



## Australasian UNEP Finance Initiatives

# Newsletter

*'Innovative financing for sustainability'*

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## National Joins UNEP FI Global Program

Michael Spencer, National Australia Bank

“At the National, we see sustainable development as....the sort of approach a well-managed business takes and is consistent with the objective of long-term

value creation. That is why we were happy to sign the UNEP statement.”

Speaking at a ceremony to mark the National becoming a member of the UNEP FI, Chief Executive Officer Frank Cicutto stressed that sustainable development was primarily good business practice. He also acknowledged that the organisation still had a way to go to meet its sustainability objectives.



*National CEO Frank Cicutto and Victorian Deputy Premier and Minister for Environment The Hon John Thwaites*

Like many new members of the UNEP FI, signing the statement is a step along the way rather than the end of its commitment to sustainable development. It provides access to a global network of financial services companies as well as support from the UNEP and EPA Victoria.

Sustainable development is not new to the National.

The organisation developed its first environmental policy in the early 1990s. This was reviewed in the mid-1990s when the National signed a commitment to the Australian Government's Greenhouse Challenge.

The UNEP FI signing ceremony took place against a backdrop of the National's new Australian head office being built at Victoria Harbour in Melbourne's Docklands precinct. National@Docklands is aiming to become the most environmentally efficient building of its size in Australia.

“We have a great incentive to lift our performance to match the environmental performance of our new Australian head office,” Frank Cicutto said to about 50 people at the ceremony.

Ceremony guests included Victoria's Deputy Premier and Minister for Environment John Thwaites, Chairman of the National, Charles Allen, and National Director and Chairman of BHP Steel, Graham Kraehe.

“We have recently established an Environmental Council with senior representatives from our operating businesses. Over the coming months it will review our environmental policies as well as our systems to manage environmental impacts. A major task of our Environmental Council will be to facilitate, guide and lead the work of our Environmental Champions within the National,” Mr Cicutto said.

Since the middle of 2002, the National has been encouraging a group of people within the organisation to become environmental leaders in their workplaces. This group now numbers about 250 people and, in cooperation with RMIT University, are looking to develop that to about 500 people.

As well as playing a key role in their workplaces, the Champions have also formed teams to initially work on four major areas of activity – energy, paper, waste and communication. The development of these teams has been supported by the National's internal change program which provides team building expertise.

EPA Victoria has been a major contributor to the Environmental Champions program and opportunities

have been taken to exchange experiences with the Victorian Government's own environmental management program. Other contributors to the work of the Environmental Champions teams have been the Sustainable Energy Authority of Victoria (SEAV) and EcoRecycle Victoria.



*From left, David Moeller, Project Director Victoria Harbour, Frank Cicutto CEO National Australia Bank, Minister Thwaites, Andrew Gibb, Marketing Manager Victoria Harbour, at the Docklands model.*

The Environmental Champions have already identified more than 50 improvement initiatives. Most are small, practical things like reviewing regular reports to see which ones can be shifted from paper to electronic form. One report, that was shifted recently, saved more than 300 000 pages of paper a year.

The National is also looking at where its paper comes from and is hoping to link up with other organisations looking at specifications for office paper consistent with its commitment to sustainable development. “We are hoping to work with Government and industry on this,” Mr Cicutto said.

“The Energy Team has been taking an holistic approach to energy management, encouraging employees to look at better energy consumption both at home and at work. We recently took part in a TravelSMART survey with the assistance of SEAV to look at and help manage the greenhouse impact of how our people travel to and from work.”

Mr Cicutto said the National would continue to look at

the market for products that reflected the social and environmental values of customers. The National already offers a range of SRI products on its Wealth Management Flexiplan platform.

The bank is also continuously improving the way it includes social and environmental factors in its risk analysis and reporting. These sorts of initiatives ensure that sustainable development becomes part of its business rather than just an afterthought. "We may not satisfy everyone immediately," Mr Cicutto said, "but we believe we can best meet our commitments through an ongoing program of small steps toward a more sustainable future."

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## The Impact of Climate Change on Insurance against Catastrophes

Tony Coleman, Insurance Australia Group

Insurance Australia Group (IAG) considers climate change a reality and a fact. Regardless of the effectiveness of global mitigation strategies, there is enough warming momentum in the climate system to inflict inevitable further adverse change. This scenario, according to the Intergovernmental Panel on Climate Change (IPCC), will lead to more intense and or more frequent extreme climate and weather events. Therefore, to minimise the additional risk associated with human-induced climate change,

IAG has begun to:

- invest in research to learn more about the problem and its expected impact;
- consider possible adaptation strategies to minimise vulnerability; and
- investigate strategies that minimise IAG's and our customer's contribution to climate change.

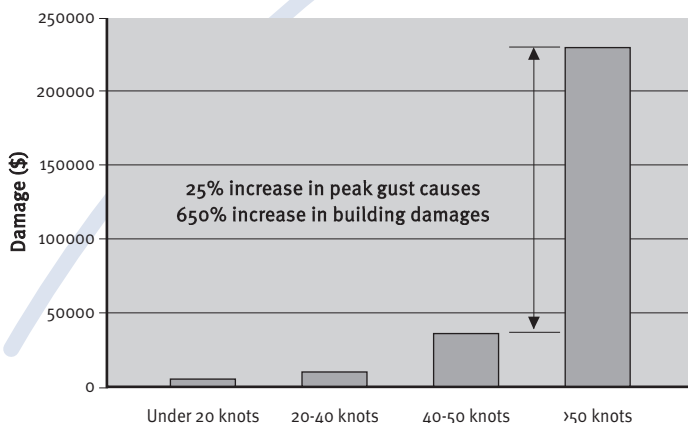
Extreme events, almost by definition, are rare events, but when they occur they contribute a disproportionate amount to losses of both insurers and the community generally. The April 1999 Sydney hailstorm, which produced hailstones up to 9 cm in diameter, accounts for 25 percent of the total building insurance storm losses incurred in NSW by NRMA Insurance (an IAG company) over the last 15 years. To learn more about this storm, in light of the fact that it occurred in conjunction with particularly warm sea surface temperatures (SST) off the NSW coast, IAG commissioned a sensitivity study based on the April 1999 storm. Warmer SST associated with 'global warming' is clearly a likely consequence of future climate change. The initial results of the study are remarkable. Slight increases in SST coupled with small adjustments of atmospheric parameters, were shown to be capable of creating a storm that potentially dwarfs the April 1999 event in both intensity and scale.

While much more work is needed before IAG is confident with these initial findings, it does point to the possibility that small changes in our climate can be expected to have a disproportionately adverse affect on the incidence and severity of extreme events.

IAG is conducting research into other extreme weather events including east coast lows, tropical cyclones and bushfires to ascertain the material and financial impact these events are likely to have under various climate change scenarios. For example, the graph on the following page shows the effect increased wind speeds can have on buildings. This is core business for IAG given that insurance is fundamentally about calculating risk, pricing that risk and paying claims. Beyond a certain level of frequency and intensity, weather events can become uninsurable (eg: floods) due to unaffordable premiums. This erosion of

insurance coverage could potentially leave large areas and populations financially exposed to devastating weather events. If insurance can't underwrite this risk who does?

Sydney – Wind Speed vs Damage



Significant investment in research will lead to improved understanding of the changing risk and will help to maintain a viable industry. IAG is collaborating with the Bureau of Meteorology on research into storm damage potential using weather radar, and sponsoring other research into building material vulnerability due to severe storms. It is also incorporating climate change considerations into all of its business processes and is exploring ways to use its purchasing power to promote, for example, more energy efficient white goods and appliances.

A balanced public discourse about the impacts of climate change must include a focus on the impacts on insurance and the industry's ability to cover both commercial and private assets. With so much of Australia's wealth locked up in real estate and commercial properties, and given the potential impact of climate change on Australia's already extreme weather regime, the ability of the industry to underwrite the risk posed by climate change becomes a central social, political and economic issue in framing Australia's response to Climate Change. From the industry's perspective the question then arises as to the role of insurers in minimising the risks arising from climate change. Insurers can employ adaptation strategies which can help minimise vulnerability to more frequent or more intense events. The industry can also adopt mitigation strategies by

seeking to reduce the events of possible Climate Change through appropriate products or policies aimed at reducing Greenhouse Gas Emissions. But insurance companies acting alone or even collectively will have limited positive impact because whole-of-economy action is required.

What insurance companies can do is use claims data and new research like the hailstorm work to drive action towards both adaptation and mitigation. This way, people will better understand the risks that more frequent and more intense extreme weather events pose to their everyday lives, their houses, their cars and even personal safety.

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## Shorts

[Jessica Hardy, EPA Victoria](#)

### Financing Sustainable Energy

Sustainable energy project developers now have a new tool to help raise capital with the release of the Financing Sustainable Energy Directory from the United Nations Environment Programme's Division of Technology, Industry and Economics. The Directory will help investors, project developers and entrepreneurs find capital providers to finance projects in the renewable energy and energy efficiency (together referred to as 'sustainable energy') sectors.

The Directory comes at a time when the sustainability sector is the fastest growing energy sector worldwide. For example, in just two decades, the wind energy industry has evolved from a collection of backyard enthusiasts to a multi-billion dollar industry currently

experiencing a 30 percent annual growth rate and an average growth rate of 20 percent over the past decade. New technologies to produce clean energy from solar cells, biofuels, and fuel cells are also maturing and offer investors a range of avenues for investment.

As an inventory of lenders and investors providing finance to the sustainable energy sector, the Directory will help to develop this market by lowering the cost of access to information on available capital providers.

For more information, please email:

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<http://www.unepfi.net/fsed/>

## FSR Act SRI Guidelines Discussion Paper

The Australian Securities and Investments Commission (ASIC) recently released a discussion paper on the issue of proposed guidelines for mandatory socially responsible investment (SRI) disclosure. Following changes to the *Corporations Act 2001*, product disclosure statements for products with an investment component must now include information on the extent to which labour standards or environmental, social or ethical considerations are taken into account in the selection, retention or realisation of the investment. Under the changes, ASIC was given the power to make guidelines about such disclosure. The discussion paper, 'Socially responsible investing disclosure guidelines?' proposes the regulator issue mandatory guidelines to provide greater certainty for industry in meeting SRI disclosure obligations, but also to assist customers in ensuring their purchases meet whatever SRI related goals they have. The paper notes that meaningful, but commercially realistic disclosure is in the best interests of both fund managers and consumers. In developing the paper, ASIC consulted with many industry, government and community sector organisations.

Submissions to ASIC on the discussion paper are welcomed by Friday 28 February 2003.

For more information, or for copies of the paper, visit the web site at:

<http://www.asic.gov.au>

or call ASIC's Infoline:

T: 1300 300 630.

## FORGE II Guidelines

The FORGE Group, with the assistance of the UK Financial Services Industry, recently released a set of guidelines designed to help financial service organisations achieve a systematic, structured response to Corporate Social Responsibility (CSR) management and reporting. The FORGE Guidance is aligned with both ISO14001 and the European Eco-management and Audit Scheme (EMAS) and is tailored to the specific requirements and characteristics of the financial services sector. The publication seeks to build on and better integrate CSR reporting and management, and looks at the business case for CSR, governance structure, management and reporting framework, and CSR in practice. The Guidance was developed by eight UK based financial services companies in consultation with stakeholder organisations, with the support of several government departments. The toolkit is also supported by the British Bankers' Association and Association of British Insurers, who will make it available to members.

The complete FORGE II guidelines can be downloaded from <http://www.bba.org.uk> or <http://www.abi.org.uk>

## Climate Risk to Global Economy

The United Nations Environment Program Finance Initiatives (UNEP FI) Climate Change Working Group has recently released the results of a two-phase study on the financial services sector and climate change. The 'Climate Change and Financial Industry' report

focuses on the relevance of climate change and makes a series of strategic recommendations to policy makers and financial institutions about pro-active steps that can be taken going forward. The first phase report 'Threats and Opportunities' looks at the underlying reasons as to why climate change is relevant to the financial services industry, and highlights the need for a long-term market based framework to encourage finance sector participation. The second phase report 'A Blueprint for Action' examines the current, and possible future role of the finance sector in addressing climate change, as well as various barriers to action.

The complete study, as well as a CEO briefing paper (intended for corporate decision-makers and key government policy makers) are available for download at: <http://www.unepfi.net/>

## Creating a Sustainable Property Sector

Jennifer Cane, Property Council of Australia

The Property Council of Australia estimates that everyday Australian investors now collectively own around 70 per cent of prime assets. The Property Council, representing the owners and managers of the commercial market, are indirectly responsible for the property investment returns of over 9 million Australians who have a stake in investment property either through listed property trusts, direct investments or superannuation.

The Property Council's community agenda is therefore important in order to create and maintain a sustainable property industry that benefits the industry as much as it does the community. In recognition of this fact, the Property Council has developed its own definition of what sustainability means: 'healthy economic growth that increases social capital and enhances the inherited environment and its diversity'.

The Property Council as an industry leader recognises

that to create a sustainable property sector, it must find ways to change market behaviour towards more environmentally sustainable practices, by finding and demonstrating the green dividend. Green dividends will only occur when investment in sustainable technologies, along with best practice design and management, increase returns on capital. Green dividends provide a win-win solution for business, for government and for the community.

### Opportunities for the Property Sector

The property sector is becoming an increasingly competitive and sophisticated market. Growing environmental awareness and concern from key market participants, including investors, tenants and owners, suggests that the business that fails to look at the principles of sustainability and eco-efficiency will be left behind. Equally important, by embracing the concept early, strategic organisations can lead the pack, realising additional competitive benefits.

The commercial property sector has essentially been focusing on energy efficiency and greenhouse emissions in its quest for green buildings. And for good reason – commercial buildings spend more than \$4 billion annually on energy costs, creating more than 35 million tonnes of carbon dioxide in the process. These emissions rates are expected to double by 2010 unless corrective action is taken.

In response, strategic businesses like Investa (among the first to recognise the seriousness of the issues), have had their entire property portfolio rated using the Australian Building Greenhouse Rating Scheme (ABGRS). This was not a one-off undertaking either – properties are being re-rated to track their performance, demonstrating to unit holders, tenants and the community a positive commitment to both the bottom line and the environment.

Savings go beyond reducing the monthly electricity bill. In fact these savings pale in comparison when one looks to overseas experience, where the benefits of an environmentally sustainable work environment are well linked to productivity gains, bottom line

performance and reduced absenteeism and staff turnover. These factors are just some of those considered in the development of new projects, such as the new National Australia Bank headquarters at Melbourne's Docklands.

#### So what is the Property Council doing?

How does an industry association take the lead on an issue full of debate and perceived uncertainty like sustainable development and eco-efficiency?

In Victoria, the Property Council created Project EDGE, a program designed to demonstrate the benefits of market transformation while also providing tools to actually change. With the help of partners and stakeholders like Environment Australia and the City of Melbourne, the Property Council initiated a series of professional development forums, workshops and site tours for industry, in addition to creating tools like the Model Environmental Management System (EMS) for Commercial Buildings and information resources such as the Green Business Guide.

The Model EMS has been specifically designed for the property sector based on ISO 14001 requirements, and includes easy to use elements like the EnviroReckoner to assess potential savings that can be made by improving environmental performance, as well as the Desktop Navigator which breaks the EMS process down into 10 easy steps or areas of key concern including energy, water and waste. While the Model EMS is publicly available on the Property Council's website, in 2003, a training program will be developed to assist property managers implement the system. Adding to this, the recently launched Green Business Guide consolidates relevant information on eco-efficiency as it applies to the property sector providing a range of resources from websites to case studies to government contacts.

In 2003, the Property Council will continue to work with stakeholders and the community to ensure that a sustainable property sector is a reality.

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## UNEP Finance Initiatives at the World Summit for Sustainable Development (WSSD)

Mareike Hussels, UNEP FI, Geneva

"I went around all the banks and could not find a single one that would guarantee me that it would handle my money in an environmentally and socially responsible way." The young woman from Ecuador, who was lamenting the state of affairs in her home country during a WSSD panel discussion on foreign direct investment, was but one of the many summit participants that stressed the central role of finance in the progression of sustainable development. Overall discussions at the summit brought out very clearly that the role of finance has now become one of the key issues being discussed in the context of sustainable development.

The speaker from Ecuador finished her intervention with the question: "How can we make progress, if

finance is not on board?" One of the main reasons for UNEP FI's active participation in the summit was to outline how the international finance community has begun to make a significant contribution to the broad sustainability agenda. Clearly a lot of unfinished business still remains to be addressed in both the developed and the developing world. However more and more people within and outside the finance sector are realising that the finance industry is a vital link to the operational side of sustainable development.

The several hundred participants at UNEP FI's WSSD events had the opportunity to familiarise themselves with the progress of sustainability in the finance sector. As a global initiative with a unique network and links into the intergovernmental world, as well as civil society, UNEP FI covered a wide range of topics and approaches to sustainable finance. The discussions covered issues as diverse as climate change, environmental management and reporting, African capital markets and socially responsible investment, and involved a variety of strategic UNEP FI partners, including the UK Government, the World Bank and the World Business Council for Sustainable Development (WBCSD), along with contributions made by UNEP FI signatories and working group members.

UNEP FI came to Johannesburg with a range of products, the cornerstone of which being the 'Finance and Insurance Industry Report', which highlights the success and challenges of Sustainable Finance over the last ten years since the Rio Earth Summit in 1992. A second report entitled 'Financing for Sustainable Development' was officially launched at WSSD. This publication had been produced in a unique collaboration of UNEP, the World Bank and the IMF. Combining the three institutions' extensive experience in related fields, the report suggests innovative macro and micro-economic solutions for pressing sustainability problems in developing countries.

In addition, and produced specifically for the summit, a set of 'UNEP FI recommendations' for financial institutions and governments on sustainable development was distributed. These recommendations, endorsed by 295 companies worldwide, reinforce UNEP FI's distinct stance on the

future of sustainability and demonstrated to the WSSD audience that there is a strong momentum for sustainability in the world of finance.



### *Conference presentation*

In Johannesburg UNEP FI aimed to share its experience and expertise with stakeholders from the sustainable development movement. The summit also provided an opportunity for the Initiatives to gain further insight and contacts to advance its own international projects. Thus UNEP FI sought input from a broad range of stakeholders from the sustainability and business communities and identified partners for the UNEP FI Forum for Action, which will be set up shortly to facilitate stronger NGO and other stakeholder involvement in the work of UNEP FI. The UNEP FI network also gained two new strategic partners - The Corporation of London and the IUCN (the World Conservation Union).

Klaus Töpfer, Executive Director of UNEP, signed a Memorandum of Understanding (MoU) with the Corporation of London at an event hosted by the British government. The Corporation of London, through the development of the London Principles, is striving to provide its stakeholders with a guide to sustainability in financial services. Another MoU was signed by Michael Hölz, Co-Chair of UNEP FI, and Achim Steiner, Director General of IUCN, in an effort to pave the way for collaboration on the promotion of biodiversity-friendly finance. The partnership, which will be coordinated by the UNEP FI secretariat and the

IUCN Business Unit, will allow both partners to draw from each other's expertise, experience and international contact networks.

One of the most important aspects of UNEP FI's activities in Johannesburg was the cooperation with the UNEP FI African Task Force (ATF). The ATF, formed after the UNEP FI Regional Outreach Conference in South Africa in January 2002, aims to increase the awareness of African financial institutions regarding the links between finance and sustainable development. To date, it consists of 15 members representing the financial sector in Southern Africa. The Task Force members not only provided tremendous assistance to the UNEP FI secretariat in the preparation of UNEP FI activities at WSSD, they also ensured a fundamental African dimension throughout UNEP FI events at the summit. The importance of making the complex concept of sustainable development relevant in a regional context was a pervasive thread at the summit and many participants expressed their belief that the link to the host country and to local realities through the ATF added to UNEP FI's credibility. The African Task Force hosted one day of activities in Johannesburg, which focused on sustainability priorities for the African financial sector, but also provided a space for exchange between the African and the international finance community.

the progression of sustainable finance. At the joint UNEP FI WBCSD panel discussion, taking place two days before the end of the summit, a participant stated: "I came here thinking that sustainability was not an issue for the financial sector. This past week has clearly shown that that is not the case."

A more detailed report on UNEP FI WSSD activities and online presentations are available at: <http://www.unepfi.net/wssd/>

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### *Delegates at the ATF workshop*

By the end of a busy week of activities at the summit, including five panel events and the signing of two MoUs, UNEP FI had created a successful platform for

# Environmental Credit Risk Benchmarking Study

Kirsty Thomas, ISIS Asset Management

As Socially Responsible Investment (SRI) grows, its attention begins to focus on companies that have indirect environmental and social impacts (primarily through their links with other firms) as well as direct impacts. An example of this is the banking sector, which, through its lending practices, can expose itself to substantial risks associated with environmental or social factors.

ISIS Asset Management, a European investment manager with over AUD \$160 billion in funds under management, recently released the results of an in-depth study of the environmental credit risk assessment (ECRA) procedures of 10 European-headquartered banks. The report, 'A Benchmarking Study: Environmental Credit Risk Factors in the Pan-European Banking Sector' was undertaken with the assistance of Dr Andrea Coulson from the University of Strathclyde. This work represents a significant step forward in understanding the rationale for, and implementation of, environmental criteria in lending decisions.

The report sheds new light on the business foundation for the use of ECRA criteria. When surveyed, all banks noted that a key reason for putting ECRA procedures in place was the minimisation of defaults. Fines incurred due to environmental liabilities, in particular, may make borrowers less able to repay their debts.

The banks also highlighted the risk that pollution may damage the value of the assets of a borrower (whether this be land, or the business itself), so decreasing the value of the security in the event of bankruptcy. A third but increasingly important rationale, is the issue of reputation risk. Episodes such as the consumer boycott of investment banks financing the Three Gorges Dam have highlighted the message that it is no

longer just industrial companies whose reputation can be damaged through association with controversial projects.

These three factors form a powerful business case for ECRA, outweighing, in the banks' view, the risk that they may lose business to competitors who are less stringent in their lending criteria.

But while there is a general consensus among the ten banks questioned about the importance of environmental criteria, ISIS's detailed analysis of the practical steps taken to incorporate these criteria into lending decisions revealed a surprisingly large divergence of strategy.

Eight out of the ten banks have an ECRA procedure embedded within their overall credit policy. These procedures vary considerably, some using tools such as flowcharts or risk matrices, and others simpler methods such as a checklist of questions.

The survey also revealed variations in the mechanisms in place to ensure that these policies are implemented properly. The banks employed a variety of methods, including the training of lending officers, regular auditing of lending decisions, setting up specialist support services, and establishing formal performance measurement systems.

Based on the policies and practices in all these areas, ISIS was able to categorise the policies into three types:

- those with very well-established environmental risk assessment procedures, which often demonstrate best practice ('the race leaders');
- those which have established policies and procedures, but are not on the cutting edge ('chasing the pack'); and
- those which have recognised the relevance of ECRA but have yet to articulate a full set of policies ('on the starting grid');

The results of the survey are highlighted in Table 1:

Table 1: The results of Benchmarking ECRA

| Category                        | Companies   |
|---------------------------------|---|
| 'The race leaders' <sup>1</sup> | Barclays, Credit Suisse Group and Lloyds TSB                        |
| 'Chasing the pack'              | HSBC, ING Group, Royal Bank of Scotland and Standard Chartered      |
| 'On the starting grid'          | Santander Central Hispano, Société Générale and UniCredito Italiano |

Looking forward, the study picks out four key trends that could influence the evolution of the banking sector's approach to environmental assessment.

These are:

- The pressure being imposed by both investors and regulators for greater transparency. The banks in this study felt a strong conflict between the need to disclose more about their practices, and the demands of commercial confidentiality.
- The need for the practices being applied in companies' home countries to be applied throughout their global operations. The study found that more progress is needed in this area.
- Banks will likely have to broaden the type of risk assessment they conduct. The environmental focus currently tends to be on more immediate threats such as pollution, but over the longer term, issues such as climate change may pose a bigger challenge. Social factors will increasingly need attention in addition to environmental issues.
- Finally, the New Basel Capital Accord, due to be implemented in 2006, may change the standards expected in banks' risk management.

This benchmarking study forms a strong basis for ISIS

<sup>1</sup> A representative from each of these three organisations spoke at the Environmental Credit Risk Seminars EPA Victoria held in conjunction with UNEP FI in March, 2001. For copies of the bank's presentations contact the UNEP FI Australasian liaison office at EPA Victoria. Contact details are provided at the end of this publication.

to continue to monitor progress in environmental credit assessment, and to work with banks to develop their policies and practices, as part of its Responsible Engagement Overlay (REO) approach to equity management. It also demonstrates that those banks taking the first steps to address these issues now will ultimately be best placed to reconcile good environmental practice with financial sustainability.

To view the report 'A Benchmarking Study: Environmental Credit Risk Factors in the Pan-European Banking Sector' please visit the ISIS website at: <http://www.isisam.com/>

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## ACCA launches first Australian Awards for Sustainability Reporting

Rachel Jackson, ACCA

In response to the increasing business and political significance of sustainability reporting, ACCA (The Association of Chartered Certified Accountants) recently launched a new Australian reporting awards scheme.

ACCA is represented on the first board of the Global Reporting Initiative (GRI) and are closely involved with organisations such as the European Federation of Accountants (FEE). ACCA is involved in reporting awards in more than 20 countries in Europe, Africa and the Asia Pacific region, and now in Australia.

The objective of the ACCA Australian Awards, which are sponsored by KPMG, is to identify and reward innovative attempts to communicate corporate performance, although the awards do not comment on performance itself. ACCA will give recognition to organisations that report and disclose environmental,

social or full sustainability information, and it is hoped that the Awards will encourage the uptake of reporting and will raise awareness in corporate transparency issues.

The speakers at the Award's November launch were leading experts in this area, and included Dr Judy Henderson, Chair of the GRI, and Attracta Lagan, Head of Ethics & Sustainability Business Services KPMG. The speakers provided an insight to the uptake of sustainability reporting in Australia and overseas, the developments of the GRI and details on the Awards.



The Awards' criteria focus on the characteristics which excellent environmental, social or sustainability reports should have: completeness, credibility and communication.

### Completeness

A report should enable its reader to form a complete view of the organisation's operations and impact, to develop a complete mental picture of the organisation including what it does, the extent of its operations and the scope of the report in conjunction with its entire activities. There is no credibility without completeness.

### Credibility

There are two aspects to credibility: internal and external. With internal credibility, the aim is to seek assurance (through the presentation of evidence) that there are organisational structures, processes and controls in place to enable the organisation to accurately present information on environmental, social and wider-economic impacts.

External credibility relates to the extent to which there is evidence that, where appropriate, internal systems and information have been tested and the views of external parties have been incorporated into the report.

### Communication

The report must communicate effectively with the intended target audiences and be clear, comprehensive and readable. This encompasses, in part, an assessment of the choice of media used for the reporting process.

A panel of judges will use the criteria to assist them in choosing the winning Australian reports. The panel consists of reporting experts and represent a wide range of stakeholder views. The judges are:

- Professor Carol Adams, Monash University
- Professor Craig Deegan, RMIT University
- Rachel Jackson, ACCA
- Terence Jeyaretnam, SIRIS
- Gabrielle McCorkell, EPA Victoria
- Glennys Purcell, Department of Family & Community Services
- Michael Rae, WWF

Richard Francis, Head of ACCA's Australia and New Zealand Centre, said, "Companies are under mounting pressure from investors, governments, NGOs and other stakeholders to demonstrate their efforts to manage the effects of their operations. Public environmental, social and sustainability reporting is now an important route through which corporate accountability and integrity can be demonstrated".

"Sustainability is high on Australia's business agenda, as demonstrated by the recent announcement from the Australian Securities and Investments Commission that it is to issue a discussion paper on types of disclosures relating to sustainability. The ACCA Australia Awards will certainly help to push these issues to the forefront."

Entries for the ACCA Australian Awards are open to all Australian private and public sector entities (including

NGOs and SMEs) that publish environmental, social or full sustainability performance data. There are three different award categories: (1) Environmental Reporting, (2) Social Reporting and (3) Sustainability Reporting. The closing date for the submission of entries is 7 March 2003 and an awards presentation ceremony will be held in July 2003.

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## Landmark SRI Event for Japan: ASrIA's Annual International SRI Conference

Louisa Mitchell, ASrIA

ASrIA, the Association for Sustainable and Responsible Investment in Asia, is a non-profit members association dedicated to promoting sustainable investment practice and corporate responsibility in Asia. ASrIA held Japan's first international SRI conference in Tokyo between 26 and 30 November, 2002. The main part of the conference held at the United Nations University attracted 280 delegates from Japan, other parts of Asia, the US and Europe. There was a broad range of professionals in attendance from investment groups, financial institutions, development banks, corporates, academic institutions, consultancies and civil society groups.

In summary, the main conference provided an international learning platform for developing SRI in Asia. Global and local experts had the chance to network extensively, many for the first time. They began important discussions on SRI and Asian issues

and were given the opportunity to develop their thinking on practical solutions for SRI in the region. Despite cultural differences, global sustainability challenges are shared and these must be addressed in the global markets.

The topic for the first day of the conference was SRI and Corporates in Asia. East met West as international SRI experts discussed the key current focus areas for SRI around the world, and Asian speakers addressed the challenges of being an SRI company or developing SRI products in the region.

There was great acceptance by Asian delegates of the importance of SRI and its role in helping to develop the 21st century as the 'Pacific Century' by encouraging sustainable growth and business development. There was lively debate between Japan SRI specialists who highlighted the cultural context for SRI in Japan and the importance of correct language, while the international SRI experts explained their needs when making SRI investments in any market.



*Panel members at the conference*

Feedback from this first day suggests that delegates from Japan and other parts of Asia were brought up to speed on international developments in SRI, while delegates from the US and Europe came away with greater awareness of cultural sensitivities and the issues to consider when developing SRI in Asia. The international SRI experts clearly recognise the investment prospects existing among key sustainability players in Asia.

Specifically from a Japanese viewpoint, feedback indicates an understanding that SRI is developing in Japan and needs to promote an equitable social and business culture. However, more practical initiatives are needed that involve the younger generation. It should be noted that the conference benefited directly from the assistance of many young Japanese volunteers already committed to promoting SRI.

The topic for the second day of the conference was SRI and Savings Plans in Asia. The critical social importance of retirement planning and pensions provisions in a part of the world where populations are rapidly aging and stock market returns have not historically provided the safety net required was examined. There was much discussion on the role of pension fund management in being able to impact the building of sustainable businesses, channelling funds to new industries focused on sustainability and encouraging shareholder activism to make corporations more accountable.

Feedback from the second day suggests that Asian delegates learnt much about the role of SRI in pension fund management. This was the first time the topic had been clearly defined and explained in a public forum of this size in Asia. Overseas delegates whose pension markets have already embraced SRI learnt about the current pensions situation around the region, and again had their thinking developed on the priorities for SRI in Asia. Some crystal ball gazing in some of the panel sessions continued a theme introduced by the UNEP FI keynote speech on the first day, that SRI issues are likely to be incorporated into mainstream risk assessment and portfolio construction in 10 to 20 years time.

ASrIA's partner for the conference was the United Nations Environment Program Finance Initiatives (UNEP FI). Event councilors were ERM Japan and The Good Bankers. Sponsors for the event were Citigroup Asset Management, Commerz International Capital Management (Japan), Daiwa Securities Group, International Finance Corporation, Jupiter Asset Management, Morgan Stanley Asset & Investment Trust Management, Nikko Cordial Group. During the conference ASrIA and UNEP FI signed a Memorandum

of Understanding on future collaboration for the development of SRI in Asia.

Also during the conference ASrIA released a paper entitled 'SRI in Japan' which outlines the current status of the industry in Japan and highlights the challenges and opportunities for future development.



Since the conference ASrIA has released a research report entitled 'SRI and Pensions in Asia'. This report is an analysis of the current pensions situation around the region and highlights the looming social security crisis. Two important recommendations are made in the report:

- (i) that SRI research groups incorporate questions on pension fund provision to Asian corporates; and
- (ii) that SRI is a relevant investment strategy for pension funds to address the chronic social and environmental issues in the region.

#### Developments in SRI in Asia

Sustainable and responsible investment is spreading to Asia. In Japan there are now 11 fund options available for a total of US\$0.7 billion. Several global fund options have been registered for sale in Singapore and Hong Kong in recent months. The first domestic fund has just been launched in Korea and the first regional fund based in Hong Kong was launched last month. SRI research groups around the world are gradually increasing their coverage to include Asian companies. Comprehensive information on fund options available in Asia and research coverage of Asian companies is available on the ASrIA website.

In addition to increased fund options and company coverage, there is a growing community of SRI followers developing around the region. The widespread interest in ASrIA, the large number of 'early' members, the success of the second annual conference in Tokyo, the positive media coverage and the thirst from around the region for education about SRI and ASrIA participation in conferences and educational events are proof of this.

Given Asia's grave environmental and social situation, this is interest that must be nurtured and converted into the sale and purchase of actual SRI products. Only then will there be a visible vehicle through which to channel the private sector's role in encouraging and enforcing sustainable economic growth without detriment to Asian societies and the environment.



*Tessa Tennant, Executive Chair, ASrIA, with Paul Clements-Hunt, Co-ordinator, UNEP Finance Initiatives.*

For all conference materials and papers, please see the post-conference page at:  
<http://www.asria.org/>

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## Reporting on social and environmental performance – an Australian approach

Corinne Proske, Department of Family and Community Services

Increasingly organisations are being required to demonstrate transparency and accountability beyond the traditional domains of financial performance. In Australia, the Prime Minister's Business Community Partnership was asked to progress a Triple Bottom Line (TBL) Reporting Framework for Australian organisations. As part of this task, the Department of Family and Community Services (FaCS) was asked to progress the social aspects of TBL reporting. Environment Australia was asked to complete a similar project examining environmental indicators.

### The development of social indicators

In order to facilitate the adoption of TBL reporting, FaCS is developing a guide for reporting on social indicators within an Australian context. A key outcome of this project is ensuring that the indicators developed are relevant to reporting organisations.

To do this FaCS brought together a panel of business and non-business organisations with a stake in reporting to drive the direction of the project. FaCS facilitated the selection of key Global Reporting Initiative (GRI) social indicators and then developed practical guidance for Australian reporters on how to collect, collate and present information. The guide will be made available for public comment in early 2003.

The draft guide will define the Australian context for each of the indicator sets, ie: defining our legal framework, cultural attitudes and past practices. This process also involved seeking the views of the different government departments responsible for managing the social agenda at both the Commonwealth and State levels.

Fifteen core social indicators relevant to Australia were selected by the previously discussed panel. The indicators selected highlight that Australian social performance interests rest around disclosure on employment conditions as well as an organisations' interaction with the community. Practical methodologies for each of these indicators were developed based upon the aggregated experience of local practitioners.

This project aims to facilitate social performance reporting by simplifying the process for those organisations just commencing down this path and providing a central repository of information for those already reporting.

#### The development of environment indicators

The 'Indicators and Methodologies for Public Environmental Reporting, an Australian Guide' was developed for companies and other organisations, especially first time reporters, to assist them in measuring and voluntarily reporting on their environmental performance.

This Guide aims to provide a clear and comprehensive description of the processes for calculation and reporting on selected management and environmental performance indicators. It forms a companion volume to 'A Framework for Public Environmental Reporting: An Australian Approach' (Environment Australia, 2000).

The suite of indicators in the guide is closely aligned to the environmental indicators contained within the Global Reporting Initiative's '2002 Sustainability Reporting Guidelines' and therefore provides a basis for organisations to report in a manner that focuses on Australian needs and conditions, whilst also being consistent with the GRI.

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General information is available online at:  
<http://www.partnerships.gov.au>

The exposure draft of the 'Indicators and Methodologies for Public Environmental Reporting, an Australian Guide' can be found online at:  
<http://www.ea.gov.au/industry/sustainable/per/indicators.html>

## UNEP FI International Events

### Sustainable Venture Finance Forum

Jacob Malthouse, UNEP FI, Geneva

Solutions to environmental and social problems (be they technologies, products or services) are being touted as the next wave of issues for investors. Is such enthusiasm for the business benefits of sustainability justified? Some perceive sustainability as equalling high risk and lower returns. But are investors' risk/return models simply too narrow to see the opportunity?

A forward looking workshop was held at Fontainebleau, France in June 2002 to explore the broad theme of whether and when it is profitable to invest in sustainability-oriented venture capital funds and entrepreneurial ventures. Over one hundred participants were addressed by some twenty-five speakers in a structured programme over a day and a half. Participants questioned, discussed and networked their way through two days discussing a new and highly stimulating topic: sustainable venture finance (SVF).



### Background to the workshop.

In preliminary investigations into the area of sustainable venture finance, INSEAD and UNEP FI found that there was a real knowledge gap between stakeholders who were active in the sector. For example, few entrepreneurs or investors knew what SVF funds already existed, or what environmental criteria were already being used by some mainstream venture capitalists. Nonetheless, many examples of new funds being launched, new ventures financed and new techniques for selecting deals were discussed - all being developed with a sustainability agenda.

It was this knowledge gap that led to the creation of an event that would bring together relevant groups to exchange information, research and network with one another. The aims for the June workshop were thus to stimulate participants' imaginations, to take a rigorous look at the up and down-sides of this type of investment field and to provide a framework for inspired people to meet, exchange and fast track their learning and competence.

The event was designed with the following five different points of view, reflected in the subsequent workshop programme:

- trends in mainstream venture capital;
- trends toward sustainability in the finance sector and in investment groups;
- the emerging sustainable venture capital sector;
- the sustainable entrepreneurial ventures they are investing in; and
- hybrids entities that employ a combination of non-profit/profit models and public/private partnerships.

The SVF 2002 event brought a diverse range of delegates together. For most this was their first time talking about this issue in a group setting. The workshop certainly sparked new ideas and initiatives (with one new Venture Capital fund being launched as result), opportunities were discussed, several research efforts initiated, and new collaborations forged. UNEP FI and INSEAD are now in the process of setting up a SVF research network.

UNEP FI and INSEAD would like to thank all the speakers, participants and authors for their contributions to the workshop, as well as sponsors CDC Capital Partners and look forward to Sustainable Venture Finance 2, in 2003!

To download the full conference report visit the UNEP website at:

<http://www.unepfi.net/>

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## UNEP FI Exploring Biodiversity Projects in Indonesia

Mareike Hussels, UNEP FI, Geneva

On 26 September, the UK Ambassador in Jakarta, His Excellency Mr. Richard Gozney, invited local authorities, representatives from the national government, and a wide range of other stakeholders from academia, donor agencies and civil society to discuss development strategies for Central Kalimantan. The need for a long-term development plan that combines local economic development and sound natural resource management is a priority for the region. UNEP FI was represented to explore the possibilities of becoming involved in the region to further the UNEP FI biodiversity work programme and further encourage a hands-on approach to sustainability.

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## Upcoming UNEP FI Events And Activities

### UNEP FI 2003 Annual Global Roundtable

Tokyo, Japan

UNEP FI is pleased to announce that the Development Bank of Japan has offered to host the 2003 UNEP FI Roundtable at the Tokyo International Forum in Tokyo, Japan on 20 and 21 October 2003. The Annual Roundtable is the premiere opportunity for signatories

to the UNEP Finance and Insurance Initiatives to showcase best practices, and discuss new ideas and future challenges. More details will be posted at <http://www.unepfi.net/tokyo> as they become available.

For more information, contact:  
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## NEW UNEP FI SIGNATORIES:

- National Australia Bank
- Sumitomo Mitsui Banking Corp
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