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UNEP Finance Initiative
Innovative financing for sustainability

EPA VICTORIA

Australasian UNEP Finance Initiative Newsletter

'Innovative financing for sustainability'

Contents

UNEP FI's Global Roundtable 2007

October 2007, Melbourne, Australia

UNEP FI's next Global Roundtable is to be held in Melbourne, following a decision by the UNEP FI steering committee to formally award the right to host the Initiative's 2007 Roundtable to Australia.

The 2007 Roundtable will carry on a tradition which stretches back a decade and has spanned the globe from Chicago to Frankfurt, and from Rio de Janeiro to Tokyo and New York. The Roundtable will be held for the first time in Australia and will be the principal event on sustainability in the finance sector for the year.

To be held in October 2007, it is expected that over 500 delegates, senior decision makers and experts from around the globe will attend the Roundtable in Melbourne, including bankers, insurers, asset managers, government representatives, NGO representatives, academics and consultants.

To register your interest in receiving further information on the 2007 Roundtable as it becomes available, please send an email to:
E: unep.fi@epa.vic.gov.au

To see information on previous UNEP FI Roundtables, please visit:
www.unepfi.org/events/archive/index.html

Westpac challenges customers to go green

Steve Green, Westpac Banking Corporation

At the EcoNomical Living Program Launch, from left: Michael Walsh, Editor, Ethical Investor magazine; Joel Fleming, Director, Climate Friendly; Carolyn Hewson, Westpac Director; Steve Cranch, Solarhart; and Noel Purcell, Westpac Stakeholder Communications.

On World Environment Day 2006, Westpac Director, Carolyn Hewson, launched a new 'green' mortgage package that challenges Westpac home loan customers to reduce their environmental footprint and save money on utility bills.

Called the 'EcoNomical Living Program', the package features discounts and rebates on a range of domestic environmentally-friendly initiatives such as home insulation, green electricity, solar hot water systems and rain water tanks.

The potential savings in store for customers are extensive.

It's estimated that if Westpac home loan customers took up all of the environmental offerings, they would be eligible for around A$1,200 in discounts up front and would also be reducing their annual energy and water bills by up to A$1800 every year.

It will also allow customers to reduce their carbon footprint completely, neutralising greenhouse gas emissions.

Customers are also being encouraged to find further ways to reduce their impact on the environment through the NSW Government's environmental calculator – the National Australian Built Environment Rating Scheme (NABERS) – and the Australian Conservation Foundation's Green Home Initiative.

Most significantly, the package is not being offered as a standalone home loan product, rather the incentives and rewards are built into Westpac's core product offering.

This was an important consideration in designing the initiative.

From Westpac's perspective, it didn't want to exclude anyone and didn't want to penalise those customers who wanted to do the right thing and help the environment. On the contrary, Westpac wanted to ensure that each and every mortgage offered gave its customers the opportunity to go green.

Speaking at the launch, Carolyn Hewson hoped that this initiative would spark a sustainability revolution within Westpac's customer base.

"We shouldn't underestimate the role of householders in the fight against climate change and other environmental issues," Ms Hewson said.

"For example, if all Australians switched to clean, renewable energy today, Australia's total greenhouse pollution would be cut by 30%.

"Or, if the 5 million Australian homes connected to mains water each had a 1,000 litre water tank, 5 billion litres of water would not have to be taken from the environment each year.

"We understand that it is not always practical for households to implement all the initiatives in the 'EcoNomical Living Program' booklet, but with the right policies from government and the right incentives from financial institutions, we can empower these householders to take action," Ms Hewson concluded.

From a business perspective, Westpac is clearly seeking to differentiate its home loan offering – an otherwise commoditised product – and attract and retain customers based on these credentials.

It is seen from other environmental initiatives that consumers want to do their bit. In fact, Westpac's own research completed earlier this year showed that 59% of Westpac customers would be more interested in investing in a product with a positive environmental outcome. Additionally, almost nine-out-of-ten Australians agree that we must act now to control our environmental problems, according to a recent Roy Morgan Poll.

The NSW Department of Energy, Utilities and Sustainability agree that the potential business opportunities are extensive.

Speaking at the launch, Matthew Harnack, the Department's Manager of Sustainable Energy Programs said that "consumers not only want to see businesses doing the right thing by the environment, they also want to be offered the opportunity to do the right thing themselves."

Westpac is currently exploring other product opportunities which tackle the 'indirect' environmental impacts of its business and make it easy – and rewarding – for its customers to help the environment.

For further information, please contact:
Steve Green, Corporate Responsibility and Sustainability Analyst, Westpac Banking Corporation
T: 61 2 8254 0684
or
E: stevegreen@westpac.com.au
or visit
www.westpac.com.au

Encouraging uptake of Progress Loans at ANZ

Julie Bisinella, ANZ Bank

ANZ and the Brotherhood of St Laurence (BSL) have launched *Progress Loans* – a small loans program providing people on low-incomes with access to mainstream credit. It offers eligible customers loans of A$500 to A$3,000, at an interest rate of 12.7 per cent, to pay for essential household items, education and medical expenses.

The program is showing early signs of success according to ANZ and BSL. Thirty loans totalling A$25,000 have been approved as at the end of June 2006 with a 76 per cent approval rate.

Progress Loans was developed in response to ANZ's 2004 research into financial exclusion, which showed that 6 per cent of Australian adults own only one transaction account and no other mainstream financial product. This includes people who are on low incomes or unemployed, people with disabilities and those from Indigenous communities.

From left: Brotherhood of St Laurence Executive Director, Tony Nicholson, ANZ CEO, John McFarlane and Consumer Law Centre Victoria Executive Director, Catherine Wolthuizen, at the Progress Loans launch

Speaking at the launch of the program ANZ CEO, John McFarlane, said Progress Loans brings together ANZ's resources and expertise in financial services and the Brotherhood's knowledge and experience in providing personal loans for people on low incomes to help improve financial inclusion in Australia.

"We know from our research that many Australians are too intimidated to walk into a bank branch, let alone apply for a loan. In some cases, they borrow from 'loan sharks' or payday lenders at interest rates of up to 1000 per cent or simply live without things that most of us take for granted, like a fridge or a washing machine, or medical and dental care.

"This is a classic poverty trap. While our products and services help many Australians to build their assets and create a secure future, the policies and practices of our industry have also – in part – contributed to financial exclusion. We know there are some basic things we can and should do to make a difference for people struggling to understand their finances or facing financial hardship.

"Working with people in this situation requires care, insight and experience, and the Brotherhood of St Laurence has been doing this for 76 years," he said.

Progress Loans is the culmination of more than 18 months of consultation and development work. Following an initial six-month pilot, Progress Loans will be reviewed by ANZ and the Brotherhood of St Laurence and may be extended to include additional community partners.

ANZ has funded three loans officers based at the Brotherhood's offices in Frankston and Fitzroy in Melbourne to guide each client through the loan application process.

Key features:

- Loans of between A$500 and A$3,000 with a loan term ranging from one to three years.
- Revolving lines of credit are not available.
- Customers are charged an interest rate of 12.7 per cent per annum, comparable to the rate applying to many personal loan facilities.
- A one-off approval fee of A$40 applies.

Eligibility

The program is targeted at individuals on low incomes with a Health Care or Pension Card. To be eligible, applicants must have proven money management skills, demonstrated timely payment of utility and other personal bills and no record of unpaid credit default above A$300 within the past three years. The loan must be for a purpose associated with household, education or medical expenses. Loans may also be advanced on certain conditions for the purchase of a motor vehicle.

For more information, please contact:

Julie Bisinella, Head of Corporate Responsibility, ANZ
E: bisinelj@anz.com
or visit

Progress Loans:
www.anz.com/aus/values/community/progress_loans.asp

ANZ Financial Exclusion Research:
www.anz.com/aus/values/commdevFinance/research.asp

ANZ Corporate Responsibility:
www.anz.com/aus/values/default.asp

Shorts

International SRI conference, 21 and 22 September, Sydney, Australia

Australasia's only dedicated two-day Sustainable Responsible Investment (SRI) conference takes place this year in Sydney on 21 and 22 September, presented by the industry's peak body, the Ethical Investment Association (EIA). This conference features keynote presentations and specialist workshops on the big issues which drive SRI investment decisions such as climate change, water risk, industrial relations and bribery as well as global movements in responsible finance such as engagement practices, trustee initiatives, the Cleantech boom and microfinance. Delegates will also hear about the latest SRI developments in Europe, Britain, Asia, Canada and the United States directly from the thought leaders who are driving change in those regions.

The EIA's International SRI Conference only takes place every two years and is the region's largest gathering of SRI professionals from the finance industry, corporate sector and not-for-profit, religious and charitable sectors.

For full program details and registration, please contact:
Louise O'Halloran, Executive Director, Ethical Investment Association
T: 612 8224 0314
or
E: info@eia.org.au
or visit
www.eia.org.au

mecu Wins Sustainability Award

The Association of Chartered Certified Accountants (ACCA) has awarded Australia-based credit union **mecu** Limited this year's Australia and New Zealand Award for Sustainability Reporting.

mecu regards environmental and social challenges as strategic business opportunities: “Society's need to become sustainable is the beginning of new pathways for future prosperity" said **mecu** Group Manager Development, Rowan Dowland.

The aim of the ACCA Awards is to reward transparency, with completeness, credibility and communication at the core of the judging criteria.

For further information, please visit:
www.accaglobal.com/pubs/sustainability/awards/asiapacific/asra/au_archive/au05_jud.pdf

Morgan Stanley's investment in ‘green’ scores Australian first

Morgan Stanley, the global financial services firm, has set a benchmark for office fitouts at its office in Sydney.

The Morgan Stanley office fitout was assessed under the Green Building Council of Australia's Green Star - Office Interiors rating tool, which was released in May 2005, and achieved a 5 Star Green Star Certified Rating.

The fitout achieved maximum scores for its workstations and the transport category of the rating tool, as well as high scores for flooring and chairs. The fitout also exceeded the Green Star benchmark in a number of areas, including the supply of outside air, and it received points for innovation for installing the previously used access floor in 35 per cent of the office area.

Other key features of the Morgan Stanley fitout include:

- 85 per cent of flooring achieved a 100 per cent score, recognising low-impact content, environmentally friendly production, product stewardship, durability, reusability and design for disassembly;
- Base building fixtures were replaced to further improve potable water efficiency;
- More than 80 per cent of construction waste was diverted from landfill;
- External views are available to more than 60 per cent of work settings;
- Indoor air quality has been improved through the use of low-volatile organic compound paints and carpet;
- Chilled beams and good lighting design enable the fitout to operate at or potentially above the 5 Star ABGR fitout rating;
- Electrical sub-metering has been provided for light and power and other major energy uses; and
- Existing ceiling tiles were left intact.

For more information on the Green Star rating system go to:
www.gbcaus.org

Environment on the table at ANZ

ANZ recently held an 'Environment Roundtable' to invite external feedback on its proposed approach, priorities and focus in the next phase of implementation of its Environment Charter.

Held in June 2006, the roundtable was described by ANZ as a major step towards creating an ongoing two-way relationship with key stakeholders.

ANZ's Institutional division facilitated the forum in Sydney with some 25 environmental groups and environment-related government departments.

Attendees included representatives from UNEP FI, WWF Australia, Australian Conservation Foundation, the National Water Commission, EPA Victoria and the Commonwealth Department of Environment and Heritage.

The roundtable included discussion on ANZ's approach to environmental issues in its decision-making processes, as well as on the status of its Environment Charter implementation and reporting.

ANZ's Group Managing Director Institutional, Steve Targett, hosted the event: “The session was part of our stakeholder engagement program, and a great opportunity to demonstrate that we are prepared to think very differently about the way we lend and how we work with our clients as a valued business partner.

“It's really positive that these groups want to talk to us and hear about our efforts. The feedback showed they really liked that we are having a go at addressing the challenging issues associated with sustainable banking.”

AIG, the environment and climate change

Insurance and financial services organisation, American International Group (AIG) is actively seeking to incorporate environmental and climate change considerations across its businesses, focusing on the development of products and services to help AIG and its clients cut greenhouse gas (GHG) emissions.

Over the next 18 to 24 months, AIG Global Investment Group will allocate additional private equity investments to projects, technologies or other assets that contribute to GHG emission mitigation. The intent is to include projects that generate tradable carbon credits, including forestry assets, renewable energy resources, energy efficiency and other GHG mitigation technologies, and 'green' real estate.

Work is also under way within AIG Global Investment Group to enhance the established environmental and climate related criteria, where appropriate, for new private equity and project finance investments.

It is evaluating the development of a new investment product that includes climate change and GHG related criteria. For example, together with JF Asset Management, an AIG subsidiary recently launched the first Green Fund in the Hong Kong Mandatory Provident Fund Market, to invest in environmentally friendly companies.

For more information, please visit:
www.aigcorporate.com/corpsite/about.html

Bank of America supports hybrid vehicle purchase

Bank of America Corporation has announced a pilot program to reimburse US$3,000 to associates purchasing a new hybrid vehicle. The program will be available to more than 21,000 associates living within 90 miles of Boston, Charlotte, and Los Angeles.

The company will evaluate the pilot, factoring in participation levels and demand to assess how it could be rolled out to the full associate base.

The pilot mirrors the Internal Revenue Service's hybrid vehicle tax credit program and will apply toward a hybrid vehicle as defined by the IRS. All full-time and part-time associates working at least 20 hours per week in the three pilot cities are eligible.

For more information, visit the Bank of America website:
www.bankofamerica.com

Australian government examines corporate social responsibility

In March 2005, the Australian Federal Government asked the Corporations and Markets Advisory Committee (CAMAC) to consider a series of questions related to responsible corporate conduct, including aspects of corporate decision-making, corporate reporting and whether further measures are needed to encourage socially and environmentally responsible business practices.

The Corporations and Markets Advisory Committee was set up by statute to provide advice to the Australian Government on issues in corporations and financial markets law and practice. CAMAC members are appointed on the basis of knowledge and experience in business, financial markets, law, economics or accounting. The Committee released a discussion paper in November 2005 and expects to release its final report later in 2006.

Further details can be found at:
www.camac.gov.au

The Parliamentary Joint Committee on Corporations and Financial Services released its report: *Corporate Risk: Managing Risk and Creating Value* on 21 June 2006. The report covered such things as the drivers and principles of corporate responsibility, directors' duties, institutional investors and sustainability reporting.

Further details and a copy of the report can be found at:
www.aph.gov.au/senate/committee/corporations_ctte/corporate_responsibility/report/index.htm

VicSuper talks about the weather with its members

Jenny Hunter, VicSuper

Chief Executive of VicSuper, Bob Welsh, (speaking) and Rob Gell (seated) at the VicSuper member seminar on climate change held in Melbourne.

More than 200 people attended VicSuper's inaugural seminar series on climate change in Melbourne and rural Victoria recently.

The seminars represented the first time a superannuation fund has proactively addressed climate change risk with its members.

“We think it's time that people stop thinking about climate change and investing as two completely separate issues,” said Bob Welsh, Chief Executive of VicSuper.

“They are inextricably linked – what happens in the environment will have an impact on societies and the economy which will affect the returns that our members receive for their superannuation. Our members need to understand this.”

VicSuper has been communicating with members about sustainability initiatives and investing for the past five years.

“Our communications with members previously focused on sustainability as a general topic so we decided to take a different approach and focus on one aspect of sustainability, with the first topic being climate change,” said Bob.

At the seminars, Dr Graeme Pearman, former chief of Atmospheric Research for CSIRO, explained the science of climate change and gave the audience actual examples of the impact of climate change across the world, as well as addressing future scenarios.

At the Melbourne seminar, Sam Mostyn, Group Executive Culture and Reputation with Insurance Australia Group, gave convincing statistics and examples about the business imperative for her organisation to address climate change, as well as highlighting the benefits of addressing it within IAG's own operations.

Bob Welsh explained that, as part of their duties to look after the financial interests of members, trustees of superannuation funds were obliged to address a range of risks including climate change risk. He also explained that superannuation funds, as large investors in many countries and many industries, needed to engage with companies on issues such as climate change.

Host Rob Gell provided attendees with suggestions for further reading on climate change and tips on how individuals and businesses can reduce their energy consumption.

In addition to the seminars, VicSuper mailed a brochure to all members in May this year explaining the links between climate change and superannuation. It also expanded its climate change information on the VicSuper website, www.vicsuper.com.au

VicSuper plans to continue the climate change theme through its reporting and member communications and events for the remainder of 2006.

For more information, please contact:

Jenny Hunter, Executive Manager Sustainability and Education, VicSuper

T: 61 3 9667 9624
or
E: jenny.hunter@vicsuper.com.au
or visit:
www.vicsuper.com.au

VicSuper is a member of the Investor Group on Climate Change Australia/New Zealand (www.igcc.org.au) and a signatory to the Carbon Disclosure Project (www.cdproject.net). VicSuper is also a signatory to the United Nationals Principles for Responsible Investment (www.unpri.org).

UN Principles for Responsible Investment

Amanda McCluskey, Portfolio Partners

On 27 May 2006, Kofi Annan, on behalf of the United Nations Global Compact and UN Environment Programme Finance Initiative, released the UN Principles for Responsible Investment (the Principles). The Principles were developed during 2005, by a group of more than 20 global pension funds in consultation with a 70 person multi-stakeholder group of experts from the investment industry, inter-governmental and government organisations, civil society and academia.

The Principles were developed because of the recognition that Environmental, Social and Governance (ESG) issues have the potential to impact the financial performance of investments. The Principles provide a framework for achieving better long term investment returns and more sustainable markets and aim to help the integration of ESG issues by institutional investors into investment decision-making and ownership practices.

At 7 July 2006, 36 pension funds, 32 fund managers and 13 service providers from around the globe had signed the Principles, equating to over USD$4.5 trillion of assets owned.

The six principles, which are both voluntary and aspirational, are:

1. We will incorporate ESG issues into investment analysis and decision-making processes;
2. We will be active owners and incorporate ESG issues into our ownership policies and practices;
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest;
4. We will promote acceptance and implementation of the Principles within the investment industry;
5. We will work together to enhance our effectiveness in implementing the Principles; and
6. We will each report on our activities and progress towards implementing the Principles.

Portfolio Partners was the first Australian fund manager to sign the Principles. Institutional investors from Australia and New Zealand that are signatories are: Catholic Superannuation Fund, Christian Super Fund, New Zealand Superannuation Fund and VicSuper.

Portfolio Partners signed the Principles primarily because they are consistent with its commitment to bringing sustainability issues into the investment mainstream. The Investment Manager hopes that the global forum created by the Principles will enable it to share findings with other global investors and its clients, to develop best practice mainstreaming of sustainability analysis.

It is firmly Portfolio Partners' view that companies and economies do not operate independently of the world around them, nor are they immune to the limitations placed on them by their environment. As a result, companies that focus on social, environmental and corporate responsibility not only contribute to a better society, but their business becomes more viable as a result. In this context, the analysis of social, environmental and corporate responsibility, or what it calls sustainability analysis, provides an effective tool for evaluating investments.

As a first step in embedding sustainability analysis into the way it manages money, Portfolio Partners developed a detailed corporate governance policy that outlines what information it expected companies to provide on corporate governance structures and environmental issues. This has been in place since 2002. Portfolio Partners is active in proxy voting and also uses its weight of funds under management, A$10.2 billion, through engagement to encourage companies to manage the sustainability risks associated with their operations. Since 2002 Portfolio Partners has also been surveying ASX200 companies on how they are managing human capital issues and this information has been used to create the group's own Human Capital Index.

In 2005 Portfolio Partners signed up to the Carbon Disclosure Project (CDP) and in 2006 joined the Investor Group on Climate Change (IGCC). As part of the CDP and IGCC it has been active in engaging companies on their management of climate change and carbon issues; issues it believes will impact company performance over time. The group has also been working with its brokers to ensure the delivery of research that is aligned with its view on the importance of sustainability issues to company valuations.

In Portfolio Partners' view, sustainability issues can impact both growth and risk. When it is making its growth assumptions it also looks at the sustainability issues that may impact that growth over the long-term. Likewise, when it looks at all the potential risks to companies' long-term revenues, sustainability issues are considered. This is then built in to the way it values the company and its buy and sell decisions.

Portfolio Partners looks forward to working with other Australian superannuation funds and fund managers to ensure long-term sustainability issues are considered, understood and managed. It believes collaborative initiatives like the Principles of Responsible Investment are important because only when the bulk of the market is looking at sustainability issues will the potential growth and risks be thoroughly priced in to company valuations and therefore share prices.

For further information on Portfolio Partners Investment approach, please contact:
Amanda McCluskey, Manager Sustainability, Portfolio Partners Limited
T: 613 9220 0322
or
E: amccluskey@portfoliopartners.com.au

Further information on the Principles for Responsible Investment can be found at:
www.unpri.org

Risk Radar for Farmers at IAG

Philip Woods, Insurance Australia Group

Australia's largest rural and regional insurer CGU Insurance, part of Insurance Australia Group, recently launched an innovative online risk management tool to help farmers identify hazards and reduce farm-related injury risks.

Called Farm Risk Radar, it enables farmers to self-assess their safety performance in their own time and provides a tailored action plan to help make their farm a safer and better place to work.

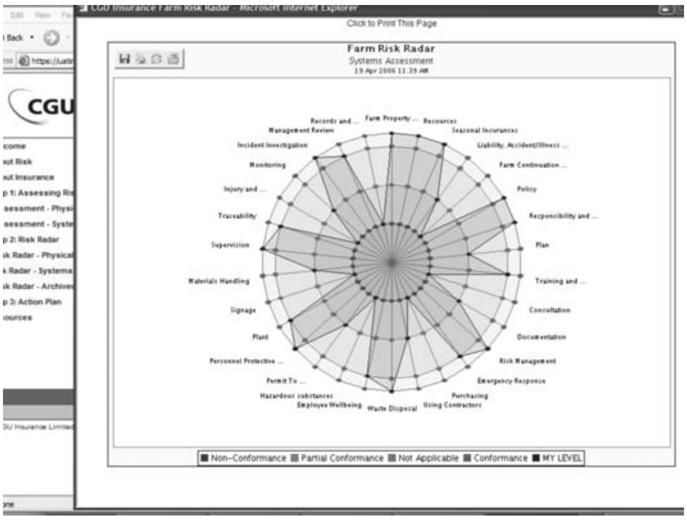
CGU Head of Regional and Rural, John Evans, said that Farm Risk Radar had been developed by CGU in response to farmer feedback that highlighted risk management, workplace safety regulations and environmental issues as some of the major difficulties they faced.

“Risk management and safety are major issues for farmers and as part of our commitment to reduce risk in the community, we are providing them with access to Farm Risk Radar as an additional benefit of insuring with CGU," he said.

Farm Risk Radar is simple to use, is questions-based and delivers a tailored action plan to help address potential work practice problems on a farm. It enables a farmer to track their risk management performance over time and to manage emerging risks as their business changes.

Farming is the second most dangerous industry for workers after mining. Peak farm safety organisation, Farmsafe Australia, says around 150 people die on farms every year. Tragically, this includes one child dying every 10 days. Research also indicates that more than 20 per cent of farms have an accident every year that results in a person receiving treatment in hospital.

The Farm Risk Radar involves two types of risk assessment – a 'physical' risk assessment and a 'systems' risk assessment. Each takes about 30 to 45 minutes to complete. Farmers are asked a series of questions and are offered four answers – conformance, partial conformance, non-conformance and N/A. Once all questions have been answered, Farm Risk Radar generates a 'physical' risk radar and a 'systems' risk radar.



The risk radars are a pictorial view of the farm's risk performance and show the strengths and weaknesses of the farm's current safety and environmental performance and where improvements can be made.

There are 31 areas covered by Risk Radar for Farmers, including numerous safety issues such as the use of machinery, firearms, electricity and child safety. Environmental aspects include air quality, environmental contamination and waste management.

Risk Radar for Farmers is the second product in the Risk Radar suite. The first product, Risk Radar for Smash Repairers, has won various awards at the State and National level.

For more information, please contact:
Philip Woods, Sustainability Research Manager, Insurance Australia Group
T: 61 2 9292 1530
or
E: philip.woods@iag.com.au

Generation Investment Management's focus on Climate Change

Mark Mills, Generation Investment Management

Generation Investment Management is a global investment management firm established in 2004. It is an independent, private, employee-owned partnership with offices in London and Washington, DC.

Sustainability research plays an important role in forming Generation's views on the quality of a company's business, the quality of its management and its valuation. Integrating sustainability into a traditional equity analysis framework helps Generation better understand industries, business models, management teams and the value of securities.

Its sustainability research analyses the shareholder value implications of long-term economic, environmental, social and geopolitical challenges. Themes are considered material to industries and companies when they have the potential for business to enhance shareholder value and competitive advantage by managing the risks and investing in the opportunities emerging from these challenges. Generation believes that sustainability research must be fully integrated with rigorous fundamental equity analysis to achieve optimal long-term results.

Climate change is one of a number of sustainability themes that Generation Investment Management researches intensively to assess investment implications for sectors and companies. Other themes explored in depth include pandemics, poverty, demographics, responsible lobbying and water. Generation believes that the key to incorporating these issues meaningfully into an investment process starts with taking a long-term investment horizon. This is especially important in the case of climate change.

Generation considers that long-term investors should be interested in how company management teams address sustainability issues that are material to their business. In short, a company's response to climate change can be a convenient measure of management quality.

Generation takes the view that, as a long-term investor, the potential regulatory impacts of climate change, as well as its physical and 'attitudinal impacts', may materially affect long-term value and a company's potential for long-term wealth creation.

For Generation, 'attitudinal impacts' include corporate reputation and the views of key stakeholders, such as employees and customers.

In May, Generation, together with Insurance Australia Group and VicSuper, hosted a screening of the film *An Inconvenient Truth* for Australian investors. *An Inconvenient Truth* features Generation Chairman and former US Vice President Al Gore and tracks his campaign to educate the world about climate change.

Two of the six worldwide screenings hosted by Generation were allocated to Australia, in an agreement between Paramount Pictures and Al Gore. This was a direct result of the leadership shown by Australian investors in understanding the importance of long-term sustainability issues such as climate change to successful investment and in implementing strategies to deal with it. Generation hopes that the awareness of climate change will receive a boost from the world-wide and widespread screening of *An Inconvenient Truth*, which will premiere in Australia on September 15th. And with it, Generation hopes consumers, companies and investors alike will develop a deeper understanding of the full risks and opportunities related to climate change.

For more information, please contact:
Mark Mills, Director, Generation Investment Management
T: 44 20 7534 4733
or
E: mark.mills@generationim.com
or visit
www.generationim.com

The Triple Bottom Line: Promotion of Environmentally Friendly Microfinance in Sri Lanka

Shane Nichols, World Education Australia

The Sri Lanka-Australia Natural Resource Management Project aims to contribute to poverty reduction through improved natural resource management in the dry and intermediate zones of Sri Lanka. The 6-year project operates in more than thirty community sites across five districts in the central and southern parts of the country. It is funded by the Australian Agency for International Development (AusAID) and managed by URS Australia Pty. Ltd. in partnership with Sri Lanka's Forest Department. World Education Australia is responsible for the microfinance and micro-enterprise programs of the project.

One of the project's core interventions is the promotion of environmentally sustainable income-generating opportunities and microenterprise developments for communities living on the borders of nature reserves. These communities have traditionally implemented slash and burn agricultural practices that are slowly depleting their fragile forest resource base. Although there exists sufficient interest and market opportunities to engage in alternative livelihood activities, a critical constraint has been a lack of access to finance for investment purposes.

Project staff with members of the Wilgamuwa Women's Development Federation during a microfinance partner assessment activity.

Microfinance agencies that tailor their products and services to low-income people provide the best means of making savings and credit services available to those who are too remote and too poor to access regular bank services. A number of microfinance organisations operate in Sri Lanka, some on a national scale and some based locally, however few were operating in the project areas when the project commenced. In order to encourage microfinance partners to commence activities in the project villages, the project developed a loan guarantee mechanism that shares the risks associated with lending in these new areas. The amount of risk-share provided by the guarantee mechanism gradually decreases so that after 2 or 3 years the microfinance partners will have built up a large enough client base and loan portfolio to be able to operate on a viable, independent basis in the new sites.

The risk-share mechanism also enables the project to encourage partner institutions to lend for novel, environmentally friendly, income-generating activities which the partner microfinance agencies are not accustomed to lending for. It does this by providing a higher level of risk coverage for specific types of activities that are assessed as having environmental benefits. It can also discourage lending for environmentally harmful activities by not providing any risk-share for this type of lending.

A core principle of the project that is promoted among the microfinance partners is the adoption of a triple bottom line approach. This involves pursuing, and measuring progress against, three types of goals: financial, social and environmental. Many of the microfinance partners that the project works with already adopt a double bottom line approach (social and financial), and although they were interested in pursuing environmental goals they had no explicit strategy for achieving this. The project is attempting to support and promote this by developing a system that enables institutions to conduct a simple rating of the environmental quality of their loan portfolios. Partners will be encouraged to report on this in their annual reports, and to actively pursue improvements over time.

World Education Australia has conducted institutional assessments of six partner microfinance institutions. These partners range from a regional development bank, to a national non-profit microfinance agency, to broad-based development NGOs and local women's organisations. Interviews with managers, staff and clients of these organisations have enabled the identification of areas in which these partner organisations can improve their management systems, products and services. A range of tailored technical assistance and training programs are now being implemented to enhance each partner's ability to provide appropriate and sustainable financial services to their clients. This is anticipated to bring about benefits both in terms of poverty reduction and sustainable natural resource management.

If you would like to know more about World Education Australia or its programs please visit www.worlded.org.au or email info@worlded.org.au.

Environmental Governance Standards for Development Finance Institutions in Asia

Octavio B. Peralta, ADFIAP

Unlike traditional 'smokestack' industries, for many years banks were unaffected by the 'greening' of industry. They usually generated less controversy on environmental issues, since they were considered to be part of the non-polluting service sector.

However, from the early 1990's, the situation changed. With legal and stakeholder concerns like lender liability on environmental 'miscues' and a growing social and ethical focus on investments, the banking sector moved toward embracing the principles and practices of environmental risk management.

Development finance institutions (DFIs) are no exception. DFIs are involved in financing projects that have inherent environmental considerations, since they are set up by governments as specialized financial institutions providing long-term financing and technical assistance to industrial sectors that promote the country's economic development and growth.

In October 1998, the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP) started its *Greening of DFIs* Project in Washington DC.

By leveraging its network of 64 member-institutions in 32 countries and its affiliations with government agencies, the private sector and the Asian Development Bank, ADFIAP raised the funds to run the capacity-building project on a co-financing scheme with the US-Asia Environmental Partnership.

As a result of the project, more DFIs have a broader insight into the environmental governance practices of members. Judging from the annual reports and other publications given to ADFIAP, almost all members now have their environmental policies and/or codes approved by their Boards of Directors. They also now have environmental monitoring units in their organisations that are in the process of developing and implementing environmental programs.

Other outcomes of the project, which had a total of 70 participating institutions (ADFIAP members, affiliates and other networks) include:

- Around 300 CEOs and senior staff heard about the project in ADFIAP annual conferences;
- A new ADFIAP publication called *Greenbank* was developed and produced for dissemination to members and other networks; and
- An Environmental Category has since been included in the annual ADFIAP Awards program for outstanding achievements of member banks.

In July 2005, ADFIAP received a Euro 346,446 grant for its new initiative, *Environmental Governance Standards for DFIs in Asia* (EGS). The grant was provided by the European Commission through its EU-Asia Pro Eco Programme.

The 1st Working Conference on Environmental Governance Standards held on March 20-22, 2006 in Hanoi, Vietnam.

The main target group of this project is the 64 member-development finance institutions of ADFIAP that are located in 32 countries spread across Asia and the Pacific region.

The EGS have two dimensions.

1. An *Environmental Performance Monitoring Program* (EPM), which will comprise specialist management tools and instruments aimed at the institutional level, and will be for staff of ADFIAP member-DFIs (including the CEO, CFO, designated environmental officers, heads of lending and investment operations, bank loan appraisers/evaluators, investment portfolio managers and the bank's human resources and public relations managers).

2. *An Environmental Rating Standard for Loan Appraisal and Project Finance* (ERS), which will be developed for integrating environmental issues in established risk assessment procedures. This will be developed for use by clients of DFIs (mainly loan borrowers, investor-clients, and trade and industry associations).

During the Environmental Governance Standards event in Manila (from left): Mr. Luc Vandebon, Charge d'affaires, European Delegation to the Philippines, ADFIAP Chair, Ambassador Jesus P. Tambunting, and ADFIAP Secretary General, Octavio B. Peralta.

Both the EPM and ERS will be summarised for broad application and dissemination and a resource book, "*Environmental Governance Standards for Development Financing Institutions*" and a trainer's guidebook "*Introducing Environmental Governance Standards in Development Financing Institutions*", will be developed and applied.

To find out more, please contact:
Octavio Peralta, Secretary General, ADFIAP
T: 632 8435892
or
E: obp@adfiap.org
or visit
www.adfiap.org

For more information on the ADFIAP Environmental Governance Standards Initiative please visit:
www.egs-asia.com/

UNEP FI International Update

Central and Eastern European Task Force (CEETF)

Regina Kessler, UNEP FI, Geneva

In the first half of 2006, the Central and Eastern European Task Force organised its first outreach event in Moscow, Russia. The event, on 5 April, was opened by, Andrey Sharonov, the Russian Deputy Minister for Economic Development and Trade. The meeting was organised in collaboration with the European Bank for Reconstruction and Development (EBRD) and WWF Russia.

The Task Force's second outreach event of the year occurred on 22 June 2006, with a conference in Athens, Greece. The conference entitled "What is the environmental responsibility of banks?" was aimed at financial institutions and stakeholders from Greece and its surrounding countries.

In a follow up event, the CEETF met on 23 June for its annual meeting. Mark King, EBRD was re-elected Chair of the Task Force. The group decided to continue its awareness-raising program in the region with outreach events planned for Lithuania, Romania, Bulgaria and Czech Republic. The group also agreed to hold another CEO Briefing event and a workshop on environmental credit risk management in Moscow, Russia.

During the first half of the year the CEETF conducted a survey among its members about potential contents and target countries for the CEE environmental credit risk platform. Terms of Reference for the project are currently being prepared according to the identified requirements.

For further information, please contact:
Regina Kessler, UNEP FI, Geneva
T: 41 22 917 8689
or
E: regina.kessler@unepfi.org

For a full report on the events, please visit:
www.unepfi.org/events/2006/moscow
and
www.unepfi.org/events/2006/athens

Western European Outreach Meetings

Kiki Lawal, UNEP FI, Geneva

Western European Forum: Workshop on Environmental Credit Risk
4 May 2006, Copenhagen, Denmark

Hosted by Finansraadet (the Danish Bankers Association), the workshop included presentations by Chris Bray, UNEP FI Steering Committee Member and Head of Environmental Risk Management at Barclays, as well as representatives of Nordea AB, Danske Bank and Folksam, with case studies provided for different types of environmental risks. Examples of risk management tools such as land use investigation and environmental impact assessment were also shared.

Francophone Signatories:
7 April 2006, Caisse des Dépôts et Consignations (CDC), Paris

The meeting of UNEP FI's French-speaking Signatories was the second such meeting of UNEP FI's Francophone network, which is part of the Initiative's Western European Forum. The network was developed to provide French-speaking signatories with a platform to share experiences, develop best practices and promote UNEP FI's mission in making sustainable development a fundamental aspect of sound business management.

Jean-Pierre Sicard, of CDC, welcomed the gathering and gave a small introduction on the Principles of Responsible Investment (PRI). This was followed by a discussion on the content and flexibility of the PRI. One comment was to focus on already existing Principles such as the London Principles, the Equator Principles and those of OECD, before signing new ones. After the lively discussion, a suggestion was made by Monique Barbut (UNEP DTIE) to create a working group to address the needs of the institutional investors. The Signatories also discussed the Asset Management Working Group (AMWG) of the UNEP FI as well as UNEP's Sustainable Building and Construction Initiative (SBCI).

The meeting was attended by all of UNEP FI's french-speaking signatories, as well as the Agence Française de Développement, Crédit Agricole S.A and the Observatoire sur la Responsabilité Sociétale des Entreprises (ORSE), who attended as observers. It was agreed that closer cooperation would be fostered between UNEP FI and ORSE in order to promote dissemination amongst a broader network of Francophone financial institutions.

German-speaking region
Co-organised with VfU (German Association for Environmental Management in Banks, Savings Banks and Insurances), UNEP FI has held a workshop entitled: “Sustainability reporting in financial institutions: An introduction to the GRI Financial Services Sector Supplement”. Thirty participants from German and Swiss financial institutions participated in the event on 1 June 2006. On 31 May, UNEP FI was invited to attend the AGM of VfU in order to confirm how to proceed with joint projects, such as the high-level event for CEOs in the German-speaking region, the UNEP FI/VfU Roundtable conference in November and a workshop on social requirements of banks from the perspective of rating agencies.

Nordic Signatories:
The Nordic Signatories have already met twice during 2006, first in March and again during the Western European Forum in Copenhagen in May. The group has outlined its work programme for the rest of 2006 as well as 2007.

The purpose of the initial meeting in March was to exchange experience and information regarding CSR, identify local news and reports that might be of interest to the network, and raise awareness of SRI and CSR within the Nordic community and companies themselves. The first meeting of 2007 is expected to be hosted by The Bank of Iceland.

For further information on any of these meetings, please contact:
Kiki Lawal, Signatory Relations, UNEP FI, Geneva
T: 41 22 917 8692
or
E: kiki.lawal@unep.ch

GRI Working Group

Regina Kessler, UNEP FI, Geneva

In the first part of the year the pilot group for the Global Reporting Initiative (GRI) Financial Services Sector Supplement (Environmental Performance) was finalised. The group includes ten financial institutions and nine stakeholders from around the world. Piloting financial institutions include Australian UNEP FI signatories, NAB, VicSuper and Westpac, as well as international institutions such as State Street Corporation and Bank of Montreal. Stakeholders participating in the process include Earthwatch, Friends of the Earth and Core Ratings. Technical protocols to complement the indicators of the Supplement have been drafted by the consulting group, Arthur D. Little, for the first part of the environmental indicator set and the remaining protocols are currently being finalised for discussion.

Having started the official piloting process in May, the group is holding monthly conference calls in order to discuss and improve the draft protocols as applicable to each of the indicators in the supplement.

A survey among pilot institutions will be conducted in August and September to collect first reporting experiences from using the Supplement. A second survey round will be held at a later stage at which point the stakeholder group will be invited to assess the reports of the pilot group.

The second half of 2006 will see the working group meeting for a face-to-face meeting in October. The merger of the environmental and social indicator sets as well as the finalisation of the Supplement is planned for the first quarter of 2007.

For further information, please contact:
Regina Kessler, UNEP FI, Geneva
T: 41 22 917 8689
or
E: gri@unepfi.org

To see the Pilot Version 1.0 of the GRI Financial Services Sector Supplement (Environmental Performance), go to:
www.globalreporting.org/guidelines/sectors/FinancialServicesEnv.pdf

To learn more about the UNEP FI / GRI piloting process, go to:
www.unepfi.org/work_programme/smr/gri/index.html

New UNEP FI Signatories:

- British Columbia Investment Management Corporation (Canada)
  www.bcimc.com
- Fortis B.V. (Netherlands)
  www.fortis.com
- Mitsubishi UFJ Trust and Banking Corporation (Japan)
  www.tr.mufg.jp/english/
- Rowet Group Limited (Nigeria)
  www.rowet.com
- Wachovia Corporation (USA)
  www.wachovia.com
- YES Bank (India)
  www.yesbank.co.in/index.php

Contact us

If you would like to write an article or receive a copy of the next edition of the Australasian UNEP Finance Initiative Newsletter please contact:

Bronwyn Green
T: 61 3 9695 2543
or
E: unep.fi@epa.vic.gov.au

UNEP Finance Initiative
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VICTORIA

UNEP FINANCE INITIATIVE - AUSTRALASIAN LIAISON OFFICE
EPA Victoria 40 City Road Southbank Victoria 3006
GPO Box 4395QQ Melbourne Victoria 3001
Telephone 61 3 9695 2726 Facsimile 61 3 9695 2578

http://www.epa.vic.gov.au/programs/UNEP

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