from being more sustainable. Furthermore, there is an increasing recognition that a company's success in sustainability is inextricably linked with the responsibility and competitiveness that nations and regions exhibit.

The report also discusses potential future innovations and the development of new approaches relevant in Africa.

For details please contact UNEP FI African Taskforce co-chair Sean de Cleene at sean@aiccafrica.com or Niamh.OSULLIVAN@unep.ch

The UN Global Compact

UNEP FI is the Secretariat for the UN Global Compact Working group on Investors and Sustainability. The UN Global Compact is a voluntary initiative endorsed by Kofi Annan that represents a commitment to nine principles that incorporate the goals of the United Nations. The working group seeks to engage a broad audience and draw the link between the financial services sector and its role in influencing the broader business community.

As the Secretariat for this working group, we have the opportunity to engage with mainstream investors who have not previously been active in the sustainable finance debate.

Conflict risk and the bottom line

Violent conflict is moving onto the agenda of financial institutions (FIs). Key drivers are concerns about reputation, opportunity costs, threats to staff and investments, emerging regulatory and litigation threats, and opportunities for competitive advantage.

UNEP FI is collaborating with the International Institute for Sustainable Development (IISD) to investigate the links between finance and conflict, and map those areas of greatest interest to banks and insurers.

The aim is to explore how the sector can help to secure peace and prevent conflict. Furthermore, taking a conflict risk perspective helps to identify opportunities for FIs to gain a competitive advantage, including:

- Improved risk assessment;
- New products, services, and markets; and
- New identifiers of high performance investments.

Building on the results of initial research, UNEP FI will develop proposals for tools and strategies for banks, asset managers and insurers to better manage conflict-related risks.

Contact mareike.hussels@unep.ch

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.

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Innovative financing for sustainability

Mission

To identify, promote, and realise the adoption of best environmental and sustainability practice at all levels of financial institution operations.

UNEP FI

The United Nations Environment Programme Finance Initiatives (UNEP FI) is a unique global partnership between UNEP, the Financial Institutions Initiative (FII), and the Insurance Industry Initiative (III).

Financial Institutions Initiative (FII)

FII was founded in 1992 to engage a broad range of financial institutions in a constructive dialogue on economic development, environmental protection, and sustainable development. Signatories to the UNEP FI Statement by Financial Institutions on the Environment and Sustainable Development commit to the integration of environmental considerations into all aspects of their operations and services.

Insurance Industry Initiative (III)

In 1995, UNEP launched another partnership with the Insurance Industry. Signatories to the III statement of environmental commitment have played a high-profile role in various intergovernmental negotiations, notably those under the United Nations Framework Convention on Climate Change.

Quality Services

We provide our signatories with practical research; capacity building; and information exchange services. The products we provide range from professional development programmes and action-oriented reports to international conferences that bring together professionals from around the globe.

Practical Support

Our job is to provide quality support for your organisation. In addition to our dedicated team, UNEP FI opens up a vast network of sustainable development contacts, information and networking services that are dedicated to helping you and your organisation make a difference.

Structure

UNEP is headquartered in Nairobi, Kenya. UNEP has eight divisions through which it carries out its activities, including the Division of Technology, Industry and Economics (DTIE) based in Paris, France. The Economics and Trade Branch (ETB), based in Geneva, Switzerland, is a branch of DTIE. The Finance Initiatives is a unit of the ETB.

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