MONEYMOVES

How Private Sector Finance Can Work for a Sustainable Future

Perspectives from 9 FT/IFC Sustainable Finance Award Winners or Shortlisted Candidates and 6 Pioneers in Setting Frameworks for Sustainable Finance
We acknowledge the important role of the private sector in moving toward sustainable development. We strongly encourage business and industry to show leadership in advancing a green economy in the context of sustainable development and poverty eradication.

—The Future We Want: United Nations Conference on Sustainable Development (Rio+20)
A time for leadership

An unprecedented opportunity is just around the corner. The Rio+20 United Nations Conference on Sustainable Development in June 2012 offers it—with more than 115 heads of state and 65,000 senior public figures and private sector representatives coming together to debate and agree international action to further sustainable development. For the very first time, the private sector and the need to channel private investment to finance a green economy is expected to be at the center of discussions.

Rio+20’s draft declaration already moves towards this direction through its call “to launch an international process to promote the role of innovative instruments of finance for building green economies.” If this call was to become reality, it would open the door to new, innovative opportunities for financial market institutions and the private sector in general.

This is the time for bankers and investors to get up and lead.

Financial institutions—in emerging markets as much as in mature economies—have already been notably innovative over the last 20+ years. They found new and better ways to manage environmental risks. And they developed new products and services that created incentives for sustainable business practices and the deployment of green technology.

Seven years ago, the International Finance Corporation (IFC), a member of the World Bank Group, partnered with the Financial Times, to honor the best of these innovators with the FT/IFC Sustainable Finance Awards. We meant to spread the word and draw attention to the innovation and ingenuity brought to bear by bankers and investors who appreciate and act on the world’s natural resource constraints. What we did not know at the time was that we would meet some of the world’s most impressive business leaders in the course of this journey.

With this booklet, we invite you to meet 15 of these extraordinary leaders: nine are either winners of the Awards or shortlisted candidates, and six are “framework setters”—all of them at the forefront of leveraging finance to drive environmental and social sustainability. They represent banks, investment institutions, private equity firms, and regulators from 9 countries. We asked them which challenges they see in moving towards a “green” growth path, what they are doing about it themselves, and what governments and regulators should do.

The proposals are intriguing. They are about scale and speed, they are about partnerships with governments, and they are about introducing value to the environmental and social resources we all need to grow and do business in the future. Most of all: they are realistic, tested, pragmatic, and feasible.

The financial sector does have some of the key answers. It’s time for leadership.
The Challenge?
THE CHALLENGE

- Reliance on fossil fuels
- Access to debt needed to roll out new sustainable technology rapidly
- Scale of the challenge
- Legacy of environmental erosion and debt
- Rapidly growing demand for retail financial services
- Cost and supply of food in a time of climate change
- Failure to reflect environmental costs in the pricing of water and energy
- Inadequate data on corporate environmental, social, and governance performance
- Need for convergence of standards and regulators
- Water scarcity

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The Challenge?

Views on sustainability challenges vary by country and by the nature of the institution. Nasser Saidi, chief economist of the Dubai International Financial Centre, sees the main issue in the Middle East as water scarcity. Orhan Beşkök of TSKB finds Turkey’s biggest challenge to be its reliance on fossil fuels after explosive economic growth that has more than doubled carbon emissions. With financial institutions unwilling to lend after the financial crisis, the biggest problem for Aloe Private Equity is access to bank debt to rapidly roll out sustainable technology.

The scale of the challenge is on most of our business leaders’ minds. Rana Kapoor, founder of India’s YES BANK, highlights the lopsided nature of India’s development and the need to mainstream sustainability issues on a massive scale. China’s enormous economic progress has left a legacy of environmental erosion and debt, according to Li Renjie, President of Industrial Bank. He sees this legacy as a great opportunity to develop financial products for energy-saving projects and environmental protection.

In Brazil, now that the country can afford to invest in infrastructure, social inclusion, and education, Maria Luiza Pinto of Santander Brasil sees financial institutions challenged to develop sustainable models that can meet rapidly growing demand. John Oliphant, whose Government Employees Pension Fund aims to provide comfortable retirement for more than 1.5 million South African civil servants, is concerned about cost and supply of food in a time of climate change.

Other major challenges are operational. Yanfei Ye of CBRC, China’s bank regulator, finds investment behavior distorted by the failure to reflect environmental costs in the pricing of water and energy, rendering energy-saving and water conservation unprofitable. Standards and regulation need to converge more closely around the world, notes Jeff Leonard, founder of the Global Environment Fund (GEF), which invests in solutions to environmental challenges.

Not surprisingly perhaps, Steve Waygood of the Corporate Sustainability Reporting Coalition points to the lack of data available to integrate sustainability issues in investment decisions. As James Gifford of the UN’s Principles for Responsible Investment confirms: “Without systematic disclosure [of environmental, social, and governance information] in company reporting, investors remain blind to these issues. Yet less than a quarter of the companies on Bloomberg’s database disclose their sustainability performance.”

Sonia Favaretto of BM&FBOVESPA, the Brazilian exchanges group, also sees listed companies, investors, and analysts needing much more transparency on sustainability performance. This necessity is echoed by Denise Hills of Itaú Unibanco, one of the world’s 10 largest banks and whose performance has been recognized in the FT/IFC Sustainable Finance Awards. Even nine years after Itaú started its sustainability program, the integration of environmental, social, and governance issues in all of its operations remains a big agenda, she says.
The Strategies?
HOW CAN PRODUCTS AND PROCESSES BE DEVELOPED TO ADDRESS THESE CHALLENGES?

dedicate funds for sustainable finance  |  promote awareness of sustainability  |  screen for environmental, social, and governance risks  |  devise credit products to finance different types of sustainability projects  |  provide financial advisory services for high-impact businesses  |  play a think-tank role to identify sustainability opportunities  |  create tools to identify and praise sustainable companies  |  strengthen disclosure requirements on environmental, social and governance (ESG) performance  |  target green business such as renewable energy and clean technology

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provide financial advisory services for high-impact businesses
The Strategies?

Targeting green business segments is the financial institutions’ most common strategy for addressing sustainability challenges.

Turkey’s TSKB development bank finances unusual numbers of energy efficiency and renewable energy projects—including geothermal, biomass, wind and solar. In the Gulf, investment in desalination plants to reduce water scarcity goes hand in hand with investment in renewable energy to power the former. “New generating capacity supplies households and businesses in the day and desalination plants at night,” says Nasser Saidi of the Dubai International Finance Centre.

Santander Brasil and Itaú Unibanco provide loans for water and energy efficiency projects. Both offer microcredits to clients at the base of the pyramid. Itaú also lends to informal entrepreneurs. Santander puts all credit applications and new business clients through environmental, social and governance (ESG) screening and started Brazil’s first socially responsible investment (SRI) fund. All these financial entities intend to use their leadership role to transform the market. South Africa’s Government Employees Pension Fund has seen some of its earlier investments, especially in mobile technology, grow into large corporations.

Standard Chartered, which has mobilized $8.4 billion for renewables and clean technology since 2007, is proud of its innovative African agrifinance portfolio, which has lent more than $2 billion using future crop yields as collateral.

The Global Environment Fund actively seeks out technologies that can lighten the footprint of traditional industries around the world. “We find the most energy-intensive and polluting industries,” says Jeff Leonard, “and look for new technologies that can help them use less resources and less energy.” So, too, does Aloe Private Equity, whose Polygenta plant recycles polyethylene terephthalate (PET) plastic bottles in India into high quality polyester yarns, significantly reducing the use of petrochemicals and landfill waste disposal.

Evangelism plays a big role. Turkey’s TSKB runs workshops and events and maintains a website to promote awareness. India’s YES BANK acts as a think-tank to identify sustainability opportunities, while also dedicating business units to sectors such as clean energy, energy efficiency, microfinance, and mobile banking in urban and rural areas. BMCE of Morocco aims to make sustainable development “business as usual.”

BM&FBOVESPA already has three sustainability indices to help investors in its markets find sustainable companies. In addition, the exchange has launched an exchange-traded fund (ETF) to track its sustainability index, thus facilitating investment in sustainable companies.

A new requirement asks companies listed on the São Paulo stock exchange to report on their environmental and social performance (or explain why they don’t). “We hope that other exchanges will follow our lead,” says Sonia Favaretto. “And, of course, others can make similar demands. Companies can ask suppliers whether they report social and environmental information, for example.”
...and Why Not?
WHAT ARE THE BARRIERS TO INCREASE SUSTAINABLE FINANCE?

- Insufficient levels of awareness about sustainability
- Insufficient expertise in sustainability screening
- Peripheral image of sustainable finance making attracting human capital more difficult
- Low levels of awareness about sustainability
- Low levels of awareness about sustainability
- Lack of good information on sustainability performance
- Absence of a framework for promoting sustainable finance
- Variations in standards among countries
- Inadequate disclosure of ESG risks
- International divergences in standards and regulation
- Badly structured government incentives

International Divergences in Standards and Regulation

Inadequate Disclosure of ESG Risks

Insufficient Expertise in Sustainability Screening

Peripheral Image of Sustainable Finance Making Attracting Human Capital More Difficult

Absence of a Framework for Promoting Sustainable Finance

Variations in Standards Among Countries
The three big barriers to increase sustainable finance activities, everyone agrees, are low levels of awareness about sustainability, the lack of good information on sustainability performance, and the absence of a framework for promoting sustainable finance.

At the outset, there is a puzzle that can be explained only by inertia and complacency. As the PRI’s James Gifford says: “A growing number of investors realize they can secure competitive advantage by considering environmental, social, and governance issues in their portfolios.” Yet, even though the better performance of companies that pay attention to sustainability has been noticed, not every company is interested, finds Sonia Favaretto of BM&FBOVESPA.

Appropriate skills also are missing. John Oliphant of South Africa’s Government Employees Pension Fund identifies skills needed for high-impact investments as one area of concern: “Project finance skills play a big role in the packaging of projects and attracting relevant parties to make these projects bankable deals.” Brahim Benjelloun-Touimi says BMCE lacks people with strong experience in sustainable finance. Moreover, with mainstream institutions still considering sustainability to be peripheral to business growth, “it is harder to attract the right human capital to this sector,” according to YES BANK’s Rana Kapoor.

Countries lag woefully behind in creating common frameworks for sustainable finance, says Maria Luiza Pinto of Santander Brasil. “There are as yet no internationally accepted metrics to measure the positive short-term and long-term impact of sustainability and the cost of ‘unsustainability’.” And while some stock exchanges such as Singapore, Johannesburg, São Paulo, and Istanbul mandate ESG reporting by listed companies, the Corporate Sustainability Reporting Coalition’s Steve Waygood notes that less than 10 percent of countries have aligned their disclosure requirements with commitments made at previous UN summits. “It will take decades, at the current rate, for sustainability reporting to be common practice globally.”

Jeff Leonard of Global Environment Fund finds that disparate regulatory regimes—for example, in waste disposal—create an unlevel playing field. Nasser Saidi of Dubai International Financial Centre is concerned about the lack of a common policy framework for moving to clean energy. Orhan Beşkök of Turkey’s TSKB says that incentives for emission reductions need to be refined to attract investors.

“There are virtually no incentives to include externalities in pricing products,” notes Itaú Unibanco’s Denise Hills. “More companies are trying to price in these externalities—but it is not enough to move the market.” And Vivek Tandon of Aloe Private Equity says that where there are incentives, they need to be consistent over the long term. “Changing subsidies during their lifetime disrupts the entire financial supply chain. Once investors have had their fingers burnt, they are unlikely to wish to invest in that asset class again.”
Fast Forward
WHAT POLICY MEASURES WOULD HELP SCALE UP SUSTAINABLE FINANCES?
Scaling-up sustainable finance, everyone agrees, needs one major step only: mandatory disclosure of sustainability performance in company reporting.

“Gathering information is difficult and costly in the absence of unified disclosure requirements and standards,” notes Li Renjie of China’s Industrial Bank. Regulators should issue guidance on disclosure that will help investors improve the quality of risk assessment, reduce transaction costs, and promote sustainable development.

The Corporate Sustainability Reporting Coalition proposes a light-touch “comply or explain” mechanism, leaving implementation to national authorities. Steve Waygood of Aviva Investors notes: “All we are doing is asking boards to do some long-term thinking about the sustainability of their businesses.” The PRI’s James Gifford adds that the evidence shows “that once companies start to measure ESG risks, they do more to manage them.”

Ideally, disclosure requirements should be globally standardized, though, notes Denise Hills of Itaú Unibanco. “If you read two reports on the same company, they are often different.” It will probably be easier to achieve convergence on disclosure requirements than on other standards, believes Jeff Leonard of Global Environment Fund. Getting that far then could make it easier to achieve convergence with the others.

Expanding the definition of fiduciary duty to include more long-term environmental and social issues also could expand the space for sustainable finance, says YES BANK’s Rana Kapoor. “This would encourage a more long-term evaluation of performance.” And regulators should engage with credit rating agencies and other stakeholders, suggests Industrial Bank’s Li Renjie, to help them recognize how long-term sustainability factors improve the returns from financing projects.

Other regulatory initiatives could help, too. Phasing out energy subsidies—even for non-fossil fuels—could create more financing opportunities, believes Global Environment Fund’s Jeff Leonard. “It’s better to tax bad things with negative externalities rather than to subsidize good things.”

Standard Chartered would appreciate more support from the public sector in devising sustainable investment solutions, according to Vibhuti Sharma. He advises, “We need clarity and stability in regulatory policies, financial incentives, and infrastructural support.” Vivek Tandon of Aloe Equity suggests that new financial products also would help—such as mezzanine debt for later stages of sustainable finance projects.

Meanwhile, awareness in the markets will continue to be important, with further international exchanges playing a role. More training programs in sustainability and more experience-sharing between banks is what Yanfei Ye of China’s banking regulator would like to see. There is a role for highlighting best practice. The CBRC has compiled a “Better Enterprises” website and plans to publish what Chinese banks are doing in sustainable finance, such as the total amounts invested.
Move the Money
HOW COULD MORE PRIVATE FINANCE BE LEVERAGED INTO SUSTAINABILITY PROJECTS?
Move the Money

How to draw more private capital into sustainability projects? Is there a silver bullet to “leverage in” the financing available and increase the size of the market?

Maria Luiza Pinto of Santander Brasil commends the Brazilian central bank for its requirement that banks allocate up to 2 percent of demand deposits to microcredit. She advises, “By requiring all companies to comply with certain criteria or a minimum percentage of investments in sustainability projects, they can preserve a competitive level playing field.” Many mature economies set such targets for energy companies to support investment in renewable sources—but similar requirements for the banking sector are rare.

Jeff Leonard of Global Environment Fund sees value in public sector support for long-term research and development for sustainable technologies. Governments can afford to take risks and fail in order to find one project that works.

Public-private partnerships can go a long way in crowding-in private financing. However, it is important to clarify who pays (for what) and who gains (from what)—for example, in sustainable infrastructure, says John Oliphant of South Africa’s Government Employees Pension Fund. Governments need private finance for infrastructure investments; but, if investors recover their costs from user charges, they might be seen as “profiteering.” “We need to find ways of protecting the interests of investors in periods of austerity.”

Government-underwritten insurance for sustainability projects can also be helpful. Denise Hills of Brazil’s Itaú Unibanco believes that such insurance, or partial risk guarantees, is particularly necessary where there are few or no data on the risks of sustainable investment. At the early stages of new markets, incentives have a role to play in persuading investors to sail into uncharted waters.

Even in the precommercial development of new technologies, private funds could be attracted more broadly. Investor Vivek Tandon of Aloe Private Equity suggests more support to get early-stage technology projects off the ground. For example, the UN Environment Programme’s Seed Capital Assistance Facility (SCAF) gives funding to support the first three years of projects.

Yanfei Ye of the China Banking Regulatory Commission suggests redirecting tax incentives for sustainability projects away from sectors and products toward bank loans for such projects. “The advantage would be that the banks would choose which sectors to support, rather than the government doing it.”

A consistent structure of incentives for renewables is needed to crowd-in capital, says Nasser Saidi of the Dubai International Financial Centre. The DIFC has launched an Islamic Finance initiative to raise funds for clean energy through sukuk—Shariah-compliant bonds. Nasser Saidi adds that sovereign wealth funds might be prepared to invest with the patience needed to develop solutions for the future generations whom these funds were set up to protect.
A Role for Rio
Hopes for Rio+20

- Renewed momentum for sustainability
- Actionable measures
- A binding commitment to better ESG disclosure
- Phasing out energy subsidies
- Greater involvement of the financial sector

...and fears for Rio+20

- All talk, no action
- No clarity on an international framework for sustainability
- The wrong sort of action—green protectionism
A Role for Rio?!

They can create new momentum. Or they can make it worse. The business leaders we interviewed have hopes and fears for the governments congregating for the Rio+20 UN Conference on Sustainable Development.

“We need actionable steps where performance can be measured,” says John Oliphant of South Africa’s Government Employees Pension Fund, “not just nice-to-have documents.” Oliphant hopes to see targets that reduce the burden of climate change on future generations. Says Denise Hills of Itaú Unibanco: “We need a framework which would help the financial sector move faster over the next 20 years than it did over the last 20 years.”

Success at Rio could rekindle countries’ commitment to sustainable development, finds Li Renjie of China’s Industrial Bank. Their recommitment in turn could help rebuild the institutional framework. He believes, “It should provide new inspiration and assistance for innovation and the enhancement of financial institutions in emerging markets to manage risk and develop new products and services.”

A renewed commitment to the green economy and poverty eradication, and to institutional frameworks for both, is what Maria Luiza Pinto of Santander Brasil is looking for. She wants to see “a very firm timetable for achieving specific objectives.”

“Making sustainability reporting part of the reporting cycle would make a big difference,” says the Dubai International Financial Centre’s Nasser Saidi who also is executive director of the Hawkamah Institute for corporate governance. “It would certainly be a big plus in our region, where sustainability reporting is very rare.”

Binding commitments to encourage greater and more systematic disclosure of material sustainability issues would be a step in this direction, says Steve Waygood of the Corporate Sustainability Reporting Coalition. “We want the final Rio+20 document to include a recommendation that the UN General Assembly convene an ad hoc intergovernmental negotiating committee to prepare a convention for signature within two years.”

On the other hand, there are fears. “The absence of an outcome or decision or mission statement…would suggest that the sustainability movement had ground to a halt,” says Vivek Tandon of Aloe Private Equity.

The notion of a green economy should be considered carefully, notes Rana Kapoor of India’s YES BANK. He explains, “Tariff or non-tariff barriers on exports of developing countries based on green compliances and standards—green protectionism—without effective support would cripple export markets in emerging countries… The summit should ensure a level playing field for all countries, keeping in mind their relative sensitivities and development imperatives.”

How to realize the hopes and address the fears? Yanfei Ye of the China Banking Regulatory Commission has a practical idea: “Each delegation should include the heads of some commercial banks, who should be encouraged to come up with financial initiatives during the summit.”
The Interviews
THE INTERVIEWEES FROM LEADING INSTITUTIONS

Aloe Private Equity, UK
VIVEK TANDON, General Partner

BMCE Bank, Morocco
BRAHIM BENJELLOUN-TOUIMI, Director and Delegate General Manager to the Chairman

BM&FBOVESPA, Brazil
SONIA FAVARETTO, Director of Sustainability

China Banking Regulatory Commission, China
YANFEI YE, Deputy Director-General, Statistics Department

Industrial Bank, China
LI RENJIE, President

Itaú Unibanco, Brazil
DENISE HILLS, Head of Sustainability

Principles for Responsible Investment, UK
JAMES GIFFORD, Executive Director

Santander Brasil, Brazil
MARIA LUIZA PINTO, Executive Director of Sustainable Development

Corporate Sustainability Reporting Coalition, UK
STEVE WAYGOOD, Chief Responsible Investment Officer, Aviva Investors

Dubai International Finance Centre, UAE
NASSER SAIDI, Chief Economist

Global Environment Fund, USA
JEFF LEONARD, President and Chief Executive Officer

Government Employees Pension Fund, South Africa
JOHN OLIPHANT, Acting Principal Officer and Head of Actuarial and Investments

Standard Chartered, UK
VIBHUTI SHARMA, Managing Director and Global Head, Development Organizations

TSKB (Industrial Development Bank of Turkey), Turkey
ORHAN BEŞKÖK, Senior Executive Vice-President

YES BANK, India
RANA KAPOOR, Founder, Managing Director and Chief Executive Officer
The Interviews

The Private Equity Guy

VIVEK TANDON, General Partner, Aloe Private Equity, UK

Aloe was launched in 2003 by Vivek Tandon and Jean-Pascal Tranié to promote the creation and growth of environmental and socially sustainable companies globally, with a specific focus on recycling, clean energy and eco-processes for the pollution challenges of Asia. The companies in Aloe’s portfolio include revolutionary companies that recycle post-consumer waste PET bottles into sustainable polyester yarn and one of the largest renewable energy generators and developers in India.

Q What are the major sustainability challenges facing your business?
A There is just one global economy, which we are all part of and inextricably links us all. Hence, the challenges for sustainable companies are the same as the challenges for all companies. Access to capital and financing new projects and expansion are constrained. The worldwide banking freeze has slowed the growth of all companies. Project financing, when available, has fallen from 75 percent of project cost to 50 percent over the past 18 months. The result is that more equity is required. Hence, the rate of growth for our companies has slowed due to lack of affordable capital rather than lack of market demand. The great aspect about environmental projects is that once you crack the technology, build the team, and prove the financial returns, you want to roll it out rapidly on a global basis, and that’s when sustainable private equity needs project financing. Less debt slows the rollout, growth, job creation, and environmental and social impact, which is very frustrating.

Q How are you developing your products and processes to address these challenges?
A In this capital-constrained global economy, we, like most banks, companies, and citizens, are conserving our capital—only investing in the most attractive and profitable sustainable opportunities. Our portfolio companies are reinvesting their cash in expansion. This organic growth is steady but insufficient to accelerate sustainable development on a global scale. We are working with the larger development finance institutions, which are helping to fill the gaps, but even they are struggling as governments seek to cut their funding. In the current economic climate, we seek to invest in sustainable companies which have strong cash-flows and do not require extensive working capital. In recycling, for example, companies can get paid upfront to take “waste” material to be recycled.

Q What barriers do you face in increasing your sustainable finance activities?
A We have had good regulatory support in many markets, but it needs to be consistent over the long term. The absolute level of a subsidy is important, but consistency
is paramount. Changing subsidies during their lifetime disrupts the entire financial supply chain. Once investors have had their fingers burnt, they are unlikely to wish to invest in that asset class again. You can invest in China, for example, because the 10-year plan won’t change and you can be sure of earning the returns.

Capital adequacy rules and credit rating agencies often see sustainable finance debt as riskier, but it needs to be treated fairly—based on risk assessments of each specific project.

**What policy measures would help you scale up in sustainable finance?**

Regulators could force sustainability issues onto the public markets, but the risk is that it will justify the view that sustainability is a cost center. This is not the case. In reality, companies with good environmental, social, and governance systems need to work with all stakeholders to show how their robust systems reduce risk, reduce waste, and reduce operating expenses—thereby improving financial performance and, subsequently, their valuation and share price.

One big issue for private equity is the gaping hole for mezzanine debt in sustainable finance. Aloe started with venture capital funding projects and then expanded into making investments in larger later-stage projects with bank-debt financing. Now that the market for sustainable finance is maturing, there are bigger projects to fund where mezzanine debt, a new asset class for sustainable finance, could play a valuable role.

**How could more private finance be leveraged into sustainability projects?**

Support for early stage technology projects can be essential to get them to a point where they are attractive to investors. Development finance institutions tend to focus on later stages, but we have benefited this year with funding from the UN Environment Programme under its Seed Capital Assistance Facility (SCAF) to support very early-stage sustainable energy projects.

**What single result would you like to see coming out of Rio+20?**

Evidence from the countries attending that they are ready to break out of cycles and provide strong incentives for new sustainable business ideas to be implemented. At Rio+20, each government should consider strengthening its domestic environmental regulations, which will have benefits for the people living in those countries. Business may complain that the costs are making them globally uncompetitive, but pollution is literally product or raw materials down the drain—so reducing this will ultimately improve profitability. New environmental regulations do not destroy businesses—they create business opportunities.

**Is there one result that would concern you if it emerged from Rio+20?**

The absence of an outcome or decision or mission statement from Rio+20 would concern me, as essentially this would suggest that the sustainability movement had ground to a halt.
Financial Services for Everyone

BRAHIM BENJELLOUN-TOUIMI, Director and Delegate General Manager to the Chairman, BMCE Bank, Morocco

BMCE Bank was created in 1959 by the public authorities and was the first Moroccan bank to open a branch in Paris. Listed on the stock exchange, it was privatized in 1995 and launched, at the same moment, a foundation dedicated to the promotion of education in rural areas and the preservation of the environment. Committed to sustainable development through a dedicated strategy and policy, BMCE Bank incorporates social and environmental considerations in its business methods. It was the first African signatory to the UNEP FI Statement on Sustainable Development in 2000, and the first bank in the Maghreb Region to adopt the Equator Principles in 2010 and to obtain ISO 14001 certification in 2011.

Q What are the major sustainability challenges facing your business?
A As a developing country, Morocco faces several challenges with environmental concerns, including water shortages and a heavy reliance on oil imports. Therefore, it might be difficult to enforce very tight sustainable criteria on our own.

Still, we are introducing standards and frameworks in financing sectors such as housing, construction, and energy efficiency. Our aim is to make sustainable development business as usual—something that is not exceptional and does not require a philosophical or political commitment by individuals.

Over the long haul, Morocco needs an international commitment to develop a global framework which will help to build up capacities and resources to deal with these challenges.

Q How are you developing your products and processes to address these challenges?
A We started with ENERGICO, a low-interest, medium- and long-term loan scheme for businesses to finance energy efficiency projects. We have also developed other green products, and we hope that customers committed to clean technology will be rated more highly and get access to better resources.

In project finance, we were innovators in introducing environmental, social, and governance criteria when allocating funding from international sources such as the European Investment Bank and the European Bank for Reconstruction and Development.

We have also partnered with Meditel, the second largest telecom operator in Morocco, to launch mobile banking services for poorer rural communities and young people. Moreover, we act as banker for the three main Moroccan microfinance institutions which provide credit for the poorest. And when legislation authorizing Islamic banking is approved later this year, we will develop services that will meet the social, spiritual, and religious convictions that
have hindered part of the population from using financial services.

Finally, we have been rated by Vigeo, the European social rating agency, for our environmental strategy and eco-design, and for our foundation’s work in rural education.

**Q** What barriers do you face in increasing your sustainable finance activities?

**A** Because we face harsh competition in Morocco, imposing conditions on our customers when lending money would probably lead to a loss of market share. This is why we need a homogenous framework and to work with stakeholders such as the monetary and political authorities in ways that lead other financial institutions to commit to the same goals.

On the other hand, we also lack people with strong experience in the field. Therefore, we are building capacities by ourselves.

**Q** What policy measures would help you scale up in sustainable finance?

**A** Tax incentives should play a role in encouraging banks to respect sustainable criteria when granting loans to customers. It could also demonstrate that sustainable practices and products are rewarded by the community and are seen as beneficial for the entire country.

**Q** How could more private finance be leveraged into sustainability projects?

**A** The authorities should help in building the expertise we need for sustainable development. You cannot ask bankers and financiers to become specialists on very new or difficult issues. We need consultancy firms, nongovernmental organizations and centers of expertise available to all financial institutions. And we need a legal framework that requires the financial system to assess projects on their sustainability as a condition for financing. At this stage, mutualization of sustainability should be the name of the game.

**Q** What single result would you like to see coming out of Rio+20?

**A** We need to change the world’s business model by developing a green economy based less on fossil fuels and more on knowledge. There will be pioneers in these domains, but so long as there is no global governance, we will lose time in preserving the planet and its biodiversity. In other words, leaving it to the political color of individual governments will not lead to the structural changes needed. A multilateral commitment that can shape global orientations to create a green economy is required.

**Q** Is there one result that would concern you if it emerged from Rio+20?

**A** The worst scenario would be a conference that failed to agree on a solemn declaration, due, for example, to the upcoming presidential elections in the USA.
“Report or Explain”

SONIA FAVARETTO, Director of Sustainability, BM&FBOVESPA, Brazil

BM&FBOVESPA is the world’s third largest stock exchange, created in 2008 by the merger of the São Paulo Stock Exchange (BOVESPA) and the Brazilian Mercantile and Futures Exchange (BM&F). It puts sustainability at the heart of its management model and promotes sustainable development through its Novo Valor program.

Q

How can an exchange group such as BM&FBOVESPA foster sustainable finance?

A

We are an organization that wears two hats in sustainability: we are an exchange, and we are a listed company.

As a company, we need to do our homework on sustainability issues: to measure our environmental footprint, to have a strong program for employees, to address the sustainability issues in our products and services, and so on. And we must do it well if we want to influence the companies listed on our exchanges. For example, in 2010, we became the second exchange in the world and the first in the Americas to adopt the Global Reporting Initiative (GRI) sustainability reporting model in our annual report. In 2011, we released a recommendation to listed companies about the importance of publishing sustainability reports, in partnership with the GRI.

As an exchange group, we have three key roles in sustainability. First, we have an institutional position at the hub of Brazil’s capital market, so listed companies, investors, and analysts come to us for information. If the stock exchange talks about sustainability, this spreads the message that it is a business issue. And we invest a lot of time in partnerships with organizations such as the PRI, the GRI, and the UN Global Compact, playing an active role in their deliberations.

Second, we must create financial products and services with sustainable characteristics. We have created three sustainability indices: for corporate governance (IGC and IGCT), for corporate sustainability (ISE), and for carbon efficiency (ICO2). These are important tools which say to the market that we are measuring performance on these issues, and the number of companies qualifying for inclusion in these indices is rising.

And third, we develop engagement programs with different stakeholders, including listed companies—a structured set of meetings with companies, websites, and publications. We are trying to provide orientations and suggest some drivers, especially to companies starting their sustainability programs.

Q

How are you developing your products and processes to further address sustainability challenges?

A

A good example is that towards the end of last year, we stimulated the creation of an Exchange Traded Fund (ETF) based on the ISE—our corporate sustainability index. We see this as a turning point, since indices are, in essence,
theoretical reference points, not investment products. With an ETF, investors have access to an investment product that is benchmarked to Brazilian companies with a recognized commitment to social responsibility and corporate sustainability.

And to promote transparency in environmental and social performance, at the end of 2011, we launched an initiative, “Report or Explain,” recommending that listed companies report their sustainable performance, or explain why not. The information about where to find the information will be fed into a database available to investors, analysts, and the wider market which we will launch at the Rio+20 conference. And we have held workshops for companies not familiar with sustainability reporting, in partnership with the GRI.

The Johannesburg Stock Exchange already has a Report or Explain for integrated reporting initiative as a mandatory requirement, and our initiative could eventually lead to that. We hope that other exchanges will follow our lead when we launch it at Rio+20. And, of course, others can make similar demands. Companies can ask suppliers whether they report social and environmental information, for example.

What barriers do you face in dealing with these challenges?

Not every company is interested in sustainability issues, but we find that most Brazilian companies are. Obviously, they all pay attention to the bottom line, but the better stock-market performance of the companies with the highest standards has been noticed. So if some companies adopt higher standards such as better disclosure on carbon emissions, others will follow.

What policy measures would help you scale up in sustainable finance?

The sustainability challenge is so deep and broad that every player must become involved—including governments. While investors are often skeptical about regulation and government initiatives, they can sometimes play a role. And while we prefer governments to stimulate discussion on sustainability, sometimes mandatory initiatives are needed.

What single result would you like to see coming out of Rio+20?

We expect the conference to be very successful. Brazil is working hard to make sure that it is a success despite the state of the global economy. And we hope the conference reaches some concrete agreements, such as goals for sustainable development that could sit beside the UN’s Millennium Goals. If the final document has some consensus about the green economy and on new rules, regulations, and practical actions, that will be an important advance.

Is there one result that would concern you if it emerged from Rio+20?

My fear would be that the conference is just talk with no action. There is no doubt about the importance of sustainability and that we need to change the global economy.
Showing the Way in China

YANFEI YE, Deputy Director-General, Statistics Department, China Banking Regulatory Commission, China

The CBRC regulates and monitors China’s banking institutions to protect the interests of bank customers, maintain market confidence through prudential and effective supervision, and combat financial crime. Its objectives also include the enhancement of public knowledge of modern finance through customer education and information disclosure. To implement government policies on energy conservation, emissions reductions, and environmental protection, it issued Green Credit Guidelines to banking institutions earlier this year.

What are the major sustainability challenges facing China?

One is that there is still some distortion in the pricing system, particularly of energy products and water. Their prices are below what the market price should be to reflect all costs, and this distorts economic behavior. In practice, energy saving is not economically feasible—in some cases, because it is not profitable. And water is especially underpriced, undermining the economic case for reducing its use.

A second is that there are monopolies in some sectors. For example, we have a very good, centralized electricity grid owned by a national company. Because it has monopoly power, it is reluctant to accept power from solar and wind generation because the price of that power is much higher than from coal, coke, and hydro generation. The government has regulations requiring the grid to accept power generated renewably, but it doesn’t.

Third, there are no consistent tax incentives to encourage banks to allocate capital to renewable energy, despite general targets in the plan for increasing wind, solar, and other forms of renewable power generation. And there is no carbon permit market which could also provide incentives.

What barriers does the banking sector face in addressing those challenges?

A big issue is the capacity of commercial banks to finance sustainability projects because they are not familiar with the innovative financial products needed. They need time to learn about them.

But the banks also lack incentives, because the margin between the interest rates on deposits and loans in China is quite high. That means that the banks can make a lot of money easily without having to develop new products. There are plans to liberalize interest rate regulation in the near future, and that could provide incentives for innovation.

Finally, there is not enough good data to identify and quantify risk.

What policy measures would help you scale up in sustainable finance?

Training programs will be important, and this could be done by inviting international banks to China to share their experience of financing sustainability projects. The IFC and other international organizations have already done this,
but commercial banking experience could be very valuable in helping Chinese banks address the challenges.

So could exchanges of experience between Chinese banks. Some of the commercial banks have accumulated skills in, for example, energy efficiency projects such as using residual heat in factories to generate electricity. These could be shared with other banks.

China has issued sustainability guidelines for commercial banks when financing green projects. If other regulators did the same, this would improve awareness among commercial banks of what can be done in sustainable finance. They could also provide commercial banks with examples of best practice to help show them how sustainable finance can work. In China, we have compiled a “Better Enterprises” list in cooperation with other ministries and made it available on a website.

The CBRC is planning to create awards to encourage innovation. We will collect statistics about what the commercial banks have done to promote sustainable finance such as the total invested, the amount invested in energy efficiency projects, and the amount in projects to reduce the use of natural resources. They will benefit from the publicity for their achievements.

And we will also encourage the banks to reduce their own environmental footprints through energy saving and conservation of water and other natural resources.

**Q** How could more private finance be leveraged into sustainability projects?

**A** China has a lot of policies aimed at promoting sustainability in banking, often with tax incentives for particular industrial sectors or products. But there are no incentives for commercial banks to lend to businesses for sustainability projects, which may involve greater risk. Some sort of tax-break for bank loans to sustainable energy projects and the like would encourage such lending.

The advantage of this would be that the banks would choose which sectors to support, rather than the government doing it. This would help the market to work better, by encouraging the banks to use their experience and make the judgments about the best options, evaluating the risks.

**Q** What single result would you like to see coming out of Rio+20?

**A** A greater focus on the role of the financial sector and institutions in promoting sustainability. At these international conferences, it is often the presidents and prime ministers who attend with ministers and industrialists. But I’d like to see bankers exposed to such high-level talks. Each delegation should include the heads of some commercial banks, who should be encouraged to come up with financial initiatives during the summit.
MONEY MOVES
How Private Sector Finance Can Work for a Sustainable Future

Information Is Everything

STEVE WAYGOOD, Corporate Sustainability Reporting Coalition, UK

Steve Waygood is Chief Responsible Investment Officer for Aviva Investors, the global asset management business of Aviva plc, the world’s sixth largest insurance group. It convened the Corporate Sustainability Reporting Coalition to ask UN member states at the Rio+20 Conference to adopt a binding commitment to disclose sustainability information. Before joining Aviva Investors, Steve Waygood was part of the group that wrote the UN-backed Principles for Responsible Investment (PRI).

QA
What are the major sustainability challenges facing your business?
Aviva Investors has signed up to the PRI to integrate sustainability issues into our investment decisions; but we can’t do that without the environmental, social, and governance data. For our commitment to be genuine, we need to work on the supply chain of the information we need. If the economy is unsustainable, the value of the companies we invest in will suffer as the lack of sustainability bites. As a company, we are concerned to ensure that, over the long term, the value of the assets we manage is as high as it can be.

While stock exchanges such as Singapore, Johannesburg, São Paulo, and Istanbul have mandated serious environmental, social, and governance reporting from their listed companies, it will take decades, at the current rate, for sustainability reporting to be common practice globally. Less than 10 percent of countries have aligned their corporate disclosure requirements with the commitments they have made to sustainability at previous UN summits in Rio in 1992 and Johannesburg in 2002. And more than 75 percent of the companies covered by Bloomberg do not currently disclose their sustainability performance.

QA
What are you doing to address these challenges?
Aviva Investors convened a coalition of financial institutions, professional bodies, NGOs, and investors with around $2,000 billion of assets under management in September 2011, to campaign for companies to disclose integrated sustainability information in their annual accounts, or explain why they are unable to do so.

The Corporate Sustainability Reporting Coalition includes organizations as diverse as the Association of Chartered Certified Accountants, the Global Reporting Initiative, and the Carbon Disclosure Project.

QA
Will this make any difference to corporate performance on sustainability?
An analysis by Goldman Sachs found that, in a number of sectors, there is a direct correlation between sustainable business practices and the longer term financial success of companies. A WestLB study of 540 European companies found evidence of a link between extra-financial risk, the cost of capital, and shareholder value. It also suggested that compiling a sustainability report was among the most important catalysts for change—helping to accumulate...
knowledge, encouraging questioning of processes, and leading to suitable structures and practices.

**Q** Wouldn’t this just impose a bureaucratic, one-size-fits-all requirement that ignores the needs of specific countries and companies?

This is a market-based mechanism that promotes enhanced self-regulation within capital markets. It is light-touch, flexible, and sensitive to national contexts, leaving governments free to choose whether to implement it through primary legislation, in their company law, or through the listing authorities. It doesn’t cost governments anything, and it would help investors make better investment decisions.

We do not think it is possible to craft a regulation that specifies a detailed reporting template for the rich diversity of companies around the world, which would, in any case, encourage a minimum compliance mentality. Individual companies would have the freedom to define their own reporting, and even to decide that it was not necessary so long as they explained why. Small companies would be expected to publish little if anything. They could, for example, explain that they do not yet consider sustainability issues to be sufficiently material to their business.

Companies that run themselves for short-term profit maximization might find this difficult and quant investors who use mathematical analysis to choose investments are often uninterested in what the companies they invest in do. But thousands of companies that have been doing this for a decade or more have found that they benefit from sustainability disclosure over time. All we are doing is asking boards to do some long-term thinking about the sustainability of their businesses.

**Q** What single result would you like to see coming out of Rio+20?

A binding international convention on corporate sustainability reporting that commits UN member states to develop national policies requiring, on a comply or explain basis, the integration of material sustainability issues into the corporate reporting cycle of all listed public and large private companies. We would also welcome consideration of effective accountability mechanisms—including, for instance, the presentation of the report or the explanation for its absence at company annual meetings.

We want the final Rio document to include a recommendation that the UN General Assembly convene an ad hoc intergovernmental negotiating committee to prepare this convention for signature within two years.

**Q** Is there one result that would concern you if it emerged from Rio+20?

There are many steps that could be taken to increase the sustainability of the economy, but failure to reach agreement on this very basic measure would say something very depressing about the international governance process and the international commitment to dealing with the environmental and social challenges facing the world.
Sounding the Alarm in the Gulf

NASSER SAIDI, Chief Economist, Dubai International Finance Centre, UAE

The DIFC is an onshore financial center in the Gulf, offering independent regulation, a common law framework, and supportive infrastructure in a region of rapidly growing demand for financial services. Nasser Saidi is also executive director of Hawkamah, the Institute for Corporate Governance, which promotes corporate sector reform and good governance in the Middle East, assisting countries in developing sustainable corporate governance strategies adapted to their national requirements.

What are the major sustainability challenges facing your region?

The main issue facing financial institutions in the Middle East is the macroeconomic risk arising from climate change and the vulnerability of one of the most fragile ecologies on earth. Two-thirds of water resources in the Arab countries arise outside the region, so water scarcity is a vital issue. Per capita water usage across the region is less than 10 percent of the global average. Unless we find rapid solutions, water scarcity will affect populations, businesses, and economic growth; and this could lead to water wars.

What barriers does the banking sector face in dealing with those challenges?

The main obstacle to financing this type of investment is the absence of a policy framework and strategy for clean energy and clean technology in the countries of the region. We need a strategy—with feed-in tariffs or incentives to produce renewable energy. In addition, energy generation in the region is dominated by governments so the private sector has not been involved and there are very few public-private partnerships.

There is no problem with availability of finance, however. The Clean Energy Business Council, which I chair, is working with governments to develop a policy framework. We’re beginning to see a response with Dubai, Abu Dhabi, Saudi Arabia, and other countries setting renewable energy targets—but it’s modest so far.

The alarm needs to be sounded. A recent report from Aramco said that, at the present rate of consumption growth in Saudi Arabia, the country will have no oil left to export by 2035. The country uses more oil than Germany with a quarter of the population and a tenth of the production. We need to start investing rapidly in

How are countries in the region addressing these challenges?

The main reaction, especially in the Gulf, is the desalination of sea water and the financing of renewable energy. This has led to the combination of the two, with electricity generation always linked to desalination. New generating capacity supplies households and businesses in the day and desalination plants at night—a model that this region could export to the rest of the world.
renewables, especially in solar energy, given the time needed to build the capacity.

**Q** What policy measures would help you scale up in sustainable finance?

Part of the problem is lack of awareness and company reporting. I’m certainly an advocate of mandatory integrated reporting on sustainability issues for listed companies and state-owned enterprises (which could lead by example), later moving on to all companies. The mere fact that they have to report raises public awareness.

Hawkamah has canvassed listed companies in the Middle East and North Africa on 200 indicators to create a Pan-Arab ESG index with strong support from IFC. It is the S&P-Hawkamah tradable index, comprising 50 companies which perform best in terms of environmental, social, and corporate governance reporting. We’ve been trying to get sovereign wealth funds, institutional investors, and others to adopt the criteria and this index; and we’d like to see more of this coming out of Rio+20.

**Q** How could more private finance be leveraged into sustainability projects?

Government incentives need to be better structured. In the Middle East, they tend to subsidize the use of fossil fuels. In 2010, about $170 billion was used to subsidize fossil fuel, more than 40 percent of the global total. And this is happening in many other countries. Rio+20 should say that these subsidies be gradually withdrawn and the money used for renewables.

Even in the US and Western Europe, there is no consistent structure of incentives for renewables, and the cost of some has become unaffordable. Feed-in tariffs are probably the best instruments, with targets of reaching grid parity over a number of years. The investment made by China in solar generation could mean that this is achieved quite rapidly.

Clean energy finance needs more innovation. We’ve launched a Green Sukuk initiative to raise Islamic finance sources for clean energy, and I’d like to see more private equity and venture capital. Investing in clean energy is a long-term business, and sovereign wealth funds might be persuaded to invest, as they are meant to be “patient investors.” After all, their role is to preserve resources for future generations.

**Q** What single result would you like to see coming out of Rio+20?

Making sustainability reporting part of the reporting cycle would make a big difference. A global policy framework followed by negotiations with audit and accountancy bodies would make it happen through changes to International Financial Reporting Standards (IFRS). It would certainly be a big plus in our region, where sustainability reporting is very rare.

**Q** Is there one result that would concern you if it emerged from Rio+20?

Every time there’s a conference without any concrete results, we pedal backwards—especially with the financial crisis when governments need to cut resources. Not having something concrete would be hurtful to the process.
Investor in Externality Reduction

JEFF LEONARD, President and Chief Executive Officer, Global Environment Fund, USA

Cofounded in 1990 by Jeff Leonard, the Global Environment Fund invests in businesses around the world that provide cost-effective solutions to environmental and energy challenges. The firm manages private equity dedicated to clean technology, emerging markets, and sustainable forestry, with approximately $1 billion under management from investors, which include endowments, foundations, family offices, and pension funds.

Q: What are the major sustainability challenges facing your business?

A: Our business is about investing in sustainability opportunities. When we founded GEF, we foresaw 30-40 years of pressure to use resources better to reduce negative externalities such as pollution and that there would be opportunities for new business models. But we still need regulatory initiatives if we are to reduce the externalities. The question for Rio+20 is how we can create a global regime to do this, especially as emerging markets have put pressure on resources.

Q: How are you developing your products and processes to address these challenges?

A: We have investments all over the world in technologies and businesses that lighten the footprint of traditional industries—in India, China, Brazil, and the US. We find the most energy-intensive and polluting industries and look for new technologies that can help them use less resources and less energy and, ultimately, emit less greenhouse gases.

Q: What barriers do you face in increasing your sustainable finance activities?

A: There is a convergence of standards on issues such as sustainable forestry and in the way regulators think about environmental issues. A professional cadre of regulators works together and transfers knowledge across borders. Financial transparency and the disclosure of nonfinancial information have grown and are changing behavior. Companies now compete with each other over their green orientation, and a lot of that is more than just green-washing. It is also saving them money.

However, disparate regulatory regimes create an unlevel playing field. In waste disposal, for example, it’s cheaper for companies in some countries to get it out the door, rather than deal with it in an integrated way, as they have to in many developed economies.

We see poor compliance with environmental and social standards as the equivalent of the canary in a coal mine. Like high accident rates, it is an early warning about the quality of management. Growth investors like us think that environmental, social, and governance issues matter; and we want to see more convergence.
**What policy measures would help you scale up in sustainable finance?**

Getting convergence on disclosure requirements is probably easier than getting convergence on standards. But the former creates a backdrop for raising standards and can internationalize coverage without a cookie-cutter approach. The self-interest of all parties will drive transparency and disclosure, and big investment groups will push for convergence as they invest around the world.

I’m not in favor of global regulation, but standards such as ISO 14000 and requirements to disclose certain chemicals in products can help.

**How could more private finance be leveraged into sustainability projects?**

There is great potential for public–private partnerships, but I’m not at all in favor of governments trying to choose winners or subsidizing green investments. It leads to white elephants.

In the US, we need long-term research and development programs in new sustainable technologies after a period of underfunding. That can be in partnership with business, laboratories, or universities; and the importance of a government role is that it can take risks and fail—sponsoring several projects to find one that works.

Climate change will have serious consequences for different parts of the world, and those disproportionately affected will need support to protect them. Governments can pool risk or even sponsor infrastructure like the Dutch defenses against the sea.

I’m also in favor of renewable portfolio standards mandating broad targets for utilities and leaving it to the market to decide how these are implemented. It needs orderly, long-term targets, and no prescription of the methods by which the targets will be achieved.

**What single result would you like to see coming out of Rio+20?**

Universal agreement on getting rid of the energy subsidies in most countries. They mostly add to carbon emissions. Subsidies for fossil fuels date from an era when they were the main source of energy, but there is now a much greater diversity of energy sources. If traditional energy prices rise, alternatives become more competitive; and their prices will fall as output is scaled up. I’d even get rid of subsidies for nonfossil fuel power. They attract investment, but governments don’t keep their word on them if the cost rises. That hits investors who need a 40-year time horizon to recover their costs and make a return. In any case, it’s better to tax bad things with negative externalities rather than to subsidize good things.

**Is there one result that would concern you if it emerged from Rio+20?**

A politically managed agreement that does not represent convergence has little chance of being implemented and isn’t sustainable—as with the Kyoto Accords. What we need is scientific consensus on the challenges, and on how to manage programs and measure results to prepare the backdrop when global action is needed.
Size Is Everything

JOHN OLIPHANT, Acting Principal Officer and Head of Actuarial and Investments, Government Employees Pension Fund, South Africa

The Government Employees Pension Fund was established in 1996 as a single consolidated pension fund for all government employees. It has 1.2 million active members and 350,000 pensioners and has assets under management of around R1,000 billion ($130 billion), about one-third of South Africa’s GDP. Since South Africa accounts for one-third of Africa’s GDP, it is a significant player on the continent.

Q: What are the major sustainability challenges facing your fund?

The question we ask is whether the GEPF can be sustainable if Africa and the world become unsustainable as a result of climate change. The objective of our pension fund is to ensure that our members who have worked for the government for 30 or 40 years can retire comfortably and with dignity. We won’t achieve that by just generating short-term financial returns. We also have to ensure the sustainability of returns in the long term to meet the financial needs of current and future generations of pensioners. And this is where climate change comes in. Scientists predict that if nothing is done about climate change, there will be increased stress on the ecosystem, more extreme weathers, and diminished food security.

Our analysis shows that most of our pensioners spend around 70 percent of their income on food, so food security is an issue for them. In recent times, food inflation has been increasing at faster pace than overall inflation. If food became unaffordable, we would have failed as a responsible investor to meet our sustainability objective.

Being a responsible investor also means ensuring social cohesion. Recently, the global financial system has handsomely rewarded those at the top end of the social strata while leaving behind those at the bottom. We need to find a more optimal and fairer distribution of resources. And geopolitically, we need to make sure that the developing nations influence the global agenda—not just a few nations.

Q: How do you approach investing on behalf of your members to address these challenges?

From a pure investment point of view, we match our assets to our liabilities in real terms—thereby retaining the sustainability of the fund in the long term. Despite the difficult state of the global economy, we had a funding ratio of around 100 percent at the last statutory valuation.

Our investments are long term in nature. To have a sustainable fund, our investment horizon is not quarterly or annually but 30 or more years. So we apply an environmental, social, and governance overlay looking at ESG issues. We engage with the companies we invest in and have an active proxy voting policy, in line with the UN-backed Principles for Responsible Investment (PRI), of which we were founding signatories at the start in 2006.
We also have adopted a developmental investment approach with a high exposure to infrastructure investments, a prerequisite for economic growth in any nation. To this end, we've taken a strategic decision to ensure that our investments have a direct impact on the economic, social, and environmental infrastructures of society. Furthermore, we invest in economic activities in the bottom of the social strata, in small enterprises to spur economic growth and job creation. Some of our earlier investments, especially in entities in the mobile technology sector, have now become large corporations with global footprints.

**Q** What barriers do you face in achieving your objectives?

Investing in certain markets outside South Africa is proving a challenge for us due to political uncertainty. A more stable political environment and predictable economic policies help us determine whether we will be able to repatriate our profits and exit those markets when the need arises.

A lack of appropriate skills in the financial services sector in the area of high-impact investments is another concern for us. Project finance skills play a big role in the packaging of projects and attracting relevant parties to make these projects bankable deals.

**Q** What policy measures would help you scale up in sustainable finance?

Better sustainable reporting by listed companies is something which the Johannesburg Stock Exchange has supported. If Rio+20 can take this global, the world will be a better place.

**Q** How could more private finance be leveraged into infrastructure projects?

There's a lot of confusion about what infrastructure should be paid for by governments and what should be paid for by users. We need a discussion about what is a public good and what we must pay for—especially when governments are under fiscal pressure. We need to find ways of protecting the interests of investors in periods of austerity when their investments are vulnerable to public anger.

**Q** What single result would you like to see coming out of Rio+20?

It must not be just another talking shop. We need actionable steps where performance can be measured, not just nice-to-have documents. Rio+20 must reduce the burden of climate change on future generations.

**Q** Is there one result that would concern you if it emerged from Rio+20?

At a difficult time for the world's economy, the key challenge is to ensure that the current economic environment does not make the plight of the poor worse by blocking development. Countries are currently more likely to focus on their own challenges than on trying to create a more sustainable world.
China’s Sustainability Pioneer

LI RENJIE, President, Industrial Bank, China

China’s Industrial Bank is a mid-sized commercial bank established in 1988 and headquartered in Fuzhou City in Fujian Province. Since 2005, it has put sustainable financial business development at the center of its business, pioneering green initiatives in energy efficiency finance, environmental finance, and carbon finance. In 2008, it was the first financial institution in China to adopt the Equator Principles and has been recognized for its sustainability achievements by several international organizations.

What are the major sustainability challenges facing your business?

As a developing country, China has made remarkable progress through its reforms over the past three decades, but at the same time it has accumulated a number of problems. Excessive overdrafts and erosion of the environment and resources have become urgent problems to be solved currently. While continuing to focus on economic growth, the government has made sustainable development highlighted by energy saving and environmental protection a main theme. So the prospects for sustainable finance in China are promising.

We were the first financial institution in China to realize the potential and the opportunities that lie in sustainable financial business development. The judgment was based on three aspects: first, the development of sustainable finance is a corporate social responsibility for banks. Second, the development of sustainable finance is an important way for banks to strengthen their risk management. And third, it is a business opportunity to explore new market opportunities such as energy-saving and environmental-protection finance, to cultivate a new customer base, and to differentiate our brand in sustainable finance from competitors.

How are you developing your products and processes to address these challenges?

In the 12th Five-Year Plan, more than RMB7,000 billion will be invested in energy saving and environmental protection, offering a potentially huge market for financial institutions. As the first financial institution to realize the potential and opportunities of sustainable financial business development, we have strengthened the coordination and promotion of green finance. We have created two new product lines: in financial services, eight credit products to finance various sustainability projects; and in emission reductions, products and services for trading permits in carbon and sewage emissions.

On emissions, we have also assisted the government in creating a market system to allocate environmental resources through tradable emissions permits. And we are overhauling our organizational structure and systems to support the growth of green financial business. We also encourage our staff to practice what we preach and reduce the bank’s environmental footprint.

We have been helped in these measures by exchanges and cooperation at home and abroad to learn from the
experience of others and to encourage similar sustainable strategies.

**What will be Industrial Bank’s focus in sustainable finance in the future?**

As a pioneer of sustainable finance in China, we want to expand our efforts in three aspects. First, to enhance our asset management capabilities to influence the development of market rules and promote the popularization of sustainable finance in China. Second, to continue innovating to maintain our market leadership in sustainable finance. Further internal strengthening will help us raise the proportion of our sustainable financial assets and build a diversified business model offering a rich product range. Third, to optimize our processes and develop specialized sectors to build our competitiveness. That involves recruiting highly skilled staff, introducing new products and services, and improving the efficiency of our operation.

**What policy measures would help you scale up in sustainable finance?**

The concept of fiduciary duty needs to be refined from simply maximizing returns to encouraging the development of sustainable long-term investment. Meanwhile, regulators should encourage credit rating agencies and other stakeholders to recognize that long-term sustainability factors can improve the returns from financing projects. The disclosure of nonfinancial information should be bolstered. Gathering information is difficult and costly in the absence of unified disclosure requirements and standards. Regulators should issue guidance on disclosure that will help investors improve the quality of risk assessment, reduce transaction costs, and promote sustainable development. And governments and regulators could also actively promote green innovation and the establishment of incentives mechanisms—including through legislation, policy, regulation, and many other channels—to effectively play to the respective strengths of public and private sectors and achieve mutual benefits.

**What single result would you like to see coming out of Rio+20?**

The core discussion will be on how to guide investment to support the needs of a green economy. If Rio+20 can rekindle the commitment of countries to sustainable development, it will help rebuild the institutional framework. It should also provide new inspiration and assistance for innovation and the enhancement of financial institutions in emerging markets to manage risk and develop new products and services. And it should establish a policy and regulatory environment to promote the long-term investment necessary for sustainable development. If it can do this, it could help boost sustainability in China, where some progress has been made and the number and spread of sustainable businesses is rising year by year.
Shaping the Market

DENISE HILLS, Head of Sustainability, Itaú Unibanco, Brazil

Created in 2008 by the merger of two leading Brazilian banks, Itaú Unibanco is the largest Latin American bank and one of the ten largest in the world. Its vision is to be a leading bank in sustainable performance and customer satisfaction, and it was named as Sustainable Bank of the Year in the 2011 FT/IFC Sustainable Finance Awards.

What are the major sustainability challenges facing your business?

The integration of environmental, social, and governance (ESG) issues into the core operations of the bank, its insurance operation, and investment business is still a big agenda. We started with project financing in the year 2000, using ESG analysis as a tool of risk management and also to support our clients in making their businesses more sustainable. We have extended this to our investment funds with new models to include ESG aspects in the valuation of assets and stock markets and to engage with our institutional clients. In insurance, we are trying to include climate change issues to assess risk and develop our products. Our microfinance operation offers finance to informal entrepreneurs, as well as loan protection microinsurance.

We have three social and environmental funds which represent a small proportion of our assets under management. The demand for such funds is still small in the Brazilian market. Our current challenge in the asset management business is to extend the sustainability criteria to our investment processes as whole. We want to use our leadership role to promote the integration of ESG issues into mainstream investment practices.

What barriers do you face in increasing your sustainable finance activities?

We feel there is an absence of a long-term framework to encourage sustainability. There are virtually no incentives, for example, to include externalities in pricing products. More companies are trying to price in these externalities, but it is not enough to move the market. It makes for a big difference in prices, and it can give an advantage to competitors taking a less rigorous approach. We are trying to show the market the impact of risk and how a green economy could deal with that. Even with the Equator Principles, which have been around for almost 10 years, the
way social and environmental considerations are taken into account varies among financial institutions.

A second issue is information disclosure by companies. Although there is more sustainability reporting, the information is not yet comparable or integrated in a manner analysts can easily use. For instance, a mining company that is analyzing ESG risks should be valued ahead of a competitor that doesn’t—but the traditional valuation models usually don’t capture this difference. In 2011, we hosted an event in partnership with the Principles for Responsible Investment (PRI) Brazilian signatories network to incentivize brokers to integrate ESG issues into their valuations. Institutional investors have also reinforced this demand.

**What policy measures would help you scale up in sustainable finance?**

Government regulation can help create demand for products by creating clear frameworks that will encourage investment in, for example, wind power. Feed-in tariffs could do the same for solar power, and this is starting to happen in Brazil. If the mandates are there, people will invest. But the risk/reward equation needs to be made more attractive to compete with traditional business options.

Incentives may also be needed to launch a new market in order to reflect the risks of investment. One example of incentives that could be adopted as a risk-sharing model for sustainability-related projects is the mechanism developed by the Brazilian government to make rural insurance feasible.

A framework is also needed for disclosure of ESG information. Rating agencies in some cases already use ESG data when evaluating companies, but what is the quality of this information? If you read two reports on the same company, they are often different. This is very much the agenda investors, the Global Reporting Initiative (GRI), and the International Integrated Reporting Council (IIRC) have been pushing.

**How could more private finance be leveraged into sustainability projects?**

Investors need long-term frameworks if they are to be persuaded to invest in the green economy. They also need incentives at the start of new markets, because they are not familiar with them and that is risky. And they need insurance in some cases, which private insurers are not prepared to offer unless there is more data on the risks. Therefore, clear, long-term frameworks would help to channel financial resources to sustainability projects.

**What single result would you like to see coming out of Rio+20?**

We need a framework which would help the financial sector move faster over the next 20 years than it did over the last 20 years. We are still discussing day by day how we can build a green economy but we could advance much further. It’s not a complete set of rules we need, but a framework with one or two proposals that we can work within.

**Is there one result that would concern you if it emerged from Rio+20?**

No framework to carry us forward.
The Gift of Sight

JAMES GIFFORD, Executive Director, Principles for Responsible Investment, UK

The United Nations-backed Principles for Responsible Investment (PRI) is a network of international investors working together to put the six principles published in 2006 into practice. James Gifford has been guiding the initiative since its inception in late 2003, and worked on the drafting process with the UN Environment Programme Finance Initiative (UNEP FI) and the UN Global Compact. He became the PRI’s first Executive Director in 2006.

What are the major sustainability challenges facing responsible investors?

Environmental, social, and governance (ESG) issues can help investors identify red flags. Evidence suggests that poor management of ESG issues can be an excellent indicator of a company in trouble, and these issues may not always be factored into financial models. Investors need to be aware of these issues and play an active role in ensuring they are identified, monitored, and managed by companies. As part owners, they have a responsibility to monitor management and discipline them if necessary to ensure they are accountable and are managing these issues appropriately. At the moment, there is a lack of information available to investors on ESG risks, exposures, and impacts at the company level, making it very difficult for them to make the right decisions.

What barriers do investors face in exercising their ownership responsibilities?

The lack of ESG disclosure by companies is by far the biggest challenge facing investors in all markets and asset classes. Without systematic disclosure in company reporting, investors remain blind to these issues, especially in many emerging markets where ESG risks such as corruption, pollution, labor issues, and food prices can be critical. Yet, less than a quarter of the companies on Bloomberg’s database disclose their sustainability performance to any significant degree, even though, for many companies, these issues are potentially material: human rights issues, union problems, corruption offenses, and fines for environmental pollution among them. Only a very small number of global companies currently disclose ESG information in a transparent and systematic way—and the PRI asks...
investors to seek more information from companies on these issues.

**What policy measures would help you scale up in sustainable finance?**

First, investors need systematic disclosure of corporate ESG issues in order to evaluate whether these are material—and where they are, to integrate them into their models and decisionmaking processes. The “disclose or explain” approach advocated by the Corporate Sustainability Reporting Coalition is a good example of investors campaigning for better disclosure. Evidence shows that once companies start to measure ESG risks, they do more to manage them.

Second, investment cultures need to evolve, as many people still mistakenly believe that sustainability is only about ethics and personal values. The PRI has challenged this way of thinking for many investors, who now recognize that ESG issues are material and are often a much bigger driver of corporate value than traditional financial forecasts based on backward-looking data. A growing number of investors realize they can secure competitive advantage by considering ESG issues in their portfolios.

In many cases, very good research has been published showing that ESG issues which the markets have not yet grasped are often material to the share price. Many investors find that, once they open the ESG box, this additional lens is useful when weighing up the merits of two companies with similar fundamentals. For example, if a mining company has a strong track record of working with local communities in one country while another suffers from poor relations, this highlights a potential red flag that investors can act upon. Some of the world’s largest investors are now seeing the benefits of this approach. For example, Goldman Sachs Asset Management and Pimco have recently become signatories to the PRI.

**What single result would you like to see coming out of Rio+20?**

A commitment by governments to encourage companies to provide more systematic disclosure of material environmental, social, and governance issues and recognition that regulation has a role to play in encouraging this would send a strong signal to companies on the relevance of ESG issues.

**Who should take the lead in driving greater disclosure?**

At the moment, leadership is most evident in the European Union, where the Danes are the leaders and have put in place regulation on ESG disclosure for both companies and investors. They operate under a “comply or explain” approach—not forcing disclosure but urging companies and investors to take these issues seriously. In many cases, hard regulation is not the best solution given that every company and investor is different. As with stock exchanges, a principles-based approach may be a better way to instill a culture of transparency in companies so that they recognize the business case for disclosure.

That’s why it’s very encouraging to see investors asking for ESG information to make better investment decisions. This sends a strong signal to the market while leaving market participants flexibility about how they implement responsible investment.
In Our Clients’ Interest

MARIA LUIZA PINTO, Executive Director of Sustainable Development, Santander Brasil, Brazil

Santander Brasil was founded in 1982 by one of Spain’s largest banks and has grown to become the third-largest private bank in Brazil. The parent company was part of the consortium that took over ABN-Amro in 2007, acquiring Banco Real and doubling the size of its Brazilian operations.

Q: What are the major sustainability challenges facing your business?

A: Brazil is at a unique point in time because it is going to invest in infrastructure such as transportation and energy, social inclusion, education, and regulation to reach a new level of development. In this context, we see two sets of challenges:

- **For People**—Financial inclusion and education. To address actively and profitably our participation in the continuation and consolidation of the upward mobility of Brazilian society; and to enhance the financial education of the “new consumers” so they can make the right choices to satisfy their fast-evolving financial needs.

- **For the Environment**—Environmentally responsible development. To ensure that the huge investments in infrastructure are made in a cost-efficient and socially and environmentally responsible way with a true and mutually reinforcing public-private partnership (PPP); and to continue increasing the participation of consumers in the development of a more environmentally safe world by profitably channeling part of their investments toward this end.

Q: How are you developing your products and processes to address these challenges?

A: In financial inclusion and education, we have the largest microcredit operation among Brazil’s private institutions, having served 233,000 clients and disbursed $526 million since inception. Through this operation, we offer more than just loans. Clients are served by microcredit agents who offer financial orientation and closely follow their progress. Financially healthy microbusinesses have a huge positive impact in their communities, and our goal is to help promote this development.

Our product portfolio includes products such as Conta Light (Light Account) and Conta Free (Free Account) that offer alternatives to suit specific financial needs.

Finally, Santander Universidades plays an essential role in supporting public and private education institutions connecting scholars around the world. By encouraging and promoting state-of-the-art research, we contribute to finding solutions for today’s issues, including those related to sustainability. In 2011, the program distributed 13,521 scholarships to students, teachers, and researchers, including 1,096 for international mobility.
In environmentally responsible development, our cornerstone is the risk management practice, which uses social and environmental criteria for both credit and client acceptance, incorporating the most relevant risks and opportunities in each sector to help clients foresee major shifts that will affect their businesses as well as ours. In 2011 alone, we disbursed $600 million to finance projects promoting water and energy efficiency and better waste management.

On the investment side, we started Brazil’s first socially responsible investment (SRI) fund, called Ethical, with a net worth of R$126 million. And we have recently set up a private equity fund focused on companies that produce or sell sustainable products.

Behind these products and services there is a strong governance process, which Santander’s Executive Committee monitors closely, from market trends to specific performance data.

**What barriers do you face in increasing your sustainable finance activities?**

Some barriers are intangible, such as the huge space yet to be truly and meaningfully filled in developing a persistent and meaningful “sustainability does matter” mindset in all stakeholders—including government, regulators, industry, financial sector, and academia. Other barriers are more tangible. There are as yet no internationally accepted metrics to measure the positive short-term and long-term impact of sustainability and the cost of “unsustainability.”

**What policy measures would help you scale up in sustainable finance?**

They should set clear ground rules to focus private initiatives in this sector. That means requiring full exposure of the sustainability-related actions of listed companies and setting stringent minimum requirements to be met, which are monitored with positive and negative consequences according to performance.

**How could more private finance be leveraged into sustainability projects?**

Governments have two important roles in this process: establishing criteria and providing incentives. By requiring all companies to comply with certain criteria or a minimum percentage of investments in sustainability projects, they can preserve a competitive level playing field. And by providing tax or financial incentives for investment in new technologies and productivity improvements, they can encourage increased efficiency in production, which means less use of resources and energy.

For example, Brazil’s central bank demands that up to 2 percent of demand deposits are allocated to microcredit operations. In the financial sector, the Brazilian development bank BNDES offers incentives for the use of ethanol in some of its programs.

In general, we believe the best results come when the government, private sector, and NGOs collaborate in seeking to advance sustainable development.

**What single result would you like to see coming out of Rio+20?**

Rio+20 is an opportunity for government action, and we hope to see a true commitment to advances along the sustainability path, supported by a very firm timetable for achieving specific objectives such as incentives for a low-carbon economy and public policies that encourage the eradication of poverty and the reduction of inequalities.
**The Emerging Markets Bank**

**VIBHUTI SHARMA,** Managing Director and Global Head, Development Organizations, Standard Chartered, UK

*Standard Chartered is an international banking group offering consumer and wholesale banking services in 71 markets, mainly in Asia, Africa, and the Middle East. Listed in London, Hong Kong, and Mumbai, it continued to achieve record income and profit between 2006 and 2012, while increasing lending by more than 90 percent. It describes its three key priorities as contributing to the real economy, promoting sustainable finance, and leading the way in communities.*

**Q** What are the major sustainability challenges facing your business?

We operate in some of the world’s most dynamic markets, and we recognize the challenges around climate change, resource scarcity, and water security. To meet these sustainability challenges, we continuously develop products and policies.

**Q** How are you developing your products and processes to address these challenges?

The decisions we make as to who and what we finance have a potential impact on people and the environment. We have embedded sustainability deeply into our business practices. Our 14 position statements set out the environmental and social standards we expect in lending. Our approach is to work with our clients to ensure that the businesses we support are sustainable.

An example of the business lines we have created is our agrifinance portfolio, which is developing innovative structured finance solutions to promote agricultural development in Africa. It uses future crop yield as collateral, helping farmers obtain adequate finance to support optimal crop yields. Agri-experts work with farmers to increase the quality and quantity of their crops, promoting best practice in water and soil preservation. Our structured agricultural finance portfolio is valued at more than $2 billion, and has now been expanded to finance cattle.

We finance all segments of the renewable energy market including wind, solar, geothermal, and bio-fuels. In 2011, the total mobilized under our 2007 Clinton Global Initiative commitment to finance renewables and clean technology globally came to $8.4 billion. This included $1.9 billion of equity financing, with a $50 million investment in 2011 in the IPO of Huaneng Renewables, a Chinese wind farm operator.

Our microfinance business has a portfolio outstanding of $220 million, supporting 47 partners across 16 countries. We have stretching targets for reducing our energy, water, air travel, and paper consumption, mitigating our impact wherever possible. And a key priority at the moment is to increase lending to small and medium-sized enterprises.

**Q** How do you address the different sustainability challenges in various sectors?

Our 14 position statements set out the standards and practices to be followed when we conduct our activities.

**Q** How do you address the different sustainability challenges in various sectors?

Our 14 position statements set out the standards and practices to be followed when we conduct our activities.
Sectors include fossil-fueled power, oil and gas, mining and metals, forestry and palm oil, and water. We engage actively with our clients to work toward these standards over a reasonable period of time. Where there are legacy assets that do not meet the standards, we expect a credible, documented, time-bound action plan to be developed to achieve them.

Our stakeholders take the challenges of sustainability very seriously, so it is important for us to be on top of them. They can see that Standard Chartered’s sustainability strategy has been a driver in our success. Last year was the ninth consecutive year of record income and profits. Sustainability is about building deep, long-standing relationships with our customers and clients in our businesses and in the markets where we operate.

**What policy measures would help you scale up in sustainable finance?**

We are a commercial bank operating in the private sector, and we focus on what we can do and where we have expertise. We work very closely with the public sector in most of our markets, because it is directly or indirectly involved in financing all kinds of soft and hard infrastructure.

But we would appreciate more support from the public sector in devising sustainable investment solutions. We need clarity and stability in regulatory policies, financial incentives, and infrastructural support. These are areas where public sector focus would be most appreciated, and they would help the type of businesses we want to support set up and grow in size, whether it is in clean technology, renewable energy, or agriculture.

More coordination of regulation across borders would also be helpful.

**What single result would you like to see coming out of Rio+20?**

Standard Chartered is backing the Natural Capital Declaration, which is campaigning for a global commitment by the financial services industry to improve the way that it accounts for the value of nature in decisions. The Natural Capital Summit in Rio will show how we need to go “beyond GDP” and mainstream financial accounting to understand the real progress of countries and companies. The NCD wants governments around the world to develop clear, credible, and long-term policy frameworks that support and incentivize the private sector—including financial institutions—to operate more responsibly through the sustainable use of natural capital.
Renewables R Us

ORHAN BEŞKÖK, Senior Executive Vice-President, TSKB (Industrial Development Bank of Turkey), Turkey

Created in 1950, TSKB is the first private development and investment bank in Turkey. In financing investment projects in the industrial and service sectors, it prides itself in always taking into consideration the environmental risks of the organizations and projects that it finances. TSBK’s determination to pioneer sustainability in Turkey—it describes its mission as “Environment: Our Priority”—has been recognized repeatedly by banking awards.

Q What are the major sustainability challenges facing your business?

A Turkey has been enjoying very high economic growth in recent years, which has meant that consumption of energy and electricity has also been rising fast. Greenhouse gas emissions have more than doubled since 1990, with energy consumption and production accounting for 77 percent of emissions. Around 60 percent of Turkey’s electricity generation is based on fossil fuels, mainly natural gas, which is wholly imported. While Turkey’s geography means that it has limited fossil fuel resources, it has access to substantial renewable energy sources such as hydro, wind, and geothermal. A gradual shift from fossil fuels to renewables is therefore feasible and is vital for Turkey’s sustainable development.

Additionally Turkey’s energy intensity is high—50 percent more than the average for OECD countries and almost three times as high as that of Japan. Turkey needs to reduce its energy intensity in industrial sectors such as iron and steel, cement, ceramics, pulp and paper, petrochemicals, and buildings. There is significant potential to increase energy efficiency in these sectors, which would reduce energy demand and greenhouse gas emissions.

Q How are you developing your products and processes to address these challenges?

A TSBK has been actively supporting renewable energy projects over the last eight years. We have financed around 93 renewable energy projects throughout Turkey, including hydro, wind, geothermal, and biomass. We have secured funds from different international finance institutions specifically to finance renewable energy and energy efficiency projects.

On energy efficiency, TSBK has opened a new era over the last two-and-a-half years, expanding our internal capacity to finance projects and developing a marketing strategy that best fits the demands of the Turkish market. We have financed 19 energy efficiency projects from various sectors, organized several workshops and events, and launched a
new website to increase awareness of the need for energy efficiency.

**Q** What barriers do you face in increasing your sustainable finance activities?

In Turkey, as elsewhere in the world, environmental problems such as water shortages, land degradation, and lack of affordable clean energy resources severely hinder efforts to achieve sustainable development. The most important problem for Turkey is the low public awareness of environmental and social issues. With a high industrial growth rate, Turkish investors must apply energy efficiency practices in order to decrease their energy consumption and emission.

There are incentives for industrial companies to reduce the emissions created by the high energy consumption of their production processes. The aim is to develop their technologies and spread the use of the new energy-efficient technologies. By advertisements and the diversification of the incentives for different industries, investors could be encouraged to support sustainable projects.

**Q** What policy measures would help you scale up in sustainable finance?

For sustainability, government agencies, municipalities, private sector partners, and NGOs must work together to integrate environmental and sustainable development principles into national and regional development policies and plans. With great experience of applying sustainability issues to both our credit lines and our internal practices over the years, we are ready to play a role in Turkey’s transition to sustainable development through the environmental and social evaluation processes in our financing operations.

Since sustainability issues are new for Turkey, highlighting best practice by listed companies would raise the profile of sustainable development. The Istanbul Stock Exchange is launching a Sustainability Index (ISESI) to create a sustainability benchmark for ISE-listed companies. It will assess how businesses are addressing urgent sustainability issues important for Turkey—such as climate change, the depletion of natural resources and ecosystems, diminishing water supplies, health and safety, community relations, and employee relations—and their impact on Turkey’s economic development.

**Q** What single result would you like to see coming out of Rio+20?

The most important issue for sustainable development is how to establish a basis for the green economy and maintain it. We hope that governments will adopt clear and focused practical measures for implementing sustainable development. Most importantly, both developed and developing countries must stand behind whatever is agreed.

With an international agreement, the sustainable development mission of each player must be clearly defined. Financial institutions have a vital role to play in financing environmentally and socially successful projects, as we have done.
Evangelist for Sustainability

RANA KAPOOR, Founder, Managing Director, and Chief Executive Officer, YES BANK, India

Rana Kapoor founded YES BANK in 2003 with a vision of creating the best quality bank in the world in India by 2015. Committed to responsible banking, it focuses on sustainability and social responsibility, with activities including microfinance, rural and social banking, and investment banking advising sustainable ventures in sectors such as alternative energy. YES BANK and Rana Kapoor have received significant recognition in India and globally, particularly for the Bank’s sustainability policies.

Q What are the major sustainability challenges facing India?

A Despite significant economic growth, India’s development has been lopsided, as the country trails behind on essential social and environmental parameters. Sustainability issues have yet to be mainstreamed and as a Public Trust Institution, we are cognizant of the fact that addressing these developmental issues requires mainstream intervention models that are implemented on a massive scale using efficient, scalable mechanisms to enhance impact.

Q How are you developing your products and processes to address these challenges?

A For us, sustainability is not only an ethical imperative but also a sound business decision that helps us in mitigating risks and identifying new business opportunities. Our responsible banking approach works at two levels:

- In Thought—As a think-tank that incubates ideas and identifies sustainability markets.
- In Action—Through dedicated business units that focus on sustainability sectors such as clean energy, energy efficiency, sustainable livelihoods, and financial inclusion.

Some of these units are pioneering business practices in India. Our Sustainable Investment Banking operation, for example, addresses the financial advisory gap in high environmental and social impact businesses. Our Socially Responsible investment funds channel equity finance into sectors such as clean energy, energy efficiency, and social infrastructure. Our Microfinance Institutions Group uses existing financial tools to deepen capital market access for microfinance institutions (MFIs), while our Inclusive and Social Banking practice offers mobile banking solutions for unbanked and under-banked communities in both urban and rural areas.

Q What barriers do you face in increasing your sustainable finance activities?

A Ramping up sustainable finance still requires a significant amount of evangelism in India to overcome critical barriers that we continue to face—in particular, the perceived lack of value in developing such initiatives. While there are pockets in the financial sector that have managed to spot the opportunities, mainstream institutions still consider sustainability to be peripheral to business growth. An insufficiently commercially attractive deal flow exacerbates the situation. All of this makes it harder to attract the right
human capital to this sector, perhaps the most critical challenge in this context.

**What policy measures would help you scale up in sustainable finance?**

From a policy perspective, the barriers could perhaps be overcome by expanding the definition of fiduciary responsibility to include social and environmental criteria—which, in turn, would mean increasing the time horizon over which fiduciary responsibility is measured. This would encourage a move away from a quarter-to-quarter results focus toward a more long-term evaluation of performance, which would encourage investment in sustainability.

**How could more private finance be leveraged into sustainability projects?**

Government intervention can play a significant role in furthering sustainable investments by developing public-private partnerships (PPPs) that encourage risk-sharing mechanisms such as government-underwritten insurance for sustainable projects. This approach would work better than simply mandating green investments, where targets may end up creating a structure that overlooks risks in order to meet regulatory requirements, and where perverse incentives are created for industry to provide suboptimal deal flow.

**What single result would you like to see coming out of Rio+20?**

We look to supranational bodies for support for our sustainability activities. As a bank, we would be keen to see, for example, what progress is made in setting up the Overseas Development Assistance Fund (ODAF)/Green Climate Fund mooted at Copenhagen in 2002 with pledges of $30 billion in fast-start finance. As a responsible financial intermediary, we believe we could play an important role in directing additional funds made available toward green investments in a transparent manner.

Such funding should come with ample flexibility and policy space, engendering greater institutional and financial support from local governments and participation of local industries. As a developing country, India subscribes to the principle of “common but differentiated responsibility.” The notion of a green economy should be seen in the context of the nation’s overriding priorities such as poverty eradication, food security, universal access to energy services, public health, human resource development, and the generation of livelihoods.

**Is there one result that would concern you if it emerged from Rio+20?**

Any enforcement of tariff or nontariff barriers on exports of developing countries based on green compliances and standards—green protectionism—without effective support would cripple export markets in emerging countries. It would also significantly hit banking operations, especially for a bank like ours that invests in social sectors including agriculture and food processing, education, healthcare, and the generation of livelihoods. In addition, micro, small, and medium-sized enterprises are most vulnerable to such trade barriers since they would require additional financial and technological support along with training to improve their environmental and social performance. The summit should ensure a level playing field for all countries, keeping in mind their relative sensitivities and development imperatives.
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IFC has offices in more than 80 countries around the world.
Spix's Macaw (Cyanopsitta spixii) is the only member of the parrot genus Cyanopsitta. They are critically endangered, possibly extinct in the wild (IUCN 3.1). The species is conserved through several breeding programs. It was found in Brazil, in parts of the Brazilian state of Bahia. It has a very restricted natural habitat due to its dependence on the Caraibeira (Tabebuia aurea) tree for nesting.

Our Vision
That people should have the opportunity to escape poverty and improve their lives.

Our Values
- Excellence
- Commitment
- Integrity
- Teamwork
- Diversity

Our Purpose
To create opportunity for people to escape poverty and improve their lives by catalyzing the means for inclusive and sustainable growth, through:
- Mobilizing other sources of finance for private enterprise development
- Promoting open and competitive markets in developing countries
- Supporting companies and other private sector partners where there is a gap
- Helping generate productive jobs and deliver essential services to the poor and vulnerable

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Creating Opportunity Where It’s Needed Most