



UNEP **Finance Initiative**
Innovative financing for sustainability

UNEP FI

2003 **overview**

“More and more financial institutions — investors, bankers and insurers — are realising that their future depends on backing the right kind of economic development.”

DR. KLAUS TÖPFER,
EXECUTIVE DIRECTOR OF UNEP

Michael Hoelz
Global Head of
Corporate Citizenship
and Sustainable
Development,
Deutsche Bank

Foreword from the Chair of the UNEP Finance Initiative

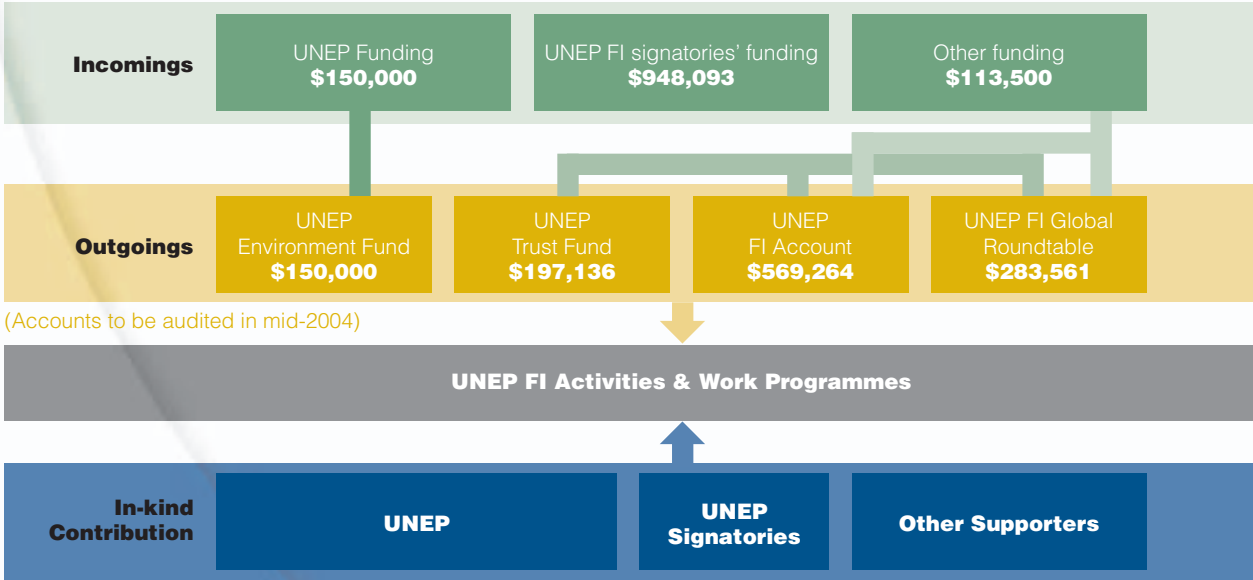
Since its inception in 1992, UNEP Finance Initiative has been a groundbreaking public-private partnership which is now entering an exciting and vibrant phase in its development. This first annual overview captures the breadth, depth and pivotal importance of the work UNEP FI is undertaking to deepen our knowledge of the complex finance and sustainable development interface through real business cases. The overview highlights developments within our core activities of asset management, climate change and sustainability management, reporting and indicators as well as the emergence and evolution of our regional networks. It also touches upon the landmark UNEP FI 2003 Global Roundtable in Tokyo, Japan, where 550 delegates from the region and globally joined us for a high-level two-day forum. The merger in October 2003 of the original banking and insurance initiatives to become the UNEP Finance Initiative was unanimously supported by members and will allow us to develop an integrated work programme with added value for all institutions. UNEP FI 2003 Overview describes the public-private partnership that is working well to fulfil the cause of sustainable development in our financial institutions and capital markets.

Foreword from UNEP Finance Initiative Secretariat

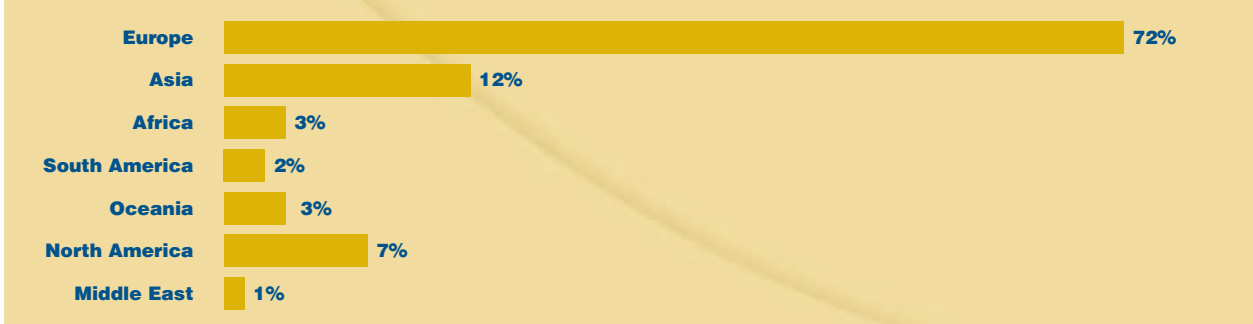
UNEP FI 2003 Overview, the first of its kind, describes a partnership between the environmental arm of the United Nations system and financial institutions from around the world. The 2002 World Summit for Sustainable Development confirmed the critical importance of genuine cooperation and collaboration between public organisations and private enterprises towards our goal of sustainable development. Such partnerships are essential if the UN Millennium Development Goals are to be realised by 2015. Like all partnerships UNEP FI is, in effect, a journey of discovery during which many different pathways are possible. This overview is intended to highlight the pathway that UNEP FI, together with its partners, elected to take in 2003. We look forward to comments from any stakeholder who is following the fascinating and challenging coming together of finance and sustainability.

Paul Clements-Hunt,
Head of Unit,
UNEP Finance Initiative

UNEP Finance Initiative
A Public-Private Partnership



250 Signatories to the UNEP FI Statement



Working Groups

Asset Management Working Group (AMWG)

GENERAL FOCUS

■ Explore whether social, environmental and governance considerations are sufficiently incorporated into asset management.

SPECIFIC GOALS

- Understanding the Materiality of Key Environmental and Social Criteria for equities pricing and stock picking.
- Engagement with Pension Funds.
- How could socially responsible investing be applied in Emerging Markets?

2003 ACTIVITIES HIGHLIGHTS

The Materiality of Environmental and Social Criteria

The project investigates the links between environmental, social and financial performance. The AMWG members contend that current research provided by stock analysts is generally inadequate concerning social and environmental issues and their impact on company competitiveness and valuation. They are concerned that a lack of information on the materiality of these issues is needlessly exposing their investors to potentially significant risks.

The project asks leading stock analysts to explore and document the materiality of environmental and social considerations in seven sectors: Consumer Durables & Apparel, Consumer Electronics, Chemicals, Oil & Gas, Pharmaceuticals, Insurance and Utilities. The analysts are to provide reports that identify the specific environmental and social issues that are likely to be material for company competitiveness and reputation in that particular sector. The reports will also identify and to the extent possible quantify their potential impact on stock price. Analysts are urged to consider the impacts of climate change, occupational and public health issues, human, labour and political rights, and issues of corporate trust and corporate governance in their reports.

The reports are expected to be ready in the second quarter of 2004.

Chairs: Groupama Asset Management and Storebrand Investments

Member Companies: ABN AMRO Asset Management (Brazil), Acuity Investment Management, BNP Paribas Asset Management, Calvert Group, Citigroup Asset Management, Groupama Asset Management, HSBC Asset Management Europe, Morley Fund Management, Nikko Asset Management, Old Mutual Asset Management, San Paolo IMI S.P.A. Storebrand Investments

Climate Change Working Group (CCWG)

GENERAL FOCUS

■ Engage the financial sector on the risks and opportunities climate change presents and to enable it to play a key role in delivering market solutions that mitigate its effects.

SPECIFIC GOALS

- Identify and communicate the finance sector's role for mitigation and adaptation to climate change.
- Position the finance sector as a credible and proactive partner by catalysing concrete actions.

2003 ACTIVITIES HIGHLIGHTS

United Nations Framework Convention on Climate Change (UNFCCC)

CCWG further established itself as an integral component of the global climate change negotiations through a series of UNFCCC events in 2003. In particular, CCWG held an informative side event at the UNFCCC Ninth Conference of the Parties (COP 9) on 10 December 2003 in Milan entitled 'Emissions Trading – The Financial Sector Perspective'.

Opinion paper series: 'CEO briefing'

Following the highly successful first publication of the 'CEO briefing' in 2002, the 'CEO briefing on Emissions Trading' was launched at the UN FCCC



COP9. This edition explores the issue of emissions trading from the financial sector perspective addressing recent political developments, implications for companies, risks and opportunities trading presents and the role of financial services providers in reducing risk and maximizing opportunity.

Sustainable Energy Finance Initiative (SEFI)

In 2003, UNEP FI joined forces with UNEP Energy and Basel Agency for Sustainable Energy (BASE) to form a new initiative with the aim of scaling up international investment in clean energy systems. In 2004, SEFI will launch work programmes that will change attitudes of financiers and create investment in sustainable energy.

Chair: Munich Re

Member Companies: Abbey National (from May 2003), Citigroup, CAF, Dresdner Bank, Global Sustainable Development Project (GARANT), Munich Re, SAM Sustainable Asset Management, Swiss Re, UBS

Sustainability Management, Reporting and Indicators Working Group (SMRI WG).

WORK STREAM 1

GRI Working Group on Performance Indicators (Environment) for the International Finance Sector

UNEP FI and GRI have co-convened a working group to develop a globally applicable indicator set regarding the environmental impacts of international finance sector products and services to be used in conjunction with the GRI guidelines. The indicators will also complement the existing GRI Financial Sector Supplement (Social Performance).

The deadline for the production of the pilot GRI Sector Supplement (Environment) is the third quarter of 2004.

Co-Chairs – Financial Sector: Westpac Banking Corporation; Non-Financial Sector: Core Ratings

Members – Financial Sector: Bank of China; Calvert Group; Deutsche Bank; Insurance Australia Bank; National Australia Bank; Nedcor; Rabobank; Standard Chartered; Swiss Re; Wespac; Non-Financial Sector: Christian Brothers Investment Services (CBIS); Core Ratings; Corporate Citizenship Centre, University of South Africa (UNISA); Earthwatch Europe; Ethical Investment Research Services (EIRS); Friends of the Earth, USA; Instituto Centroamericano de Administracion de Empresas (INCAE); Wilderness Society, Australia.

WORK STREAM 2

UNEP FI Stakeholder Forum on Sustainability Management & Reporting (SMR) Guidelines

The take up of SMR by financial institutions especially in developing countries is still low whilst the financial sector plays an important role in sustainable development as intermediaries to the allocation of financial capital. UNEP FI identifies lack of awareness and capacity as the two main barriers hindering many financial institutions to implement SMR. The Guidelines project aims to produce a document that address both these barriers.

The working timeline for the production of the first version of the new guidelines is end of 2004.

Chair: Standard Chartered

Forum participants in 2003: Barclays; Corporate Citizenship Centre, UNISA; Citigroup; DNV Region South Europe Certification; Fleet Boston Financial; Netherlands Development Finance Company (FMO); International Finance Corporation (IFC); INCAE; Standard Chartered

Regional Task Forces

African Task Force (ATF)

GENERAL FOCUS

To support and expand sustainable financial practice in Africa.

SPECIFIC GOALS

- Set "sustainability" priorities for the African financial sector.
- Establish general standards or codes of conduct on finance and sustainability in Africa.

2003 ACTIVITIES HIGHLIGHTS

Sustainability Banking in Africa Report

One of the main activities of the ATF in 2003 was its involvement in the production of a Sustainability Banking in Africa Report, which is to be launched in the second quarter of 2004. The Report is produced by the African Institute of Corporate Citizenship (AICC) Centre for



Sustainability Investing in partnership with UNEP FI and supported by the IFC, Finmark Trust, Nedbank and Deutsche Bank. The report acts as a benchmark discussion document outlining the challenges and opportunities for developing sustain-

able banking practices in Africa. It also serves as a key document to promote the work of the ATF in Africa. Through the inclusion of five country case studies the report encourages active debate around the principles and practices of sustainable banking in Africa and paves the way to uncovering strategies and opportunities unique to the continent.

Chair: Banking Council of South Africa

Co-Chair: African Institute of Corporate Citizenship (AICC)

Core Financial Members: Banking Council of South Africa; Citigroup; Development Bank of Southern Africa (DBSA); Futuregrowth Asset Management; International Finance Corporation (IFC); Investec; Nedbank; Standard Bank of South Africa; Standard Chartered.

Associate Members: Africa Centre for Investment Analysis (ACIA); African Institute of Corporate Citizenship (AICC); African Investment Advisory; SE Solutions; Unity Incorporation

North American Task Force (NATF)

GENERAL FOCUS

Provide leadership in the integration of sustainability principles into business practices throughout the North American financial sector.

SPECIFIC GOALS

- Reputation Management: Position as an expert group.
- Outreach to non-signatory North American banks.
- Structure of sustainable development governance systems within banks.
- Environmental disclosures in financial statements.

2003 ACTIVITIES HIGHLIGHTS

Environmental Disclosures in Financial Statements: New Developments and Emerging Issues

The Second Finance and the Environment Meeting, held by the Committee on Economic Cooperation (CEC) with the Financial Sector; 26 February, 2003 - New York, USA



The event asked three questions. First, whether the legal and regulatory system in the United States, that dictates what must be disclosed and when, (even after the signing into law of the Sarbanes-

Oxley Act) is too vaguely defined with regard to the materiality and disclosure of environmental information. Second, if the enforcement of disclosure laws and regulations is satisfactory, where do they pertain to the disclosure of environmental information. Third, if a lack of definition and enforcement would create the impression amongst firms that environmental information is not relevant to investors and consumers and lead them to decide against disclosure. The event report can be found at: www.unepfi.net

Chair: Fleet Boston Financial

Members: Canadian Imperial Bank of Commerce, Citigroup, Fleet Boston Financial, HSBC USA, Royal Bank of Canada

Australian Outreach Programme

GENERAL FOCUS

Provide a forum to encourage and assist the Australasian finance sector to integrate best sustainability management practices across all aspects of their businesses. This is done via an MOU that EPA Victoria has with UNEP FI.

SPECIFIC GOALS

- To manage Australasian specific working groups in the following areas: environmental credit risk, insurance, operational environmental management and reporting, socially responsible investment and sustainable asset management.
- Provision of regular Australasian UNEP FI newsletters.
- Research and other service provision for financial institutions on sustainability best practice.
- Support Australian based UNEP FI signatories and outreach to non-signatories in the region.

2003 ACTIVITIES HIGHLIGHTS

Risk the environment and the Role of the Insurance Industry Report

Prepared by the UNEP FI Australasian advisory committee on insurance, the report focuses on risk management, potential sources of liability of environmental risk, the current situation in Australia and insurance options in an environmentally sustainable future. Copies of the report can be found at: www.unepfi.net

Workshop: Environmental sustainability for Superannuation funds

(Melbourne, September 2003)

The forum aimed to facilitate better understanding of the relationships between finance and sustainability issues beyond the offering of socially responsible investment options. The forum was held to seek feedback on how the superannuation industry views sustainability and ascertain how UNEP FI and EPA can meet the sector's needs.

Host: EPA Victoria

Financial Institutions: American International Group, AMP Capital Investors, ANZ Bank, Aviva Australia, BT Financial Group, Commonwealth Bank, EFIC, Insurance Australia Group, Macquarie Bank Members Education Credit Union, National Australia Bank, SAM Sustainable Asset Management, Swiss Re, VicSuper, Westpac Banking Corporation

Other Participants: Australian Bankers Association, Department of Environment and Heritage, Ethical Investment Association of Australia, Institute of Actuaries of Australia, Macinante Consulting, Monash Sustainability Enterprises, SIRIS

UNEP FI newsletter '0.618...'

Issues 3 (January 2003) and 4 (October 2003)



Other activities

Ratings Roundtable on Qualitative Risk

(8 January – Paris, France)

Understanding the critical role that credit agencies play in the financial sector, UNEP FI hosted a ratings roundtable in Paris with senior business executives and regulatory officials to explore how developing qualitative risk issues affect rating agencies and financial markets at large. Topics that were discussed in an open dialogue included the role of rating agencies in financial markets, materiality of sustainable risk, and the changing regulatory environment. A report on the event is available at www.unepfi.net

Investing in Stability project

UNEP FI, in collaboration with the International Institute for Sustainable Development (IISD) and with funding from the German Ministry of Environment (BMU), has conducted a project to develop and promote the business case for conflict prevention within the financial sector and to raise awareness of the opportunities of engaging proactively with the issue of conflict prevention. A report on the project is out in the second quarter of 2004.



European Seminar on Finance, Environment and Sustainable Development

(10 January – Paris, France)

The one-day Seminar was hosted in partnership with Société Générale, Observatoire Responsabilité Sociale des Entreprises (ORSE), Caisse des Dépôts et Consignations, and Dexia. Over three hundred participants engaged in robust and challenging discussions on Corporate Responsibility and Capital Markets, Qualitative Risk Management, and Climate Change. A report on the event is available at www.unepfi.net

UN Global Compact/UNEP FI Joint Workshop on Investors and Sustainability

(17 September – Washington, DC, USA)

A joint workshop between the UNEP FI and the United Nations Global Compact was held at the UN Foundation on 17 September 2003 in Washington, DC, to discuss ways in which the mainstream financial community could be more effectively engaged in the sustainable investment debate. Workshop participants identified 3 key areas for mainstreaming sustainable investment: development of “sustainable” investment tools, demanding greater disclosure and transparency, and more effective communication with the finance sector. A report on the workshop is available at www.unepfi.net

UNEP FI 2003 Global Roundtable

(20-21 October 2003, Tokyo, Japan).

Convening under the theme “Sustaining Value – A meeting on Sustainability”, this event brought over 500 participants.

The Roundtable was opened by Mr Klaus Toepfer, Executive Director, UNEP and high-profiled dignitaries including the Japanese Minister of Environment, Ms Yuriko Koike. The two-day conference used the main theme of the value of sustainable finance to discuss on issues such as sustainability reporting and governance, climate change and socially responsible investments.



Concluding a rigorous application and selection process, the Royal Award for Responsible Investment was presented to three joint winners: Calvert from the US, PSS/CSS/BT Financial Group from Australia, and Rabobank from the Netherlands, with an additional recognition award to CDC Capital Partners from the UK.

The conference report, prepared by ‘Sustainable Developments’, the IISD reporting service is available online at www.iisd.ca/sd/unepfi/20october.html and includes RealAudio coverage of key presentations.

Host: The Development Bank of Japan

Japanese Task Force Members & sponsors: Mitsui Sumitomo Insurance, Nikko Cordial Corporation, Nipponkoa Insurance, Sumitomo Mitsui Financial Group, Sompo Japan, and Tokio Marine and Fire

International sponsors: Deutsche Bank, International Finance Corporation, Nomura Asset Management, Swiss Re, National Australia Bank, Shiga Bank, Standard Chartered, EcoProducts 2003, Wageningen University, and CO2e.com

Official supporters: Ministry of the Environment, Ministry of Economy, Trade and Industry, Financial Services Agency, Ministry of Foreign Affairs, Nihon Keizai Shimbun, Yomiuri Shimbun, Asahi Shimbun, Mainichi Shimbun, Sankei Shimbun, NHK (Japan Broadcasting Corporation)

Activities 2003

JANUARY

- UNEP FI Newsletter “0.618...” Issue 3
- Risk, the Environment and the Role of the Insurance sector
- Ratings Roundtable on Qualitative Risk
- UNEP FI Joint Steering Committee Meeting
- European Seminar on Finance, Environment and Sustainable Development

FEBRUARY

- UNEP FI Australasian Newsletter Issue 5
- UNEP FI Climate Change Working Group (CCWG) Meeting
- Environmental Disclosures in Financial Statements: New Developments and Emerging Issues

MARCH

- Insuring the Uninsurable: Expert Workshop on Climate Change and Insurance

APRIL

- UNEP FI Asset Management Working Group Meeting

MAY

- United Nations Framework Convention on Climate Change (UNFCCC) Insurance Workshops

JUNE

- UNFCCC Eighteenth Session of the Subsidiary Bodies

JULY

- UNEP FI Australasian Newsletter Issue 6
- UNEP FI Climate Change Working Group Meeting

SEPTEMBER

- UNEP FI Sustainability Management, Reporting and Indicators Working Group Meetings
- UN Global Compact/UNEP FI Joint Workshop on Investors and Sustainability
- UNEP FI North American Task Force Annual General Meeting

OCTOBER

- UNEP FI Newsletter “0.618...” Issue 4
- CEO Briefing: A document of the UNEP FI Climate Change Working Group, Japanese, edition
- Executive Report of the forthcoming Sustainability Banking in Africa Report
- Environment for Peace - The Role of the Business Sector
- Joint Annual General Meeting
- UNEP FI 2003 Global Roundtable

NOVEMBER

- The UNEP Sustainable Energy Finance Initiative brochure

DECEMBER

- CEO briefing: A document of the UNEP FI Climate Change Working Group German & French editions
- CEO briefing on Emission Trading
- UNEP FI Climate Change Working Group brochure
- UNEP FI Climate Change Working Group side event at the UNFCCC Ninth Conference of the Parties (COP 9): Emissions Trading – The Financial Sector Perspective

OTHER

- e-bulletin 8,000 subscribers monthly
- unepfi.net over 200,000 visitors a year

- Publications
- Events

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Cecilia Bjerborn

Joseph Oriti

Regina Kessler

James Gifford

United Nations Environment Programme Finance Initiative (UNEP FI)

UNEP FI is a unique global partnership between UNEP and the private financial sector. UNEP FI works closely with approximately 250 financial institutions to develop and promote linkages between the environment, sustainability and financial performance. Through task forces, working groups, training programmes and research, UNEP FI aims to address the opportunities and needs that sustainable development can provide to the financial sector and subsequently the larger stakeholder community.

BACKGROUND

The concept of UNEP FI was launched in 1991 when a small group of commercial banks joined forces with UNEP to catalyse the banking industry's awareness of the environmental agenda. In May 1992, the UNEP Financial Institutions Initiative (UNEP FII) was first established, followed by the UNEP Insurance Industry Initiative (UNEP III) in 1995.

MERGER: UNEP FINANCE INITIATIVE

The UNEP Financial Institutions Initiative (FII) and the UNEP Insurance Industry Initiative (III) held a joint Annual General Meeting (AGM) at the United Nations headquarters in Geneva on 8 October 2003. This was a landmark occasion for the Initiatives, following 10 years in existence, it was agreed at the meeting to merge both FII and III into one Initiative that will now be simply known as the "UNEP Finance Initiative". Both groups have been, over the last number of years, collaborating very closely together through the Initiatives various working groups and Task Forces and this formalization was the final step in that process.

At the meeting discussions were held on the proposed structure and Constitution for the new Initiative. A vote also took place for the position of Chair of the Initiative and the honour was given to Michael Hoelz, Global Head of Corporate Citizenship and Sustainable Development, Deutsche Bank.

Elected Steering Committee (to October 2003)

UNEP Financial Institutions Initiative

Chair: Deutsche Bank AG
Treasurer: Credit Suisse Group
Barclays Plc.
Citigroup
Corporación Andina de Fomento (CAF)
Development Bank of Japan
International Finance Corporation (IFC)
Nikko Asset Management Co. Ltd
Rabobank Nederland
Royal Bank of Canada
UBS AG, Financial Services Group

UNEP Insurance Industry Initiative

Chair: Storebrand
Treasurer: Munich Re
Aviva Plc.
Gerling Group of Insurance Companies
Hendersons Global Investors
Mitsui Sumitomo Insurance Co.Ltd.

UNEP

To April 03: Jacqueline Aloisi de Larderel;
From Sep 03: Monique Barbut, Director of the
Division of Technology, Industry and
Economics (DTIE), UNEP



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