

The 17th Annual International Land
Policy Forum October 28th, 2010

Why “Green Finance” now?



Toward a Sustainable Society

Takejiro Sueyoshi
Special Advisor to UNEP Finance Initiative
in the Asia Pacific region



Social Changes related to Finance

A Lot of Global Issues

1. Accelerating Global Warming
 - Two-front battle – “mediation” and “adaptation”
 - Excessive abuse of the Earth
 - Ecological foot print
 - Consumption of 2.3 pieces of the Earth
 - Depletion of natural resources
2. Social issues including poverty, education, human rights, infection, etc.
 - Starving population (0.9 billion), poor population (1.4 billion)
 - the next 4B (BOP)
3. Explosion of the world population
 - ~No solution, no future~

Why have many serious issues occurred simultaneously?

- The economic style in the 20th century was wrong.

① Departure from the supremacy of economic growth of the 20th century

- Short-term profit-pursuing principle / exclusive / environmental destruction

② Construction of the “Sustainable Economy” of the 21st century

- Long-term principle / comprehensive / maintenance of the environment

~From Brown economy to **Green** economy~

How to Change Economy

- Change in corporate behavior changes economy

To change corporate behavior:

- ① Laws and regulations (competition of global rules)
- ② Change consumers (green consumption revolution)
- ③ Change **finance**
- ④ Of course, innovation of **companies** themselves
 - ~ Increasing **social expectation and demand** ~



Expanding Green Finance

October 28th, 2010

Global Movement Related to Global Warming

6

Why Finance?

- ① Finance is the “mediator of money in society.”
- ② Society and economy change depending where money is flowing to due to finance.
- ③ Economic reconstruction of Japan after the World War II and the role of finance therein.
- ④ Bubble economy and subprime loan issues

~ Finance is the basic social **infrastructure** ~

History of UNEP FI

1972 UN Conference on the Human Environment
"Declaration of Stockholm"

1992 Rio Summit

- Introduction of Financial Initiative (FI)

2000 "Climate change is a destabilizing factor of
the global economy"

2004 "Materiality Report I~II"

2005 Study of "Fiduciary Duty"

2006 Principles for Responsible Investment (**PRI**)

New Perspectives in the World of Investment

- Principles for Responsible investment

 - 2006 Start of PRI

 - 2010 808 institutions (20 trillion dollar) have signed

<Article 1 of the Principles >

Environment (**E**), Society (**S**) and Governance (**G**) must be reflected in the investment decisions.

Universal Ownership

- October, 2010, UNEPFI+PRI

“Why environmental externalities matter to institutional investors”

- The size of the environmental destruction in 2008 is **6.6 trillion dollar**, and the top 3000 companies of the world are responsible for 2.15 trillion dollar.

- The environmental damage caused by economic activities will injure the investment portfolio seriously in future.

Demystifying Materiality

- October, 2010, at COP10 by UNEP FI
“Hardwiring **B**iodiversity and **E**cosystem **S**ervices in Finance”
 - Loss of biodiversity and degradation of eco services are “risks and chances” for finance.
 - Farsighted financial institutions should include BES in their main business.



Actual Field of Green Finance

More Information on Carbon

- Carbon Disclosure Project

2000 Three British people

2003 CDP1 (Inquiries to top 50 companies of the world)

2008 Start of CDP Japan

2010 CDP8 (Inquiries to top 4000)

~ "Carbon Conversation" between finance and companies will be extended ~

Suppressing Project Finance

- June, 2003 "The Equator Principles"
 - The impact of development cases (over ten million dollar) on
<environment and regional society >
must be studied carefully.
 - Cases not satisfying the standard are asked for improvement.
 - If they still do not pass, no financing will be done.
 - About 70 institutions have signed.

Self-controlling Principles Coming Up

- Carbon principles (leading financial institutions in USA, 2008)
- Climate principles (financial institutions in Europe, 2009)
- Strict financing open-pit mining (USA, 2010)
- Formulation of Japanese “Financial Action Principles” (2010)

Policy change of the US Securities and Exchange Commission (SEC)

- January, 2010 **SEC**, re-examination of the historical guidance

- ① There was no need to respond to the requests from stakeholders.
- ② There are cases that are disclosed as obligation.
- ③ Background is the urgent request of institutional investors.
- ④ This decision is expanded in various ways.

Capital Market, Emergence of ESG Index

Bloomberg :Publishing of CD information
(3000 companies)

MSCI :Purchase of RiskMetrix

MSCI Global Climate Index of 100

FTSE :Carbon Strategy Index Series

Reuters :Purchase of Point Carbon

Acting Pension Funds

Public pension of Norway

- Funds have been take out of global mining companies.

Public pension of Sweden

- Sustainability and financial return do not conflict.

Public pension of South Korea

- PRI investment has started.

CalPERS

- Activation of strict behavior of stockholders
~ **PRI investment** expanding to pension ~

Change of mind of a leading consultant

- Mr. Roger Urwin (Towers Watson, July, 2010)

<Sustainable Investment>

is an effective method for:

- Long-range investment
- Care for **ESG**
- Behavior of stockholders
- Cooperation among generations

~ I didn't think that it has such a **deep meaning** ~



A Paradigm Shift has Started

October 28th, 2010

Global Movement Related to Global Warming

20

Formation of New Concept of Values

1. It is bad to keep on emitting **CO₂**.
It is good to reduce CO₂ emission.
2. It is bad to destroy **biodiversity**.
It is good to maintain biodiversity.
3. Companies should not be part of issue.
Companies should be part of **solution**.

Corporate Management must Change

- ① Financial achievements alone are not sufficient.
- ② Social achievements are inevitable.
- ③ Successful companies achieve financial and social results simultaneously.
- ④ “**ESG Management**” is the real source of competitiveness.

Social Responsibility of “Real Estates”

- ① **Potentiality** of “Real Estates” is big.
- ② “Lock-in effect” is not allowed.
- ③ “Future Standard” is applied in advance.
- ④ Responsibility of finance

Final Remark

~ Toward the construction of the low-carbon society ~

A competition based on the values in future has started.

Blue Earth



NASA Visible Earth

<http://visibleearth.nasa.gov/>

The Blue Marble

http://visibleearth.nasa.gov/view_rec.php?id=2429

The Blue Marble data is a graphical data resulting from the data from the earth observatory satellites that have captured the true-color picture of earth in by visible light over several years.

Ancient Wisdom

Treat the earth well:

It was not given to you by your parents,

It was **loaned** to you by your children.

- Ancient Indian Proverb



Thank you for your attention