



Australasian UNEP Finance Initiatives

Newsletter

'Innovative financing for sustainability'

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New Green Car Loan Gets Green Light From Motorists

Eloise Stinear, CPR Communications

One of Australia's most damaged environmental areas – the Murray Darling Basin – will benefit from the planting of hundreds of thousands of new trees under a unique car financing package announced in December.

Australian Members and Education Credit Union ('mecu') has had a strong response from motorists after launching Australia's first green car loan – a product that rewards customers while combating greenhouse gas emissions with new tree plantings. The goGreen Car Loan™ offers an incentive to buy environmentally friendly cars with a competitive 6.99 per cent per annum interest rate (Comparison Rate 7.01 per cent) on the most fuel efficient cars on the market.

Beyond this ranking, mecu prices car loans according to a car's fuel efficiency or its age.

For every car it finances, mecu offsets 100 per cent of the car's greenhouse gas emissions. Working through Greenfleet Australia, mecu will plant and maintain 17 native trees annually for the duration of each car loan.

A week following the official launch of the product on 2 December, 2003, in a clear indication that consumers are eager for truly green financial products, mecu's car loan sales rocketed by 94 per cent.

The scheme comes as a timely response to mounting concerns about cars and greenhouse gas emissions.

Transport is Australia's fastest growing source of greenhouse gas emissions, with the road transport sector currently accounting for over 66 million tonnes of greenhouse gas emissions per year, having risen 20.3 per cent from their 1990 levels.

The Bureau of Transport Economics estimates that without reduction measures, emissions from the transport sector will rise a further 38 per cent by 2010.



Phylip Doughty, CEO mecu, with Don Henry, Chief Executive ACF and Henry O'Clery, Greenfleet, at the goGreen Car Loan launch

Mecu Chief Executive Officer, Mr Phylip Doughty said mecu was delighted to financially reward consumers for selecting a lower emission vehicle and to be able to make a long-term contribution to the environment.

"Australians love their cars, but with more than 800,000 new cars on the road each year, no one can ignore the impact on the environment," Mr Doughty said.

"We decided to offer Australians a practical means of cutting the environmental cost of their new car purchase."

"And given the early sales figures, they're responding to the opportunity," he said.

"If just 2 per cent of new car buyers made the smart move to a goGreen Car Loan, mecu would plant 272,000 trees into the Murray Darling Basin each year, while offsetting more than 69 thousand tonnes of greenhouse gas each year. This would neutralise the greenhouse gas emissions from 16,000 vehicles."

The loan is endorsed by the Australian Conservation Foundation (ACF).

"Greenhouse pollution from cars and trucks on our roads is rapidly increasing. Financial products like this need to become the norm not the exception, to encourage people to drive cleaner cars," Don Henry, chief executive of the ACF said.

"The majority of Australians support strong action on greenhouse pollution and as members and investors of Australia's financial institutions, they will welcome leadership on environment products as a breath of fresh air."

"We urge all Australian financial institutions to develop products that reward good environmental behaviour."

For more information on the mecu goGreen Car Loan, please contact:

Justin Fennessy, mecu:

T: 61 3 9854 4664

or

E: Justin.Fennessy@mecu.com.au

or

visit the mecu website at:

<http://www.mecu.com.au/>

For more information on the Greenfleet planting program, please visit the website at:

<http://www.greenfleet.com.au/>

ANZ Signs up to UNEP FI

Tony Wells, ANZ

ANZ has become a signatory to the United Nations Environment Programme Finance Initiative (UNEP FI).

ANZ will now seek to ensure that its policies and actions promote the consideration of the environment and sustainable development across all aspects of its business. This continues the work ANZ has been doing on social and environmental risk in lending as part of its sustainability programme.

With total assets of \$A195 billion, ANZ is one of Australia's leading banking and financial services groups. ANZ is also one of the world's 100 largest banks.



ANZ's Chief Risk Officer Mark Lawrence (left) signs the accord with Paul Clements-Hunt, Head of UNEP FI. Looking on are (from left) Terry A'Hearn, EPA Victoria, Cathy Hantzis, Industry Analyst ANZ, Graham Walker, ANZ's Head of Wholesale Credit Policy, and Richard Gates, Industry Sector Head, ANZ.

ANZ recently appointed a consortium led by GHD Pty Ltd to assist it in developing an enhanced approach to environmental and social risk assessment in its lending activities. GHD is an international professional services company, specialising in management, engineering and the environment.

ANZ has also appointed a full-time environmental manager to co-ordinate activities and manage its direct impact on the environment.

Speaking at the signing ceremony, ANZ's Chief Risk Officer Mark Lawrence said: "We are delighted to join UNEP FI. It's a significant commitment that signals we are serious in taking this forward as part of our efforts to earn the trust of the community."

"Now we have to put the runs on the board and get the job done by embedding these principles in our business."

Paul Clements-Hunt, Head of UNEP FI, praised ANZ for the genuine and considered way it was approaching sustainability.

"It's fundamental for a financial institution in terms of aligning values with a changing society," he said.

"Those institutions that succeed in driving this agenda develop more trust with the community and as a consequence will capture more business."

For more information on ANZ's environmental program please contact:

Nathan Edwards, Environmental Manager, ANZ:
T: 61 3 9273 6267

or

E: edwardn4@anz.com

For more details on ANZ's environmental program please visit the website at:

www.anz.com/sustainability

The UNEP FI Global Roundtable on Finance and Sustainability Tokyo, Japan, October 2003



Helen Bloustein, EPA Victoria

The world's financial institutions along with representatives from government, industry and non-government organisations gathered in Tokyo,

Japan in mid October 2003, for the two-day United Nations Environment Programme Finance Initiative (UNEP FI) Roundtable.

Being held for the first time in the Asia Pacific Region, the UNEP FI Roundtable provided the opportunity for many Japanese and regional financial institutions to gain from exposure to the latest ideas and challenges in the fields of finance and sustainability. These included organisations showcasing the latest product and service initiatives in this field and identifying specific issues the sector must focus on to become more sustainable.

Central to the theme of the Roundtable was a focus on the role of the finance sector in promoting best practice approaches in exercising good governance, accountability, transparency, and reporting. These four disciplines are integral to sustainable development, and reinforce the trust, confidence and credibility, which underpin the long-term stability of the financial system.

The event, hosted by the Development Bank of Japan and supported by Deutsche Bank, Nomura, the International Finance Corporation and Swiss Re was titled *Sustaining Value* and was attended by over 550 delegates. The Australian finance sector was well represented with attendees from financial institutions such as: BT Financial Group, Insurance Australia Group, National Australia Bank, the Commonwealth and Public Sector Superannuation Scheme (CSS PSS), Swiss Re, VicSuper, and Westpac.

The first day of the conference focused on the characteristics of sustainable finance. Presentations were made on what a sustainable financial institution would look like, how its investment, banking and insurance products would differ and how its internal operations would differ.

Reinforcing these presentations, the Head of the UN's Environment Programme, Klaus Toepfer, challenged the world's financiers to shift investment to sustainable energy. Citing the European summer heatwave of 2003 and recent massive power failures in America, Scandinavia and Italy, Mr Toepfer launched the UNEP Sustainable Energy Finance Initiative aimed at engaging the finance sector to invest in renewable energy and energy efficiency.

Delegates also had focused discussions around the development and implementation of sustainability reporting standards and guidelines, the role of superannuation fund regulations and government policy, and were provided with leading examples of sustainable investment strategies from pension funds.



Michael Hoelz, Deutsche Bank, Chair UNEP Finance Industry Initiative.

The Roundtable also saw the announcement of the 'Royal Awards for Responsible Investment.' A collaboration between UNEP FI and the Copenhagen based Royal Awards for Sustainability Foundation, the award process was framed to encourage any financial institution worldwide, with investment activities as one of its core business areas, to highlight and detail their approaches, philosophy and track record in the field of sustainability-oriented, responsible investment. Calvert Group (USA), CSS-PSS / BT Financial Group (Australia) and Rabobank (Netherlands) were selected as the winners of the Royal Awards for Responsible Investment 2003.

The second day of the conference included a focus on emerging markets, outlining to delegates ways of measuring the sustainability of investments, new initiatives to improve incentives and reduce barriers for socially responsible investing, an assessment of the Equator Principles, as well as looking at the building of sustainable banking institutions in emerging markets. Presentations were made by the Global Head of Project Finance of ABN Amro and the African Institute of Corporate Citizenship.

An informative session was also held on sustaining biodiversity including biodiversity markets and their contribution to poverty alleviation and environmental protection, the management of bioright funds and the trading of carbon sink credits.

Concluding comments made at the Roundtable reinforced the opportunities for the finance sector in understanding that clients of financial institutions are increasingly looking for sustainability products in order to offer added value.

Going forward, UNEP FI signatories will be encouraged to 'build trust' around all issues of sustainable development and aim to incorporate better understanding of these matters in developing economies.

For more information on the UNEP FI Annual Roundtable, please contact:

Helen Bloustein or Gabrielle McCorkell, EPA Victoria
T: 61 3 9695 2687

or

E: unep.fi@epa.vic.gov.au

Shorts

Jessica Hardy, EPA Victoria

The Mays Report

A company's approach to sustainability can provide investors with an important indicator of long-term corporate performance and risk, according to a report launched in September 2003 by the Federal Minister for the Environment and Heritage, Dr David Kemp. The report titled *Corporate Sustainability: An Investor Perspective* examines the advantages of factoring corporate sustainability into investment and management decisions. The report features a range of case studies involving some of Australia's leading companies from the property, resources, energy, insurance, agriculture and industrial sectors. The case studies highlight companies that have either enhanced their businesses or lowered their overall risk profile by taking advantage of sustainability opportunities.

Written with the assistance of financial institutions ABN AMRO Morgans, AMP Henderson Global Investors, BT Financial Group, Insurance Australia Group and Sustainable Asset Management, the

report also notes that in addition to saving costs and increasing revenues, corporate sustainability improves a company's intangible assets such as brand image, supplier relations, and appeal to customers and employees.

The report is available from the Department of the Environment and Heritage website at: www.deh.gov.au/industry/finance/publications/index.html

IFC Report

The International Finance Corporation (IFC), the private sector arm of the World Bank, has developed a framework that will help measure and improve the organisation's role in contributing to sustainable development.

The IFC provides long-term finance to the private sector in developing countries, and has for some time applied environmental and social standards to its investments. This new framework will for the first time allow IFC to quantify the positive environmental, social and governance effects of investments, in addition to the already measurable financial results and economic rates of return.

Under the framework, projects will be assessed against eight sustainability factors covering management commitment and governance, environment, and socio-economic development. Each factor will be ranked into one of four performance levels:

- 1 – compliance with IFC standards;
- 2 – creation of local or global environmental, social, or corporate value;
- 3 – positive impact that influences the behaviour of other firms; or
- 4 – leadership and wide influence in driving best practice.

The results can then be linked into the existing IFC evaluation system to assess overall performance of a project. The published framework outlines in more detail the performance indicators for each level and sustainability factor.

The report is available online at: http://www2.ifc.org/sustainability/docs/measuring_sustainability.pdf

Sompo Japan Insurance 2003 Sustainability Report

Sompo Japan Insurance, Inc. (formerly The Yasuda Fire and Marine Insurance Co., Ltd and The Nissan Fire and Marine Insurance Co., Ltd) recently released its annual Sustainability Report with a focus this year on fulfillment of Corporate Social Responsibility.

Some of the highlights noted in the report include the establishment of a 'Human Esteem Promotion Headquarters' for employees, the continuation of environment related insurance products including Industrial Waste Emissions Liability Insurance, and the establishment of Sompo Japan's Social Contribution Charter.

The report was prepared with reference to the Ministry of the Environment 'Environmental Reports Guidelines', the Ministry of Economy 'Trade and Industry Environmental Reporting Guidelines 2001', and the Global Reporting Initiative 2002 Sustainability Reporting Guidelines. In addition, the report includes an independent assessment by the International Institute for Human, Organizations and Earth (IIHOE).

The IIHOE rated the report quite highly, noting that it discusses Sompo Japan's activities and CSR performance from a more diverse perspective compared with the 2002 report.

The report is available online at:

<http://www.sompo-japan.co.jp/english/engl059.html>

Forest Investment Guidelines

In October 2003, at the Forest Investment Forum held in Washington, World Wildlife Fund (WWF) launched *Guidelines for Investment in Operations that Impact Forests*.

The conference, which was co-organised by the World Bank, World Wildlife Fund, World Business Council for Sustainable Development, and Forest Trends, brought together forestry companies, international financial institutions, and

environmental and civil society organisations to foster partnerships and to discuss socially, environmentally and economically responsible forest investment, illegal logging, and the possibility of adopting safeguard and incentive policies.

The Forest Investment Guidelines draw on the experiences of a number of conservation, forestry, finance and labour organisations, as well as the World Bank, the United Nations, and the Global Reporting Initiative. This first set of Guidelines, which are designed for development banks, advises on topics such as legality, forest management and conservation, conversion, community based forest operations, environmental management, local communities and indigenous peoples, and labour standards.

This first set of guidelines will be followed by guidance for commercial banks, investment banks, trust banks, (re) insurance companies, export credit agencies, and others.

The Forest Investment Guidelines are available online at:

<http://www.panda.org/downloads/forests/wwfinvestmmentpol7oct03final.pdf>

Sustainability in the Insurance Sector

Marnie Bammert, oekom research AG

Insurance companies play a vital role as a catalyst in the economy. Furthermore, it is becoming increasingly evident that they are able to exert leverage over the sustainable development of economies and of society.

At a customer level, insurance companies can encourage the adoption of more environmentally and socially responsible investment decisions, by means of targeted liability exclusion policies and incentive premium rates. At an organisational level, insurance companies can apply significantly higher social and environmental standards to the investment of their own funds, leading to greater investment in companies that do business in a sustainable way.

In a recent study, oekom research, a German headquartered organisation, analysed 70 of the world's leading insurance companies to establish

the extent of their environmental and social responsibility. Companies were examined on 100 assessment criteria in order to ascertain a socio-cultural rating, and 100 criteria in order to ascertain an environmental rating.

Socio-cultural factors included management, staff relations and external stakeholders. Environmental factors taken into consideration included environmental management, products and services, and eco-efficiency.

Both of these ratings formed an overall corporate responsibility rating (CRR). Twenty-six of the 70 companies responded with adequate information, thereby qualifying for a CRR.

Overall, with the exception of one company in each of Australia and Canada, all the companies that qualified for a rating were based either in central and northern Europe or in Japan. No companies from southern Europe or the United States qualified for the CRR process.

The results, which were presented at the Insuring Sustainability session of the UNEP FI Tokyo Roundtable, show that the top performer overall was Storebrand (Norway) with a B rating in the twelve-point scale from A+ to D-. The next best results were for Aviva (UK), the Gerling Group (Germany) and Swiss Re (Switzerland), who all scored B-. All the other companies scored ratings between C+ and D+.

Overall, the socio-cultural ratings given to the 26 participants in the process were consistently high. Oekom research's analysis of relevant social and cultural issues in this sector indicated that working conditions (most notably remuneration, working hours and safety at the workplace) are generally of a high standard. Virtually all companies surveyed claim to be committed to an equal opportunity policy, and have implemented programs to this effect, however, the percentage of women in management positions is still very low.

As regards customer care, in the face of increasing competitive pressure and a vigilant consumer protection lobby, product transparency has been improved and special insurance products have been developed for disadvantaged customer groups in some cases. Unfortunately many insurance companies have few reservations about their activities in countries where lower social standards prevail. Only some companies have

implemented measures that go beyond the OECD Guidelines for Multinational Enterprises with a view to assessing the social consequences of projects they insure or finance. Credit insurers in particular are open to criticisms that their financing facilitates controversial major projects such as dams or pipelines.

The majority of companies analysed did not perform as well in the environmental rating process. The analysis of the companies' environmental activities indicates that the majority still gave little thought to the environmental impact of their own activities. Reinsurance companies were a notable exception to this pattern, distinguishing themselves by their major research and development effort and political lobbying work in the field of climate protection.

The insurance sector seems to lack innovation with regard to environmentally oriented product development. Initiatives seem limited to the traditional low-mileage premiums in motor vehicle insurance and environmental liability policies. On the other hand, more encouraging developments have taken place in the field of asset management. Subsidiary funds are now taking into consideration the investment preferences of increasingly critical customers and base their investment decisions on minimum social and environmental standards. The inclusion of sustainability criteria in the investment philosophy of pension funds, a feature already offered by some insurance companies, suggests that there will be a marked increase in the volume of sustainable investment in future.

Overall, it can be concluded that the insurance sector as a whole is still in the process of becoming aware of, and acting on its responsibility and its scope for encouraging greater sustainability. In this respect, it is encouraging that the top performers in the rating process can certainly act as a role model for the remainder of the sector.

For more information please contact:

Marnie Bammert, Manager Corporate Communications, oekom research AG:
T: 49 89 54 418464
or
E: bammert@oekom-research.com

The oekom presentation made at the UNEP FI Roundtable conference is available online at:
http://www.unepfi.net/tokyo/agenda/20/insuring/hassler_en.pdf

*In addition, oekom research AG recently conducted a sustainability analysis of the 20 largest car producers for comparison with company share performance. The results: shares in the manufacturers most committed to sustainability have performed significantly better over the last three years than those with less regard for environmental and social considerations. This adds to the growing body of knowledge concerning the financial success of sustainability leaders. According to the research, the share prices of the top ten companies rated on the basis of environmental and social criteria rose by an average of 8.8 per cent between September 2000 and September 2003. By contrast, the share prices of the ten companies rated as below average fell by nine per cent over the same three-year period.

For more information, please visit the oekom AG website at:
<http://www.oekom.de>

Carbon Constraints as a New Value Driver for Auto Stocks

Niki Rosinski, SAM Sustainable Asset Management

In many sectors, carbon constraints¹ have the potential to reshape the business environment of companies. For the automotive sector in particular, carbon constraints pose significant business risks and opportunities, directly affecting the bottom line. The growing consensus in financial markets that carbon constraints represent a material risk affecting investment portfolios has led many to question just how much this could impact value creation and, consequently, shareholder value.

A recent joint study by SAM Sustainable Asset Management and the World Resources Institute (WRI) examined the potential impact of carbon constraints on the automotive sector. The report *Changing Drivers - The Impact of Climate Change on Competitiveness and Value Creation in the Automotive Industry* aims to help investors make

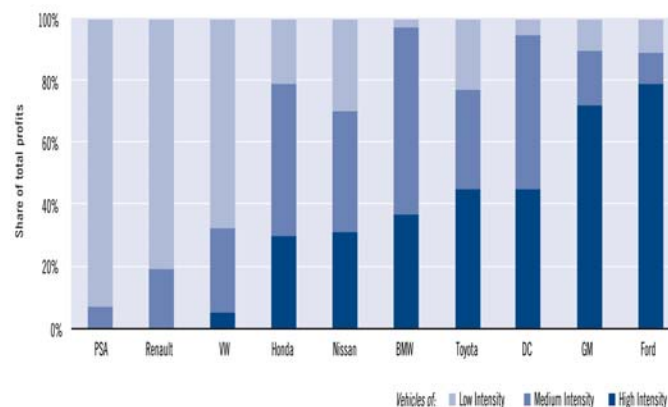
more informed decisions regarding automotive company stocks in the light of carbon constraints.

The report explores how carbon constraints in global automotive markets may affect value creation in 10 leading automotive companies between now and 2015, a timeframe in which major technological and policy changes are possible. The companies - BMW, DaimlerChrysler (DC), Ford, GM, Honda, Nissan, PSA, Renault, Toyota and VW— represent the world's largest independent automotive companies.

By analysing both the risks and opportunities of carbon constraints, and estimating the combined implications for companies' future earnings, the report identifies exposure to carbon constraints as a main differentiator in the automotive industry.

Companies were examined on two levels. Firstly, the costs of meeting higher fuel economy standards by 2015 was analysed by way of a Value Exposure Assessment. It was shown that the higher the 'carbon intensity of profits', the higher the downside risks. Factors that affect the carbon intensity of profits include segment mix, carbon intensity of car models, and geographic distribution of sales.

FIGURE 3.8. CARBON-INTENSITY OF OEM'S PROFITS, 2002



Notes:
 High: Greater than 270 g CO₂/km (less than 20.5 mpg).
 Medium: 200 - 270 g CO₂/km (20.5 - 27.5 mpg).
 Low: Less than 200 g CO₂/km (greater than 27.5 mpg).
 Boundaries for high, medium and low categories were based on the current CAFE standards for cars and light trucks, rounded slightly for convenience.

Carbon intensity of manufacturer's profits 2002.

The results showed that PSA and Renault are least dependent on more carbon-intensive vehicles to generate profits, while Ford and GM derive more

¹ Defined for the purposes of this article to mean policy measures designed to mitigate climate change by limiting emissions of carbon dioxide (CO₂) and other greenhouse gases.

than 70 per cent of their profits from carbon-intensive segments because their profits are disproportionately attributable to light truck sales. As a result, it can be concluded that the strong light truck bias of Ford and GM leaves investors with a higher risk exposure to carbon constraints.

Having analysed the potential for carbon constraint risk, the opportunities associated with carbon constraints were examined. Lower carbon technologies have the potential to significantly alter the competitive balance in the industry over the next decade. It is expected that diesel, hybrid and fuel cell technology will represent the most important lower carbon technologies through 2015 and beyond.

To identify car manufacturers with the potential to yield a higher return on their investment in lower carbon technologies, including diesel, hybrid and fuel cell technology, the report also analysed companies using Management Quality Assessment, drawing on the SAM Competence Model. The SAM Competence Model is an analytical framework to evaluate intangible value drivers, including management quality in key issues related to sustainable development.

The report concludes that management quality with regards to carbon constraints varies considerably across the industry.

On this basis the results showed that Toyota, DC, Renault and Nissan are in the strongest position to capitalise on their investments in lower-carbon technologies.

Finally, the results of the Value Exposure and Management Quality Assessment were translated into changes in forecasted EBIT (Earnings Before Interest and Tax) for the period 2003 through 2015. Changes in a carmaker's EBIT provide a useful insight into possible changes for overall Return on Investment Capital (ROIC), and thus shareholder value.

This report presents some interesting insights into the potential influence of carbon constraints on the competitiveness of the automotive industry. The challenge for investors is to determine how the risks and opportunities could affect automotive manufacturer's earnings, and thus, shareholder value.

SAM is a Zurich-based independent asset management company specialising in

sustainability-driven investments. WRI is an environmental research and policy organization based in Washington D.C.

For more information on WRI, please visit the website at:

<http://www.wri.org>

The report is available online at:

<http://www.sam-group.com/changingdrivers/default.cfm>

A tool that translates results of the Changing Drivers report into changes in forecast EBIT for the period 2003 to 2015 can also be downloaded from this site.

VicSuper Enters Into World's First Sustainability Covenant

Danielle Welsh, VicSuper

VicSuper is one of Australia's largest public offer superannuation funds with more than 178,000 members, 4,000 participating employers and over \$A2 billion in assets.

In May 2003 VicSuper and EPA Victoria entered into the world's first sustainability covenant backed by statute. A sustainability covenant is an agreement between an organisation and EPA Victoria, under which the parties work together to reduce the organisation's ecological impact, increase its resource efficiency and advance towards a more sustainable Victoria.

Prior to signing the sustainability covenant, VicSuper had established its commitment to sustainability by basing its central operating principle on sustainability. The sustainability covenant adds to this commitment by providing VicSuper with a public framework to assist and encourage the organisation to achieve its sustainability goals. By entering into a sustainability covenant, VicSuper aims to stimulate ongoing innovation and improvement in the delivery of superannuation services to members and participating employers, and reduce the ecological, social and economic impact of these services.

Through the covenant, VicSuper also hopes to influence the broader Australian financial services industry and communicate with the corporate community about the benefits of sustainability in increasing shareholder value. The financial services industry, though not traditionally seen as having large environmental and social impacts, can have far-reaching influence through its products and services and the money it invests. VicSuper hopes that the sustainability covenant will encourage the financial services industry to become publicly accountable for its environmental and sustainability performance.

The covenant identifies VicSuper's major stakeholders and details commitments by VicSuper and EPA Victoria involving the improvement of the social and environmental aspects of VicSuper's operations and investments.



Bob Welsh, CEO VicSuper and Mick Bourke, Chairman EPA Victoria with Victorian Deputy Premier and Minister for Environment The Hon John Thwaites and Bill Watton, Chairman of VicSuper.

VicSuper's commitments include further integrating sustainability into investment decisions and administration, reducing greenhouse gas emissions, integrating sustainability principles into operating policies and supplier contracts, and providing regular and relevant stakeholder communication and education. Each commitment is supported by a set of proposed actions to guide the implementation of the commitments.

EPA's commitments include assisting the sustainability staff working within VicSuper, supporting the superannuation industry in incorporating sustainability principles into investment decision making processes, and

reinforcing the positive benefits of becoming a signatory to a sustainability covenant.

The sustainability covenant requires regular steering committee meetings and public reporting.

While many of the commitments made in the sustainability covenant will take time to achieve, VicSuper has made progress in a number of areas, including:

- VicSuper's first regional superannuation advice centre opened in Geelong in July 2003, ensuring easier access to VicSuper advice and education services for members and less driving time for advisers. This in turn means less greenhouse gas emissions and lower occupational health and safety risks. The next advice centre is due to open in regional Victoria in the second half of 2004.
- All of VicSuper's fleet cars, and many staff personal vehicles, were signed up to Greenfleet to mitigate the effects of the cars' greenhouse gas emissions.
- VicSuper has begun researching avenues for greater community involvement through workplace partnerships, established a workplace partnership program with LIFEGift, the Victorian Organ Donation service and is looking at ways to assist in mental illness education.
- VicSuper has continued to engage with the manager of the unlisted property trust in which it invests on the integration of sustainability principles in the management of the trust's property portfolio. Since entering into the Covenant, VicSuper has seen considerable progress in this area. Integrating sustainability considerations further into the Fund's investment portfolio is a significant challenge.

For more information, please contact:

Danielle Welsh, VicSuper:

T: 61 3 9667 9749

or

E: Danielle.Welsh@vicsuper.com.au

The sustainability covenant is available online at:

http://www.epa.vic.gov.au/Sustainability_Covenants/vicsuper.asp

Cape York Indigenous Partnership

Emma Herd, Westpac

The Cape York Indigenous Partnerships program was established by Westpac Banking Corporation in partnership with Indigenous Enterprise Partnerships (IEP) as part of a broader commitment to develop programs that foster self-sufficiency for indigenous communities in Australia.

The indigenous communities of the Cape York region of Australia face a daunting economic and social reality; life expectancy of less than 50, average annual income of \$A8,600, and fewer than 10 per cent of the working age population in unsubsidised employment. These indigenous communities struggle with endemic substance abuse, a breakdown of social order and dysfunctional governance structures.

IEP is a broad based coalition involving indigenous leaders and representatives from corporates, philanthropic groups and small and medium business leaders. It is one of the largest partnerships of its kind ever assembled in Australia to address indigenous problems.

IEP, through the stewardship of Aboriginal leader Noel Pearson, have devised practical programs to generate employment, local community capacity building and leadership and youth development. IEP's holistic approach links health, education, economic development, youth as well as financial literacy and access to financial services.

Within this broader coalition, Westpac has put in place an employee secondment program to support two initiatives led or driven by the communities of Cape York themselves, which are designed to build financial independence.

The first initiative, the Family Income Management Scheme (FIMS), provides education and awareness on the effective use of family income and funds. Through this program, family groups voluntarily engage to establish group budgets by agreeing on priorities for day-to-day items as well as medium and longer-term goals.

The second initiative, the Balkanu Cape York Development Corporation – Business Hubs Strategy, involves designing business hubs to

support indigenous entrepreneurship in Cape York and provides encouragement for the incubation of new business ventures.



Aurakun youths

As part of an initial three-year agreement, Westpac has committed to send 50 staff a year to work in indigenous communities for four-week secondment periods. Westpac also provides a full-time project manager, based in Cape York to co-ordinate the bank's involvement.

Subsequently, Westpac has also established three twelve-month fellowships at Balkanu that are helping the organisation to embed capabilities for delivering programs in the Cape. The fellowships provide for Westpac staff to fill roles on a 50 per cent cost shared basis, which is intended to allow indigenous organisations to recruit high performing staff at a fraction of the cost on the market. It is hoped that this will allow local community organisations to both reduce costs and, ultimately, to allow for their local people to be trained to take on those roles.

The Cape York Indigenous Partnership is having a significant impact on the quality of life for Cape York indigenous communities. To date, 500 people have signed up to the Family Income Management Scheme and five successful business start-ups have occurred through the Business Hubs process with a further 40 currently in incubation. Furthermore, over 50 direct full time jobs for indigenous people have already been created and this is expected to double over the next 6 months.

One of the most significant outcomes of this initiative and which directly benefits the long-term sustainability of the Cape York region, is the

marked increase in the number of community-based projects under development. The capacity of these projects to satisfy social objectives has been significantly boosted by the injection of skills introduced through employee secondments.

According to the head of a local organisation, "what the Westpac people have achieved in three weeks would have taken at least six months if we had employed people and started from the ground up."

From Westpac's point of view, staff who participate in the program feel enriched and energised from exposure to the different social and financial situations and life experiences faced by the indigenous community. Because the secondment program is so demonstrably building social capital within Cape York communities, staff consider it a privilege to be selected for participation in the program.

The Cape York partnership is also having a wider social impact in local indigenous communities. In Aurukun for example, the location of many of these programs, trauma cases are significantly down at the local health centre and school attendance has dramatically risen.

The ongoing success of the Cape York program continues to generate many more opportunities for Westpac to partner with local indigenous organisations to improve services in rural and remote areas of Australia. It is also an effective model for building social capital in Australian indigenous communities through collaborative partnerships.

For more information on Westpac's sustainability initiatives please contact:

Emma Herd, Corporate Responsibility & Sustainability, Westpac:

T: 61 2 9216 0922

or

E: eherd@westpac.com.au

or

visit the Westpac website at:

<http://www.westpac.com.au/internet/publish.nsf/content/WI+Westpac+In+The+Community>

Are Social Criteria Predictive of Corporate Share Price Collapse?

Joe Keefe and Barbara Krumsiek, Calvert Group

Over the past two years, a flood of corporate scandals involving accounting fraud, misstated earnings, outlandish executive compensation or after-hours trading and market timing by mutual funds has depressed markets and eroded investor trust.

Such corporate behaviour has compelled Calvert to begin looking more deeply at the connection between corporate responsibility and financial performance, and more broadly at the connection between ethics and economics.

The socially responsible investing (SRI) community has long advocated that there is an intimate connection between corporate responsibility and financial return. It is felt that companies that embrace high standards of corporate governance, ethics and social responsibility carry lower risk and are better positioned for sustainable, long-term growth. Calvert, in conjunction with Harris Interactive, recently conducted a survey that demonstrates that a growing number of investors share these views. Interestingly:

- 93 per cent of those surveyed want their investment adviser to investigate the ethical as well as the financial performance of investments before making recommendations;
- 71 per cent of those surveyed agree that companies operating with higher levels of integrity carry less investment risk; and
- 68 per cent of those surveyed agree that companies operating with higher levels of integrity deliver better investment returns.

Clearly, many investors have come to believe that well-governed, socially responsible companies are better positioned to deliver long-term, sustainable value to their shareholders. The question is then posed – is the converse true? In other words, is there evidence that corporate *irresponsibility* can be a harbinger of bad things to come?

Calvert, like many fund managers, has investment criteria that include a range of corporate responsibility metrics, including corporate governance, environmental performance, workplace issues, human rights and other criteria.

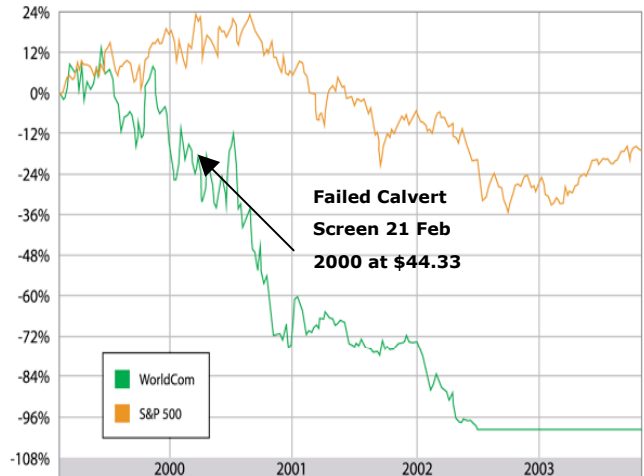
Many of these so-called 'social' criteria bear directly on corporate governance and ethics. Such as, for example, the independence and diversity of corporate boards, the compensation of executives and directors, the quality and independence of auditors, corporate charters and bylaws, and the degree to which shareholders are informed about anti-takeover provisions, stock option plans and other material items. Other investment criteria – environmental performance, for example – can also have direct implications for a company's risk profile and financial outlook.

In the aftermath of the corporate scandals, Calvert undertook a short study about the value of social and environmental screening. The study looked at several dozen companies that had failed Calvert's investment criteria and later had major governance implosions or were implicated in the corporate scandals. Interestingly enough, although many of these companies were excluded on account of substandard governance or other business practices, a good number of them had been excluded for social and environmental reasons.

For example, one company that failed Calvert's screening criteria was WorldCom, which was excluded in part for its practice of redlining, as well as its history of labour problems. When Calvert 'failed' the company on February 21, 2000, its share price was \$44.33. Shortly thereafter, the price began its rapid descent, which continued through 2001 and 2002.

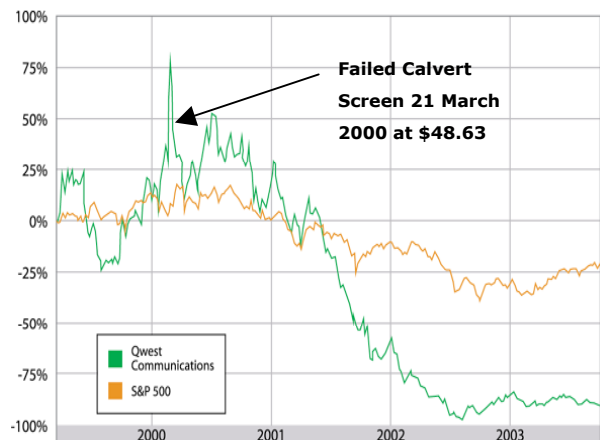
On June 26, 2002, WorldCom fired its Chief Financial Officer and said it would restate its results for the last five quarters, erasing all profits from the beginning of 2001. In addition, it said it would lay off many thousands of workers.

The company also revealed that it had disguised nearly \$3.8 billion in expenses, in what remains one of the biggest accounting frauds in U.S. history.



WorldCom versus the S&P 500

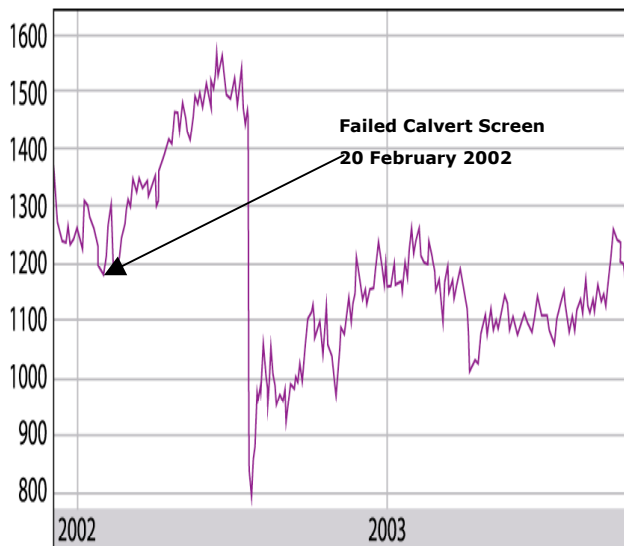
A similar pattern was seen in the share price history of Qwest. Calvert 'failed' the company on March 21, 2000 at a price of \$48.63, for its poor business practices and poor record on discrimination and environmental issues. From this time to March 2001, the stock performance dropped nearly 30 per cent. In February 2003, four former executives of Qwest Communications were indicted for fraud.



Qwest Communications versus S&P 500

Nippon Meat Packers failed Calvert's social screens on February 20, 2002, when its share price was \$US9.19 for lack of disclosure, as well as for environmental and product safety issues.

By mid-August of 2002, the company's share had fallen to \$US6.50. In mid-2002, Nippon executives admitted to having fraudulently mislabelled foreign meat in order to receive government subsidies for domestic meat.



Nippon Meat Packers (in Yen)

The SRI community has long held that a company's social and environmental profile can inform shareholders about the quality of company management. Companies that under perform one area tend to under perform in others. Calvert's experience tells us that robust corporate responsibility analysis or screening, which includes corporate governance as well as corporate social responsibility metrics, may well be capable of picking up many signals that might otherwise go undetected.

It is likely therefore that in the future more and more 'traditional' portfolio managers and financial advisers will be incorporating such analysis into their own stock selection criteria in the years ahead. The last two years have taught the wisest among them that they can no longer afford to ignore these issues.

For more information on Calvert's case studies, please contact:

Barbara Krumsiek, CEO, Calvert Group:
E: Barbara.Krumsiek@Calvert.com

Investing in Stability – Conflict Risk, Markets and the Bottom-Line

Mareike Hussels, UNEP FI, Geneva

Increasingly public attention is turning to the finance sector's role in contributing to social stability or sustaining conflict. In order to map the areas of greatest interest to banks and insurers, UNEP FI, in collaboration with the International Institute for Sustainable Development (IISD), are undertaking a project to investigate the links between finance and conflict. The project - *Investing in Stability - Conflict Risk, Markets and the Bottom-Line* is funded by the German Environment Ministry (BMU).

In examining the relationship between the finance sector and conflict, it is argued that the provision of finance or insurance for large infrastructure and resource extraction projects may contribute to environmental degradation as well as disrupt local communities or fuel conflicts. Moreover, processes of environmental change such as climate change or overexploitation of natural resources can result in social instabilities, which may have a longer-term impact on investments and financial transfers.

The exposure of the banking and insurance industry to political and reputational risk arising out of civil war, conflict or terrorism may lead to a reluctance to finance projects in countries with high political risk. The challenge therefore, is to maintain financial flows to countries with high political risk, while at the same time ensuring that these funds contribute to sustainable development and the promotion of peace-building.

UNEP FI and IISD conducted initial desk and telephone research to map out linkages between finance and conflict. Subsequently a workshop was held in September 2003, in London, bringing together close to 30 experts from all sectors of finance, governments, NGOs and academia to discuss the relevance of conflict for financial institutions and their role in conflict prevention or mitigation. Findings of the initial research were presented to a wider audience at a conference on *Ecology and Peace in Crisis-Prone Regions - The Role of the Business Sector* on October 3-5, 2003 in Loccum, Switzerland, and to the participants of the UNEP FI Global Roundtable in Tokyo 2003.

A first draft of the study as well as the project brochure and other project information is available online at:
www.unepfi.net/conflict

For further information on the finance and conflict work please contact:

Mareike Hussels, UNEP FI, Geneva:

E: mareike.hussels@unep.ch

or

Jason Switzer, IISD:

E: jswitzer@iisd.ca

UNEP FI International Update

Sustainability Banking in Africa – Upcoming Report

Sean de Cleene, AICC, UNEP FI African Task Force Co-Chair

The African Institute of Corporate Citizenship (AICC) Centre for Sustainability Investing, in partnership with UNEP FI African Task Force (ATF), launched the Executive Report of *Sustainability Banking in Africa*, at the UNEP FI Tokyo Roundtable.

It seems that many banks in Africa potentially act as a barrier to more widespread integration of sustainability issues into the private sector by failing to incorporate sustainability issues into core business practice.

Sustainability Banking in Africa, however identifies a number of innovations occurring in different countries in Africa that viewed together provide an indication that this situation may change.

The report highlights cases where institutions have moved away from the more traditional defensive and reactive standpoints to the adoption of a more proactive position.

The report also discusses a number of potential future innovations and the development of new approaches relevant to the African context.

For more information please contact:

Sean de Cleene, Director AICC and ATF Co-Chair:

E: sean@aiccafrica.org.

For a copy of the Executive Report please visit the website at:

http://www.unepfi.net/atf/ATFSBER_11.%2703_unepfi.pdf

The full report is expected to be released in early 2004.

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

Niamh O'Sullivan, UNEP FI Geneva

UNEP FI and Global Reporting Initiative (GRI) have co-convened a working group to finalise a GRI Financial Sector Supplement on performance indicators (environment) for the international finance sector.

An evenly balanced multi-stakeholder working group of approximately 20 members will lead the development of this Sector Supplement. An external consultant will support the working group, which will also have two co-chairs - one industry and one non-industry, which along with UNEP FI and GRI, will have overall responsibility for the coordination of the process.

A multi-stakeholder working group meeting to initiate the work programme was held in Geneva in September, 2003.

In general terms, the group agreed on the importance of building on previous work in the field of environmental performance indicators, wherever applicable, and developing a supplemental set of indicators with global applicability. More specifically, the group agreed to focus upon the development of indicators for the environmental impacts of international financial sector product and services, as opposed to direct or in-house impacts, as the financial sector is increasing reporting on impacts associated with their products and services.

For more information please contact:

Niamh O' Sullivan, UNEP FI, Geneva:

E: niamh.osullivan@unep.ch

New UNEP FI Signatories:

- VicSuper (Australia)
- Garant, owned by insurance group INGOSSTRAKH (Russia)
- Groupama Asset Management, previously known as Finama Asset Management (France)
- Sumitomo Trust & Banking Co (Japan)
- Caixa d'Estalvis i Pensions de Barcelona (Spain)
- Australia & New Zealand Banking Group Limited (ANZ)

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 either:

Helen Bloustein
T: + 61 3 9695 2687
or
Gabrielle McCorkell
T: + 61 3 9695 2538
or
E: unep.fi@epa.vic.gov.au



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**EPA
VICTORIA**

UNEP FINANCE INITIATIVES – AUSTRALASIAN LIAISON OFFICE
EPA Victoria 40 City Road Southbank Victoria Australia 3006
GPO Box 4395QQ Melbourne Victoria Australia 3001
Telephone 61 3 9695 2538 Facsimile 61 3 9695 2578

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