



Australasian UNEP Finance Initiatives

Newsletter

'Innovative financing for sustainability'

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A 'Green Loan' first for Bendigo Bank

Owen Davies, Bendigo Bank

Bendigo Bank has launched the first of a planned series of 'green' loans. Managing director Rob Hunt said that the Bendigo Green Personal Loan would be

available to customers to fund a variety of home improvement projects designed to promote sustainable energy use.

The personal loan would be followed by further 'green' loans including a Bendigo Green Home Loan designed to promote environmental awareness in house design. Mr Hunt said the green personal and home loans would provide significant discounts to Bendigo Bank customers looking to improve the energy efficiency of their homes.

"This range of products makes a further commitment from Bendigo Bank to promoting sustainability in the communities we serve," Mr Hunt said.

"With these new products, Bendigo will now be able to provide customers with the means of contributing towards environmental sustainability through the installation of environmentally-friendly products which also promise to deliver them energy cost savings."

"These initiatives are good for customers, good for the environment and good business for our bank."

Bendigo Bank has found that Australians do care about the fabric of their community and are prepared to support initiatives that contribute to their economic and social futures.

Bendigo's marketing manager, Tricia Cox, said the Bendigo Green Personal Loan would be priced at a 1 per cent discount to the standard personal loan.

Ms Cox said that the Green Personal Loan would be available for a range of approved products including solar water heaters, water tanks, insulation and grey-water treatment systems.

“Bendigo Bank has conducted extensive research and consultation with government departments and environmental consultants to compile a list of approved products. We will also offer customers the opportunity to suggest other products which can be assessed for possible addition to the list.”

Ms Cox said that the bank was currently finalising a list of design features that would need to be incorporated into homes eligible for a Bendigo Green Home Loan.

Bendigo Bank is Australia's only regionally based bank, operating 136 company-owned branches and 59 Community Bank branches. It has assets of \$7.5 billion.

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The UNEP FI Annual Global Roundtable on Finance and Sustainability Rio De Janeiro, Brazil, 14 and 15 March 2002

Helen Bloustein, EPA Victoria

The world's financial institutions along with representatives from government, industry and non-government organisations gathered in Rio de Janeiro, Brazil at the beginning of March 2002, for the two-day United Nations Environment Programme Finance Initiatives (UNEP FI) Roundtable.

Coming just five months before the planned Rio+10 Summit to be held this year in Johannesburg, and a week before the United Nations Financing for Development Conference in Monterrey, Mexico, the UNEP FI Roundtable provided the opportunity for the finance sector to discuss and prioritise the issues to be included in official submissions to both these events.

The event, hosted by the Development Bank of Brazil (BNDES) and supported by Corporacion Andina de

Fomento (CAF), Deutsche Bank and ABN Amro Asset Management, was titled ‘Financing a Sustainable Future: Strategies, Partnerships, and Opportunities’, and was attended by more than 350 delegates from around the world.



From left: Nuno Cunha e Silva, Ecosecurities Brazil, Helen Bloustein, EPA Victoria, Takejiro Sueyoshi, Nikko Asset Management Japan, Luis Maja, ABN Amro Asset Management Brazil, Carlos Joly, Storebrand Norway.

The first day of the conference focussed on the UNEP FI programme. Presentations were made on why financial institutions and the insurance industry are concerned and increasingly involved with environmental and social issues. Reinforcing these presentations, it was noted that since the last UNEP FI Roundtable held in Frankfurt in November 2000, 20 more banks, insurance and asset management companies had become signatories to the UNEP Finance Initiatives programme.

Carlos Joly, of Storebrand, Norway and Chair of the UNEP Insurance Industry Initiative, commented on companies' need for greater corporate social responsibility and how environmental risk can become financial risk. Delegates were briefed on the progress of the following UNEP FI working groups:

- Asset management;
- Environmental management and reporting; and
- Climate change

Informative sessions were also held on:

- Facilitating investments in clean technology; and
- Environmental risk for the emerging markets' financial sector, specifically focusing on doing business with multi laterals.

It was suggested that the insurance industry and asset management companies could be encouraged to further work on:

- The broader introduction of ethical, social and environmental criteria in life insurance, property insurance and pension fund investment portfolios;
- Experimentation with carbon trading mechanisms and research to develop new insurance products for emissions trading;
- Experimentation with new funds that invest in carbon saving new technologies; and
- Experimental venture capital funds that invest or lend to small businesses in less industrialised countries and micro-credit banks which provide loans to small businesses.

The second day of the conference included a regional Latin American focus, outlining to delegates the broad range of activities being undertaken to further the finance and sustainability debate in Central and South America. This included presentations from the World Conservation Union, the International Finance Corporation, the Latin America Centre for Competitiveness and Sustainable Development and from Banco BBA Creditanstalt, Brazil's fifth biggest bank and first to put an internal environmental management system in place.



From left: Sergio Vianna, Brazil Statistics Bureau, Jacqueling Aloisi de Larderel, UNEP, Carlos Joly, Storebrand, Eleazar de Carvalho Filho, BNDES, Edward Navaes, Brazil Ministry of Environment

In the workshop sessions that followed, there were a number of interesting topics discussed including:

- Opportunities in finance and sustainability: water, energy and tourism;
- Tools for financing sustainability;

- Sustainable natural resource use: biodiversity, minerals, forestry, fisheries;
- Microfinance and sustainable small and medium enterprises;
- Managing political risk for sustainable development;
- Finance and sustainability: the Brazilian experience; and
- Social performance indicators for the finance sector.

Concluding comments made at the Roundtable reinforced the important and pivotal role that the finance sector can play in driving and promoting social, environmental and broader sustainability issues.

It was agreed that the finance sector is on the way to becoming a better corporate citizen, but that much work still needs to be done. Accordingly, UNEP FI signatories will be encouraged to be more active partners, including having to submit their own corporate sustainability reports, and the finance sector will look at how to stimulate increased investment in companies with sustainability criteria and also in developing economies.

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

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or

visit: <http://unepfi.net/rio>

Growing interest in Ethical Investing but Investors need more education

[Leanne Bradley, Rothschild](#)

Many Australian investors have not heard of ethical investing, but those who understand the concept are keen to invest in this area, according to a national survey carried out by Rothschild Australia Asset Management Ltd.

“Ethical investing is well on the way to becoming a mainstream investment movement in Australia, but the study showed that if ethical investing is to grow here on a similar scale to overseas, education of investors is the key,” said Leanne Bradley, product manager at Rothschild.

According to the survey, only 16 per cent of investors had heard of the term ethical/socially responsible investing. Of those who were aware of ethical investing, 33 per cent were currently using or had considered using ethical funds or investments. The strongest demand for ethical investing was in the 55 plus age group.

“What is significant is that even though most investors have had little exposure to ethical investments, they are willing to invest a large portion of their portfolio in ethical investments,” Ms Bradley said.

“Over half of the investors were prepared to invest more than 50 per cent of their portfolio in ethical funds. Even more interesting is that 20 per cent were willing to invest their entire portfolio in ethical investments.”

The largest proportion (23 per cent) of investors in the survey said they were prepared to allocate between 50 and 75 per cent of their portfolio to ethical investments.

“This is in stark contrast to financial planners, where the majority said they would allocate about 10 per cent of a client's portfolio to ethical investments,” she said. “Investors feel it is the right thing to do but they need to understand and have financial advice on how they can integrate their personal values with their investment decisions.”

Ms Bradley said that on a State-by-State basis, Western Australia seems to be the most ethical investment-conscious state, while Queenslanders were the least likely to consider such investments. More than half of Western Australian investors in the survey said they would consider ethical investments, compared with only 14 per cent of Queensland investors.

Investors in NSW, Victoria and South Australia were all at the same level, with more than 30 per cent of

investors in each of the three states indicating they would consider ethical investments.

One of the major features of ethical funds is the screening process, where stocks in certain areas such as the environment or weapons are assessed on their suitability for inclusion in an ethical fund. When it came to the most important areas to screen, investors and planners seem to be in agreement. In each case both nominated the environment and human rights as the highest priorities. Work place practices, followed by animal welfare and then weapons were the next top priorities for investors to screen, while planners rated weapons, logging and then tobacco their next top three.

Investors also suggested that health care, medical research and education should be considered for inclusion in positive screens.

“Significantly, alcohol is not seen as an important area to screen. Investors rated it tenth in importance, while planners who last year rated it the fifth most important, dropped it out of the top 10 this year,” Ms Bradley said.

According to Mark Watmore, senior manager of product development at Rothschild, who was in charge of the financial planners' section of the survey, the interest in ethical investing in the Australian financial planning industry is growing rapidly.

“The latest survey shows the number of planners currently using or considering using ethical funds has increased by over 10 per cent within a year,” Mr Watmore said.

The survey shows 78 per cent of planners are currently using or considering using ethical funds (20 per cent currently using ethical funds and 58 per cent considering it).

“From the financial planning industry point of view, this is a significant level of interest in such investing. However, planners still remain conservative about what proportion of their clients' portfolios they will invest in ethical funds and see it as simply another means to diversify their clients' portfolios,” Mr Watmore said.

The survey indicates planners are seeing ethical investments as a small portion of a client's overall portfolio, perhaps using them for diversification purposes, while enabling the client to make an emotional statement with a small percentage of their investments.

Mr Watmore said the survey suggests there would need to be a much broader choice of ethical products across a broad range of asset classes to enable planners to direct large percentages of their clients' portfolios to this area.

Both planners and investors agreed on the key criteria for selecting ethical funds: the transparency, process and performance of the fund.

Another key area of ethical investing is the type of screens that are put in place to judge the 'ethical' or 'unethical' nature of the stocks a fund may invest in. Negative screening is used to avoid 'unethical' investments while positive screening is used to seek out environmentally and/or socially responsible investments such as green and sustainable technologies. A third method, which has been the subject of much debate in the ethical investment industry, is 'best-of-sector'. Best-of-sector is the inclusion of the most sustainable companies from each sector, despite their particular area of business.

When asked, planners felt that negative, positive and best-of-sector were equally preferred, demonstrating the need and room in the Australian market for different types of Socially Responsible Investment products.

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SHORTS

Clare Moran, EPA Victoria

Socially Responsible Investment in South Africa

The African Institute of Corporate Citizenship (AICC), a centre for excellence in corporate social responsibility with a particular focus on the finance sector, recently released a report entitled 'Socially Responsible Investment in South Africa'.

Socially Responsible Investment (SRI) is a developing concept in South Africa and the report explores the opportunities for the application of SRI and outlines plans for a South African SRI Index. The index is being developed in collaboration with the Johannesburg Stock Exchange and the FTSE and is expected to be operational by the end of 2002.

The report can be found on the AICC website at:
<http://www.corporatecitizenship-africa.com/SRI%20intro.htm>

New Sustainable Finance Website

The Finance Institute for Global Sustainability (FIGS) is an international register of people and organisations involved in sustainable finance, as well as being a global library of related literature and research. Access is free and users can perform searches to find historical and up-to-date articles and publications, links to relevant web sites, and details of organisations and individuals actively involved in sustainable finance. Users may also submit documents of their own.

The website address is:
<http://www.figsnetwork.org>

Social Performance Indicators (SPI) for the Financial Industry

SPI-Finance 2002 is an international project being undertaken by 10 financial institutions from six countries to develop Social Performance Indicators (SPI) for the financial industry. SPI-Finance is linked to the Global Reporting Initiative (GRI), the international initiative to standardise corporate sustainability reporting. In March 2002, SPI-Finance released a first draft of key performance indicators. The final project report is expected to be released by the end of May 2002.

To view the list of draft indicators or for more information on the project go to:

<http://www.spifinance.com/index.htm>

For more information on the GRI go to:

<http://www.globalreporting.org/>

France Legislates for Mandatory Sustainability Reporting

Corporate disclosure on social and environmental issues in annual reports and accounts is now mandatory in France.

Passed by the French Parliament in May 2001, the law requires all French corporations with more than 300 employees and listed on the "premier marché" (with the largest market capitalisation) to report on the social and environmental impacts of their activities. In practice, all such listed companies will be required to report against a template of social and environmental indicators in their 2003 annual report and accounts (that is, for the 2002 financial year).

For more information on the legislation and reporting templates, go to:

<http://www.premier-ministre.gouv.fr/en/p.cfm?ref=28057>

Fitch Report: Assessing Environmental Performance of Electricity Generators in a Changing Regulatory Environment.

Clare Moran, EPA Victoria

As the largest source of greenhouse gas emissions, the electricity power industry is faced with the challenge of adjusting to a new regulatory environment. How well generators respond to this challenge has the potential to affect company performance and credit ratings.

International rating agency, Fitch Ratings recently published a special report entitled 'Effect of Environmental Regulations on the Electric Power Industry: US, EU, Australia, and New Zealand'. The report examines the regulatory climate in these jurisdictions and discusses the framework in which Fitch considers environmental performance in its credit ratings.

The Fitch report comments that: '... generation companies, voluntarily or by mandate, are investing in technologies to minimise the impact of their operations on the environment because of more stringent standards and expectations from regulatory authorities, the public, and customers. For some companies, the required capital outlay can be significant and has the potential to materially affect their credit quality by limiting their ability to meet financial obligations'.

'However since the nature of the regulations differs by country and/or region, it is difficult to determine the overall effect regulations have on the electric power generators' operations, and credit quality. Generators are being faced with the decision to either control emissions now or risk scrambling to 'catch up' later'.

'In addition, regulations may be more stringent than expected, or differ from current expectations, causing

some generators to unnecessarily increase capital expenditures and operating costs.

When establishing ratings, Fitch is concerned with a company's ability to continue to generate cash to meet existing obligations. Fitch ratings presume a long-term view, taking into account events likely to significantly affect a company's ability to continue to generate cash or factors that may place a considerable demand on future cash flows. Environmental obligations fall under the latter. For example, an existing plant may require an upgrade to meet the standards required by current legislation. Alternatively, companies may decide that it is more cost effective to close such a plant rather than make the required investment. Fitch assesses a company's ability to deal with these sorts of contingencies, and the implication on credit quality is factored into the rating.'



The report also notes that Fitch considers several factors when evaluating the environmental performance of generators, including: '...the extent to which the generator's portfolio meets current environmental requirements...Some portfolio mixes are naturally more susceptible to environmental risk than others. For example, a generation company with a large amount of renewable capacity in its portfolio would, for the most part, be less subject to environmental risk than a company with predominantly coal-fired generation capacity.'

In addition, consideration is given to the number of plants within the portfolio. A company with a single coal-fired plant is more susceptible than a company with several plants spanning different geographic

locations and fuel types. Fuel-purchasing practices and the level of commitment demonstrated by a company's management are considered as well.

Fitch considers the type of technology and equipment utilised at a company's generation plants and seeks to understand the cost and reliability of the system. For example, a company with predominantly coal-fired generation capacity fitted with energy efficient equipment (such as scrubbers) would be considered less vulnerable to a change in emission limits than a similar company without such equipment.

Other factors considered by Fitch Ratings include plant age, retrofitting costs, boiler type, space available to add emission control technology, current capacity factor and the company's ability to pass increased costs onto its customers.

Importantly, Fitch factors in the national and regional regulatory environment in which the company is operating, as well as the backdrop of international legislation.

In the EU, for example, the regulatory environment is well developed and based on long-term targets. 'As such, Fitch assumes that a company's risk level is lower than if a jurisdiction had less defined or non-existent targets. Notwithstanding, within the EU, differences remain as varying levels of legislation are enacted. Some member states have achieved overcompliance, while others have fallen short of the minimum requirements. An example of overcompliance exists in the case of Denmark, which has set a target of phasing out coal-fired generation over the next 30 years. In rating a company operating coal plants in Denmark, the higher environmental standards would be taken into account.'

Fitch's rating analysis includes a comparison of a generator's environmental profile to that of its peers. Fitch evaluates a company's annual environmental plan and its approach to overcoming compliance obstacles. The available information enables Fitch to establish whether a company's performance deviates from what is considered to be best practice and to determine whether a company's decisions may affect its competitive position and credit quality.

When reviewing a generation company or project financing of generation assets, Fitch Ratings may request information such as:

- Governing environmental laws or regulatory agencies;
- Generation mix by fuel type;
- Actual or expected greenhouse gas emissions by pollutant per unit of output (megawatt-hour) and per annum;
- Environmental management strategy;
- Mitigation measures in effect or planned;
- Types of energy-efficient technology or equipment used;
- Projected capital investments and costs related to environmental compliance.

As an international ratings agency, Fitch has more than 1,200 staff in 40 local offices world wide. Fitch has a rating presence in 75 countries, has dual headquarters in New York and London, and is wholly owned by FIMALAC, Paris.

For further information, please contact: Kim Herrmann or Melody Whelan, Fitch Brisbane on +61 7 3222 8600 or to access a copy of the Fitch report see: www.fitchratings.com.au

UNEP FI Regional Outreach Event – Africa

Niamh O'Sullivan, UNEP FI, Geneva



Hosted by Development Bank of Southern Africa (DBSA)

Midrand, South Africa

January 28 and 29, 2002

UNEP FI's regional outreach event, the third in a series, was the first major international sustainability conference in South Africa for the 2002 WSSD (World Summit for Sustainable Development) year.

The conference aimed to highlight and encourage the active participation of diverse African financial institutions within the dynamics of sustainability, and did so through the adoption of a double roundtable format focusing on:

Day 1: The Financial Sector in Africa: The Business Case for Sustainability Performance.

Day 2: Foreign Direct Investment: Creating a Sustainability Dynamic.

More than 110 representatives from a variety of African countries, and from both financial and non-financial sectors, discussed the limitations, challenges and benefits of the progression of sustainability within the African financial sector.

Iqbal Sharma-Meer, of the Department of Trade and Industry, Government of South Africa, was one of the keynote speakers on the opening day, and presented the following thought starter to the audience:

“Capital is a Coward, It Flees from Risk.....”

“On a recent visit to the US, 35 sub-Saharan trade and foreign ministers took part in a roundtable meeting. One of the key themes for the event was 'Capital is a coward, it flees from risk'. I disagree; capital is an inanimate object. The claim that capital is a coward, is more an indictment on the owners of capital rather than capital itself”

The need to engage socio-environmental considerations and risks into global financial agendas was highlighted during this keynote speech. The hidden dimension of capital and its possible racial, political and geographical preferences were introduced as issues to ponder for the two day event. These issues questioned whether it is capital itself, and the systems within which it flows, or the powers behind it that should be held

accountable for neglecting such socio-environmental risks and 'cowering' from them in the past.

This led to discussions on the necessity for African financial institutions to change course in favour of sustainability and was coupled with the recognition that in so doing they need also to be involved in the formation of global financial standards and codes of conduct.

One of the most rewarding aspects of the roundtable event was the opportunity to gain pragmatic insights and recommendations for the future of sustainability from African financial practitioners. Such insights will allow UNEP FI to produce a declaration of practical targets and manageable goals for sustainable finance to be reviewed at WSSD and beyond.

Speaker presentations are available on line:
www.unepfi.net/africa/pres.htm

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Community-building Credit Union puts ethics into practice

Paul Rees, Maleny Credit Union

Maleny Credit Union (MCU) in Queensland is a community-based credit union. It focuses on strengthening the community in which it operates and harboring respect for the environment while maintaining profitability.

Maleny Credit Union began operation almost 18 years ago when the term 'ethical investment' was in its infancy. During the years, MCU has introduced a number of programs and initiatives to help achieve its goals.

Building community

MCU allocates up to 10 per cent of profit to its Community Grants Fund, which supports local community and environment groups to undertake

worthwhile projects that otherwise would not be possible. For the last two years, the State Department of Family and Community Services has recognised the scheme's value and matched MCU's funding dollar-for-dollar.

Credit unions are owned by members and their purpose is to provide financial services for members. Being small, committed to member service and not beholden to shareholders means MCU can take individual circumstances into account. The credit union lends to people with low incomes and on social security, giving them the opportunity to buy a home, a car and participate in the full range of community life that may be unobtainable without access to responsible credit.

MCU aims to foster regional financial autonomy. Although it accepts deposits from all over Australia, it restricts lending to the Maleny region. Its local lending policy ensures that money is available to create local jobs and partially reverses the drain of funds from the region to the capital cities.

The credit union is a responsible employer, encouraging worker participation in decision-making, organising work into self-managed teams, having a staff-director position on the board and providing regular forums for discussion between the board and staff.

Repairing the environment

MCU has a number of programs and initiatives in place to help care for the environment.

For every ream of paper it uses, MCU pays an eco-tax of 50 cents to Barung Landcare, the local Landcare group. MCU also supports Barung events, provides grant funds to Barung, and provides free local native trees to members to celebrate World Environment Day. MCU is a member of and supports local, state and national environment groups.

MCU was named a 'Cool Community' under the national Cool Communities program, a partnership between the Australian Greenhouse Office, State Conservation Councils and local communities to reduce greenhouse gas production at the domestic

level. MCU was one of only two Queensland communities and the only financial institution in Australia selected for the program. Through Cool Communities, MCU will offer a revolving interest-free loan fund for small environmental projects and cheaper loans for environmentally friendly homes, and give conscientious investors the ability to nominate what activities their money will fund and what interest rate (up to a certain maximum) they will receive.

Making a difference, measuring the difference

Each year, MCU conducts a social and environmental audit of its operations and publishes a social, environmental and financial annual report. These reports have won praise and are featured on Environment Australia's public environmental reporting website. Last year, two independent verifiers of high community standing assessed the report and their assessments were reprinted in full in the report.

MCU recently hosted a four-day social and environmental auditing course led by internationally renowned social auditing expert John Stansfield. Australia has been seen to lag behind other nations in regards to triple bottom line reporting. Therefore, MCU hosted this course to build local skills in this vital, emerging field.



Participants attending the four day social and environmental audit course, hosted by MCU.

Building an alternative vision

Working with like-minded ethical financial cooperative Foresters ANA Friendly Society, MCU developed the

Community Capital project to link ethical investment with community development and environmental repair, challenging the dominant paradigm that equates ethical investment with share ownership in multinationals.

Community Capital includes a two-day conference which was held in April 2002, international research on community-based ethical investment, a website, and formation of the Community Capital Builders' Network/Friendly Investment Group. This group will help link ethical investment dollars with community capacity builders and provide ongoing support and education for practitioners in ethical investment, community development and environmental repair.

MCU, a member-owned, community-based credit union offers an inspiring example to people who believe business should be about more than just making money.

For further information contact MCU:

T: 61 7 5494 2144

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Or see the following web addresses:

www.malenycu.com.au

www.communitycapital.asn.au

www.forestersana.com.au

Bright sparks help ANZ save energy

Tony Wells, ANZ

ANZ staff at 55 Collins Street, Melbourne, have been doing their bit for the environment. They have formed a 'green team' to identify energy saving opportunities within their building.

And they are getting results. Several initiatives, relating to lighting and equipment, have already been implemented at an estimated annual saving of \$30,000 in just one location.

ANZ's Environmental Initiatives Manager, Jan Fitzgerald noted that "It's great to know that making a difference to the environment can also flow through to the bottom line".

ANZ's overall target at 55 Collins Street is to reduce energy consumption by 10 per cent. This equates to a reduction of more than 300,000 kilowatt hours and a saving of more than 500 tonnes of greenhouse gas emissions.

The green team's work was recognised recently when ANZ won two awards in the Energy Smart Leaders Program, run by the Property Council of Australia and the Sustainable Energy Authority of Victoria.

ANZ received an award for outstanding achievement and a participation award.

In addition, ANZ has developed an environmental strategy for the bank and, as a result, signed up for the Federal Government's Greenhouse Challenge, joined the Victorian Government's Wastewise program and become an Energy Smart Partner.

"The business world is certainly changing," says Jan. "There's an awareness that corporations and the community have a joint interest in caring for the environment. It's encouraging that ANZ's senior management are genuinely trying to find ways where we can perform in an environmentally sustainable manner."

By enlisting staff, ANZ was able to quickly identify a number of energy saving opportunities at 55 Collins Street. These related mainly to lighting and include:

- Commence security rounds three hours earlier, meaning lights are now switched off earlier;
- Delamping 475 light fittings by disconnecting two out of four lamps per fitting; and
- Installing light sensors/switches in meeting rooms.

With a further 10 per cent in energy savings in mind, the bank is currently running a broader 'switch off' campaign where staff are encouraged to turn off equipment such as PCs and photocopiers.

For further information please contact:

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UNEP FI Australasian Advisory Committee Update

Gabrielle McCorkell, EPA Victoria

The fourth UNEP Australasian Advisory Committee focusing on operational environmental management for financial institutions has been established.

The committee is made up of financial institution representatives and will advise EPA Victoria and UNEP on the nature of activities and programs to run in Australasia to assist financial institutions in developing improved internal operational environmental management and external reporting practices. A number of Australia's financial institutions are already beginning to explore issues such as public environmental reporting and verification.

The members of the Advisory Committee are:

ANZ	Jan Fitzgerald
AMP	Cynthia Watkins
Environment Australia	Anne Close
Insurance Australia Group Limited	Pauline Gregg
Telstra	Joanne Saleeba
National Australia Bank	Michael Spencer
Norwich Union	Robert Gill
VicSuper	Bob Welsh
Westpac	Linda Funnell-Milner
EPA Victoria	Terry A'Hearn
EPA Victoria	Gabrielle McCorkell

Global Sustainable Development & Corporate Responsibility Survey

Stuart McKenzie and Gary Veale, Ernst and Young

In recent years there has been a marked increase in the number of companies working to develop agendas and strategies around environmental, social and ethical issues. To better understand the trends emerging in this area, Ernst & Young recently engaged an independent global research organisation to survey Global 1000 companies. The aim of the survey was to establish the relative importance of these issues on the corporate agenda and to identify the challenges for companies around these issues during the next five years. This article summarises the key findings from this research.

Sustainable Development

There is still considerable confusion amongst global companies about the range of terms used to describe corporate environmental, ethical and social behaviour. The survey found the two terms most commonly used by companies to describe the management of these issues are sustainable development (SD) and corporate social responsibility (CSR).

High on the boardroom agenda

The survey found strong evidence that SD is now a significant issue for company directors (73 per cent). There was also general consensus that the importance of this issue will increase during the next five years.

A number of factors are identified as influencing the increasing business focus on SD. The key driver is greater awareness about corporate environmental, ethical and social behaviour that has led to higher expectations from company stakeholders.

Focus on business value

Companies recognise that the value of their organisation is strongly linked to the quality of their relationships with key stakeholder groups.



In fact, effective management of stakeholder relationships is seen as critical to financial performance.

The survey found that nine of the 10 reasons identified by companies for implementation of an SD agenda were associated with improved stakeholder relationships. In this respect most companies now believe development of SD strategy can deliver real business value.

These benefits included improved staff retention and motivation, customer attraction (based upon marketplace differentiation) and improved overall relationships with influential stakeholder groups such as shareholders.

Developing an effective response

The majority of companies surveyed agreed that an effective response to SD required a process that has the following elements:

- understanding the relevance of SD to the organisation;
- a robust business case;
- engagement with stakeholders;
- identification and prioritisation of key risks;
- strategy development;
- development of policies and procedures;
- organisational change;
- performance monitoring; and
- stakeholder communications.

While many global companies have a SD strategy either in place or under development, the survey found very few had implemented any of these actions as part of their response. Of most concern was the finding that many companies were developing SD

strategies without an understanding of the relevance of SD to their business and without regard to the needs and expectations of key stakeholders.

Stakeholder engagement crucial

There was a strong recognition that business value is intricately tied to the company's ability to respond to key stakeholder needs and expectations. Staff, customers and shareholders/investors were identified as the most important stakeholder groups. In fact 96 per cent of companies considered effective stakeholder dialogue to be either a fundamental or useful prerequisite to the development of their SD strategy.

The research found that only a small percentage of companies actually seek to engage with stakeholders on these issues and only a handful are satisfied with the ability of their stakeholder dialogue process to help develop an effective SD strategy.

Performance - the measures that matter

The report found that one of the biggest challenges facing companies developing a SD strategy is in finding tangible and measurable metrics linked to environmental, social and ethical performance. Performance measurement and monitoring was identified as an area of high priority within the SD agenda of many companies.

Given that few companies have developed a robust business case around their SD agenda or even understand stakeholder needs and expectations, there is a risk that developed metrics will fail to drive tangible business improvement.

Whilst significant debate currently surrounds the development of public reporting frameworks such as triple bottom line reporting, evidence from client interaction and survey findings suggests this debate is yet to adequately focus upon the alignment of such frameworks with key stakeholder group needs and expectations.

Public reporting gaining pace

Public reporting by global companies on aspects of SD is now common practice. More than three-quarters of

the companies surveyed indicated they publish information on environmental, social or ethical behaviour in some format.

Companies perceive there is business value associated with public SD reporting, primarily in the areas of: brand value; staff retention and recruitment; investor relations; customer satisfaction; and loyalty and shareholder value. Only 2 per cent of companies, however, believe they are realising the full potential of the benefits of this reporting.

Five key factors were identified as critical to more effective public reporting:

- more effective stakeholder dialogue;
- greater awareness of the relevance of SD to the organisation;
- better understanding of critical risks;
- improved key performance indicators/metrics/measurement; and
- enhanced data collection.

SD - a challenging opportunity

Most companies see SD as a business imperative that provides opportunities to drive organisational value. It is clear few companies are realising even a small portion of this value because their strategies are being developed with no business case and little regard for stakeholder needs.

The successful implementation of a SD strategy provides a host of difficult challenges including the identification and measurement of factors that help a company understand how it interacts with its environment. Those that take on these challenges will ultimately find the answers to the long-term viability and success of their businesses.

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Water quality, availability and implications for the Finance Sector

Clare Moran, EPA Victoria

The importance of water quality and availability to the insurance sector are the subjects of two new reports by Swiss Re, an international reinsurer.

The two reports, Water Quality and Water Availability, published on 22 March 2002 to coincide with United Nations' World Water Day, outline how current trends in water usage are not sustainable and how strategies must be revised to ensure a future in which the global population will have access to fresh water.



The reports note that business opportunities are expected to emerge as water shifts from being a public commodity to a commercial product, necessitating new insurance concepts and offering investment potential. The reports predict that the financial services industry is playing, and will continue to play, a role in this debate, both as financial backer and as product innovator. Highlights of both reports are outlined below.

Water Availability

This report clearly shows that current trends in water usage are not sustainable either locally in the short

term or globally in the medium term. By 2025, half of the world's population will live in water-stressed conditions, and a quarter will face severe water scarcity. The implications for the financial sector are wide ranging.

Manufacturers and water consumers alike can be exposed to a wide range of water-related risks, including environmental perils and catastrophe risks such as seasonal water flow, drought and floods. Accordingly, many different lines of insurance may be affected by water-related risks. For example, property damage may occur in water extraction, holding, or treatment plants, or if water supply becomes inconsistent (for example, due to burst pipelines). If endorsed without prudent underwriting, claims for failure to supply may be filed when a water producer, conveyor or distributor becomes unable to provide adequate water supply to its customers. A credit risk is involved where client companies face bankruptcy if the water they rely on for production purposes becomes unavailable.

The report identified that opportunities for the financial services sector usually consist of engineered risks and the clear and careful evaluation of safety standards, contingency plans, location and management plans. More specifically, potential areas of activity include conventional water supply and desalination plants seeking solutions for project financing, construction and operation. There is also demand for traditional coverages such as property, liability, general liability and workers' compensation.

New technologies for alternative and/or efficient water use also need financial support. These might manifest themselves in the form of property coverage for wastewater reclamation and treatment plants, product liability for crops irrigated with wastewater, and project finance for new techniques to recharge groundwater with reclaimed waste.

Other potential products outlined in the report are weather risk derivatives and insurance products triggered by indices such as precipitation or river flow.

Moreover, with the increasing corporate ownership of water sources, opportunities in the area of water trading may evolve as these assets will increasingly have a tradeable value. Trade-related financial or insurance products may be possible to ascertain the validity of these markets.



The final section of the report notes how the scarcity of water will promote intellectual property (IP) in the area of water related new technologies. A well placed capital venture fund may secure significant IP and revenue from profit sharing of the relevant technologies when they are commercialised.

Water Quality

This report concludes that the quality of drinking water is threatened by a growing list of industrial and biological pollutants and this has spurred the stakeholder debate on how to deal with the issue. Successful solutions clearly require constructive co-operation among governments, industry, financial institutions, scientific research and NGOs, with the aim being to establish upstream strategies and technologies focussing on the efficient use and provision of clean water rather than on costly and complex downstream solutions.

Major risks identified in the report are associated with: major facilities depending on drinking water supplies; food; healthcare and pharmaceuticals; agriculture; aquaculture; and manufacturing, for example the building and semi-conductor industries. Companies operating in these areas could sustain business interruption losses if they are forced to reduce or halt

production due to contaminated water. Other risks outlined in the report include the risk to human health and property damage from exposure to contaminated water, and credit risk from an entity's ability or failure to generate sufficient profitability for the reasonable maintenance of its operations.

The report outlined several areas in which business opportunities may occur. Considerable opportunities may be secured in project finance, through tailor-made financing programs for clean-up, expansion, upgrading and new development of water facilities.

These programmes could be designed to cover a variety of risks and issues, such as environmental liability, credit risk and product liability, and may include guarantees and financing instruments.

Investment opportunities will arise with the development of new technologies aimed at the efficient use and supply of drinking water with some of the associated products and services likely to be financially successful. Several investment and venture capital groups are currently investing in water-related projects, and promising performance has been reported. Among these product types are the emerging water funds.

Strong demand for environmental impairment liability, first-party clean-up costs, product liability and other related insurance products is expected to continue from companies which have water pollution potential or are in the water treatment and distribution business. Appropriate underwriting discretion and risk selection will allow the insurance sector to successfully participate in this market.

The report also outlines some broader implications for the insurance industry. Both short and long-term trends are that society will increasingly turn to the insurance industry for the payment of past environmental impairment and potentially for future ecological damage. That being so, there will be growing demand among insured parties for coverage against these risks. Insurers will therefore need to monitor these issues closely and make them an integral part of their comprehensive underwriting analyses. In doing so, they will create opportunities to successfully manage these issues and risks.

The report concludes that to succeed in securing business opportunities related to water quality, the insurance industry must develop an awareness of these issues and ensure a constructive exchange of knowledge and experience among individuals capable of monitoring relevant trends. This will enable underwriters to distinguish between profitable and unacceptable areas of risk. Although desirable in this context, an unambiguous legal environment and government cooperation are beyond the control of the insurance industry. The exchange of expertise and cooperation with rural and urban planning officials and development aid agencies is another key prerequisite to tackling the water problem at its roots. To be successful, forms other than traditional insurance, for example financial products tailored to water quality, must also reflect the true cost of water rather than current prices, since these fail to incorporate the risks associated with exploration, treatment and distribution.

The full text of these reports can be obtained at: www.swissre.com by following the links to the water information kit.

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Property Divestment and Sustainability

Lynne Hughes and Scott Johnson, APP Corporation

The development of Socially Responsible Investing (SRI) has implications for different sectors.

Within the property market, some asset owners may consider remediating contaminated sites to make their company more attractive to SRI funds. Superannuation funds may also be interested in how a company manages its assets, including past and present activities that have taken place on the site.

In Australia a number of major corporations and companies have considered remediating long-held assets. Some examples of processes that have been followed are detailed below.



Example 1

A company purchased a property in the 1970s without knowledge of the site history, which had included landfilling. The property is now surplus to requirements but contamination due to the landfilling exists, pre-dating the current owner. The company had to remediate the site of Polynuclear Aromatic Hydrocarbons (PAHs) and heavy metals before selling the property. Unfortunately the cost recovery for remediation is still to be pursued from the original polluter and the responsibility may prove difficult to establish.

The cost of remediation may exceed the value of the property but the company asset register is free of contamination issues.



Example 2

A company's property was contaminated by past activities and now the site is larger than needed for current operations. Heavy metal contamination has resulted in a site that is unsuitable for sale without remediation. A solution was found allowing a staged remediation and subdivision of the property. The company retains a portion of the subdivision to continue its activities and the remainder is sold to fund the site cleanup. This process is being undertaken over two years and will include the construction of a new facility for the company's operations.

The cost of remediation is funded from the part sale of land and the company asset register is free of contamination liabilities without impacting on continuing operations.

Companies reviewing corporate property strategies should consider a broad range of environmental issues, including:

- Is the asset surplus to requirements?
Should surplus properties be divested rather than becoming orphan sites, thus incurring the costs associated with ongoing environmental monitoring and maintenance.
- If the surplus property is leased then the owner may be liable for lessee activities that may add to contamination issues.
- How has the property value been assessed?
Has the liability been assessed professionally by suitably experienced persons, to a standard that will be accepted by the investment community?
Has this assessment been consistent across a company's property portfolio?
- Is it a legal requirement to get an environmental audit carried out?
Environmental law varies from state to state and the requirements of all authorities need to be met satisfactorily. Companies need to be aware of the differing legislative requirements and understand how these requirements impact on the development potential of the land.
- Does the sale ensure liability has been transferred/addressed?

The sale of unremediated surplus property to a party that then defaults on the remediation can leave the liability with the original owner. Thus a company selling an unremediated site may want to consider as a condition of sale that the required environmental works are carried out to an agreed standard and timeframe. This will then ensure that the seller's liability is satisfactorily discharged.

In future, increasing pressure will be placed on companies to meet and exceed environmental expectations of the sustainable investment community. Investors will be increasingly aware of contingent liabilities and the cost impacts they have. Companies that are ahead of the competition in the management of their property portfolios will reap the benefits through greater investor confidence.

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Ethical Investment Seminars

Emma Vibert, EICA

The Ethical Investment Company of Australia Pty Ltd (EICA) was established in March 2001. EICA is an investment services company focusing on ethical investments.

EICA Ethical Investment Seminars

EICA is running regular Ethical Investment seminars covering a diverse range of topics on ethical issues. Those covered to date include: Ethical investment and what it means from an Australian perspective and Making a difference with ethical business.

The seminar series got off to a great start in February with a number of people in attendance. The next seminar is on 12 June 2002. The seminars take place at the Victoria University Conference Centre at 300 Flinders Street, Melbourne on the following dates:

- 12th June 2002
- 14th August 2002
- 16th October 2002
- 11 December 2002

For Further information contact EICA:

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Web address: www.ethicalinvest.net

Upcoming UNEP FI events are as follows:

INSEAD / UNEP FI Expert Workshop – Sustainable Venture Finance

7 and 8 June, 2002 – Fontainebleau, France

REGISTER AT:

<http://unepfi.net/venture>

INSEAD and UNEP FI will be joined by leading practitioners and experts to answer whether and when it is profitable to invest in sustainability-oriented venture capital funds and entrepreneurial ventures.

Venture capital fund managers, private investors, SRI leaders and rating agencies, entrepreneurs and start-up companies, policy makers and international organisations will all join this one and a half day expert workshop.

Active participation and discussion will be a focus of the conference, with extra time for networking built in. Discussion will build on applied research already undertaken by INSEAD and UNEP FI.

We are currently looking for partners to assist in funding and networking. Contact the secretariat for more information.

Contact UNEP FI: Jacob Malthouse,

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UNEP FI Regional Outreach Event – Transition Economies, June 24-25th,

The Hilton Hotel Budapest, Hungary.

This two-day roundtable conference will be the fourth in a series of UNEP FI Regional Outreach events and is designed to address the business case for sustainable development and foreign direct investment dynamics within transition economies. The conference aims to attract finance, business, and governmental and non-governmental sectors to discuss pressing issues within the finance-sustainability interface for those economies.

The outcome and recommendations arrived at in Budapest will be compiled with those gained in the previous three events, and those from the UNEP FI Annual Roundtable Event (Rio de Janeiro, Brazil, 14 to 15 March, 2002), and carried forward to the World Summit on Sustainable Development (WSSD) discussions in South Africa in August.

For more information on the Transition Economies event, please contact:

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Background to the United Nations Environment Programme Finance Initiatives (UNEP FI)

The United Nations Environment Programme Finance Initiatives (UNEP FI), under the UNEP Division for Technology, Industry and Economies (DTIE), is a unique voluntary initiative between UNEP and some 275 banks, insurers, and asset management companies worldwide.

The goal of the initiative is to identify, promote, and realise the adoption of best environmental and sustainability practice at all levels of financial institution operations.

UNEP FI comprises the Financial Institutions Initiative (FII), for the banking sector, and the Insurance Industry Initiative (III), for insurers, re-insurers, pension funds and asset management concerns.

Financial Institutions Initiative (FII)

FII was founded in 1992 to engage a broad range of financial institutions in a constructive dialogue on economic development, environmental protection, and sustainable development. Signatories to the UNEP FI Statement by Financial Institutions on the Environment and Sustainable Development commit to the integration of environmental considerations into all aspects of their operations and services.

Insurance Industry Initiative (III)

In 1995, building on the success of the UNEP FI, UNEP launched another partnership with the Insurance Industry, which also plays a key role in achieving a sustainable economy. Signatories to the III's statement of environmental commitment have played a high profile role in various intergovernmental negotiations, notably those under the United Nations Framework Convention on Climate Change.

Quality Services

UNEP provide signatories with practical research; capacity building; and information exchange services. Our products range from professional development programmes and action-oriented reports to major international conferences that bring together professionals from around the globe.

Practical Support

UNEP provides quality support for your organisation. In addition to its dedicated team, UNEP FI opens up a vast network of sustainable development contacts, information and networking services that are dedicated to helping you and your organisation make a difference.

Structure

UNEP is headquartered in Nairobi, Kenya. UNEP has six divisions through which it carries out its activities, including the Division of Technology, Industry and Economics (DTIE) based in Paris, France. The Economics and Trade Unit (ETU), based in Geneva, Switzerland, is a unit of DTIE. The Finance Initiative is an Initiative of the ETU.

CONTACT US

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

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