UNEP Finance Initiative

Innovative financing for sustainability

UNITED NATIONS ENVIRONMENT PROGRAMME FINANCE INITIATIVE (UNEP FI)

UNEP: Declaration on Sustainable Finance and Development

"… we consider that sustainable development depends in the positive interaction between economic and social development, and protection of the environment, making this an equilibrium of interests between present and future generations".

We also consider that sustainable development is the collective responsibility of governments, companies and people. We are committed to working in cooperation with these sectors, within the market mechanisms framework, towards common environmental goals."

2. Environmental Management in Financial Institutions

- **2.3** We consider that the identification and quantification of environmental risks should form part of the normal process of evaluation and risk management, both in domestic and international operations […]

What is an externality?

Some externalities

Clean air

Clean water

Stable climate on planet

Heritage

Clean sand

These costs will rise

- Cost of water
- Cost of *treating* water (effluents)
- Cost of waste disposal
- Cost of cleaning up contaminated land
- Cost of controlling air pollution
- Environmental fines
- Cost of indemnities to employees and customers
- *Number* of indemnities to employees and customers
- Damage caused by a campaign by an NGO
- Cost of emitting CO_2

Assessing the externalities

- **Who sets the price of these externalities?**

  - ***Formal*** regulators
    - Government agencies
  - The ***informal*** regulators
    - NGOs, civil society organizations, unions, etc.
    - Press
    - Importers in the US, Europe
    - Competitors

Assessing the externalities

- **Informal regulators are powerful**
  - NGOs, civil society organizations, unions, etc.
  - Press
  - Importers in the US, Europe
  - Competitors

The CSN case

- Biggest and oldest steel mill in Brazil
- Operating in city of Volta Redonda, near Rio, since 1946
  - Between 1946 and 1999, CSN generated several impacts:
    - Respiratory problems among local community
    - Employees contaminated by toxic gases
    - Polluted river
    - Waste dumped in inappropiate locations
  - These externalities cost little to CSN
  - The company, though, made a loss every year

The CSN case

- Period when externality gained a price: 1999 - 2000
- Cost: US$ 100 million clean-up required by govt.
  - Remediation of contaminated land
  - 95% reduction in air emissions and effluents
  - Surge in recycling
  - New sources of income from sales of recyclable waste
  - Great improvement in relations with community
  - Excellent reporting on environmental data: **www.csn.com.br**
  - **Great gains, after initial shock, and excellent cash flow (CSN almost bought a European steel company in 2006)**

Risks to a financial institution

Credit risk: default

Collateral: devalued assets

Reputational risk

Shareholder risk: shares may drop in value

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Printing press

Heavy metal (Cadmium) and Solvents

Cadmium is used in pigments

Cancer-causing, can harm reproductive system

Petrol stations

Contaminated land

Explosions

Water runoff from washing cars

Used lubricant oils

Cleaning rags contaminated by lubricants and fuel

Statement in
New York Times
paid for by the NGO Rainforest Action Network (RAN)

September 2002

Put a Face on Global Warming and Forest Destruction.

James Wolfensohn - President, The World Bank

- Is the largest public funder of destructive fossil fuel projects
- Is stripping protection for old growth forests
- Is masquerading as a "Green Banker" at the World Summit on Sustainable Development

George W. Bush - President of the United States

- Refuses to support the Kyoto treaty to help curb global warming
- Is reversing publicly supported protection of old growth forests
- Refuses to attend the most important environmental summit of the decade

Sandy Weill - Chairman and CEO, Citigroup, Inc.

- Is the largest private funder of destructive fossil fuel projects
- Refuses to establish meaningful environmental banking standards
- Has the power to establish a strong environmental legacy

Now Put an End to It.

The face of global warming and forest destruction is a frightening one. More than 25 million people are currently dislocated by flooding rivers as our atmosphere heats up. The West Nile virus can now thrive in the U.S. Severe droughts and massive wild fires have increased. The logging of the world's old growth forests is only adding to our ecological woes.

At the World Summit on Sustainable Development in Johannesburg, South Africa, world leaders will convene to measure the "progress" made during the last ten years in addressing the ecological crisis and consider the fate of the planet. Thanks to James Wolfensohn, President Bush, and Sandy Weill the outlook is bleak.

World Bank President James Wolfensohn is no "green banker." He's using your tax dollars to fund fossil fuel projects that drive global warming and forest destruction. His team is gutting the World Bank's existing forest policy for a new one that provides less protection and allows old growth logging.

Mr. Wolfensohn has the power to stop this. Any new policy should protect forest ecosystems from logging old growth trees and foster community-based economic development in non-timber products.

U.S. President George W. Bush will not be joining the 100 heads of state attending the meetings in Johannesburg. He is on vacation. President Bush is ignoring the world's climate troubles by rolling back environmental laws to increase corporate profits for his campaign supporters.

President Bush should attend the Summit and face the global warming and forest destruction crises.

Citigroup CEO Sandy Weill provides the money and financial expertise behind controversial fossil fuel projects around the world. As the top funder of the oil, gas, and mining industries, Citigroup uses consumer dollars for projects that destroy pristine ecosystems and contribute to global warming. The Camisea project in the Peruvian Amazon, the Chad-Cameroon pipeline in the African rainforest, and the destruction of Indonesia's rainforests are the real costs of Citigroup "living richly." Unlike top European Banks, such as ABN AMRO, that have policies to preserve endangered forests, there are no serious environmental or social standards under Citigroup's red umbrella.

Cut up your Citibank card and tell Sandy Weill, "Not With My Money" until he meets the financial industry's ecological best practices.

We can and must halt global warming and forest destruction. Future generations are depending on us. James Wolfensohn, President Bush and Sandy Weill have the power to establish strong policies that address the environmental crisis and lead us toward sustainability. The Johannesburg Summit presents an unprecedented opportunity to implement a visionary plan of action that will improve lives and preserve our environment. We must act together to change the face of global warming and forest destruction.

citibank
Banking Card

Finance Global Warming? Not With My Money!

www.ran.org

RAINFOREST ACTION NETWORK
221 Pine Street, Suite 500, San Francisco, CA 94104

Equator Principles

- The *Equator Principles* are a commitment by banks to ensure that project finance deals comply with World Bank environmental and social guidelines.

- Under the original version, this applied to any project with a capital cost of over US$ 50 million.

- ABN AMRO was co-author and founder of *Equator Principles*.

- Launched: June 2003.

- About 40 banks are Equator signatories

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