

Finance and sustainability crash course - session 2

Contents

| | | |
|----------|---|----------|
| 0.0.1 | Speaker | 1 |
| 1 | Ecosystem change: Financial risk & opportunity | 2 |
| 1.1 | Drivers of change in corporate behavior | 2 |
| 1.2 | Financial services sector | 2 |
| 1.2.1 | Institutional investors | 2 |
| 1.2.2 | Private investors | 3 |
| 1.3 | | 3 |
| 1.3.1 | Banking | 3 |
| 1.3.2 | Bond market | 4 |
| 1.4 | | 4 |
| 1.4.1 | Financial accounts | 4 |
| 1.5 | | 4 |
| 1.6 | RESOURCES | 5 |
| 1.7 | | 5 |
| 1.8 | CONCLUSION | 5 |
| 1.8.1 | How can FIs contribute | 5 |
| 1.9 | | 5 |
| 1.10 | DISUCSSION | 5 |
| 1.11 | | 5 |
| 1.11.1 | References | 5 |

{% include JB/setup %}

0.0.1 Speaker

Founder of GAIA values - appreciating nature's assets

Has been managing - "natural value initiative"

Collaborating with "Fauna & flora" in Cambridge

"Sustainable seafood finance" tool - introduction video

FI: financial institutions

1 Ecosystem change: Financial risk & opportunity

1.1 Drivers of change in corporate behavior

Environmental change:

The Texas drought caused GAP to cut its profit forecasts by 22%

Increasing raw material prices for cotton made *H&M* change its cotton source (??? correct note ???)

Markets for compensation - biodiversity off-setting (*The Biodiversity Consultancy*)

Clean Water Act - requires wetland mitigation - total market value on the order of billions of US dollars

Unilever certified tea - increased sales w/ 12 %

*Alfa Laval** - “new technology beefs up share price”

Paper with KPMG “Identifying natural capital risk and materiality” directed at CFOs

1.2 Financial services sector

1.2.1 Institutional investors

- Are emerging economies safe? – case of HSBC report reporting on stress on China’s natural capital and implications for growth scenarios
- **Universal owners** - very big institutional investors - national banks, national pension funds etc. etc.
- How can *universal owners respond* - universal owners have interest in whole system rather than short-term performance of individual market actors. (Achim Steiner, UNEP Executive Director)
 - Universal owners should avoid systemic risk.
- Climate risk
- Water risk
 - Rio Tinto, Ceres database - “A framework for 21st century water risk management”
 - Water database
- PRI - Principles for Responsible Investment (45 trillion signed up to principles)
 - 2011 Engagement with retailers around sustainable seafood
 - 2013 Engagement with retailers around palm oil production
- Should I stay or should I go
 - Divestment
 - Ethical council
 - In 2013 Swedish AP funds divest (sell) FREEPORT MCMORAN COPPER & GOLD stocks based on implication in serious environmental damage in contravention of the UN CBD.
- New products and services
 - dNb gLOBAL hÅLLBAR

- Sumitomo Trust BankK - Biodiversity SRI funds
- Regulatory driver

Lack of reporting standards pose a significant barrier to greater incorporation of natural capital - call for sector based reporting standards

1.2.2 Private investors

- *Consumer awareness tools* may be a facilitating driver of change
- *Venture capitalists*
 - Carl Harl - environmental capitalists
 - Sustainable Technologies Fund
- *Impact investment*
 - Investment to try and have a positive impact
 - Often local initiatives
 - *Oryx impact investments* as an example

1.3

1.3.1 Banking

- *Corporate finance sector policies*
 - Lending money for investors
 - *Case* Deutsche Bank was helping China Tuna with an IPO to raise USD 150 mil
 - The IPO was based on
 - * incorrect info to investors
 - * ecosystem limits disregarded
 - IPO was suspended
 - Discussion - how did they get the data?
- *Eco-friendly loans*
- *Project finance criteria*
 - International Finance Corporation (private sector arm of World Bank Group)
 - As of 2012 IFC requires projects to maintain ecosystem services benefits and to identify those services that the project is directly dependent upon.
 - 78 banks with 70% of global project finance to emerging markets follow the IFC Performance Standards
 - Clashes of interest between - shareholder interests (short-term) - company (longer-term) - lenders such as banks (???)
 - Natural capital as last step consideration *versus* natural capital as a strategic driver

- Also clashes in interests between short-term and longer-term investors
 - *Insurance*
 - Climate change may results in higher home insurances
-

1.3.2 Bond market

- GREEN BONDS - Mr Green Bond @ SEB
 - In 2013 the total cumulative insurance rose to 19 bill USD
 - In 2014 SEB issued green bonds at a total value of 3.8 bill USD
 - Case ørebro municipality, stockholm län, gothenburg city
 - The green bond market has not increased the size of the environmental projects
 - * Instead, the green bond market bundles together all the green projects inorder to diversify the portfolio of lenders
 - Key features
 - * Transparency
 - * Reporting
 - * Third party verification
 - Question
 - * Additionality?
 - Green bonds also usually has a slightly lower interest rate
- Government bonds implicated
 - E-risk report by the Global Footprint Network
 - Ecological footprint balance affects import-export balance and the ability to generate income to pay interests
- Financing direct positive impact

1.4

1.4.1 Financial accounts

- Valuing negative (and positive) externalities - shadow pricing - to ultimately incorporate in business balance sheets.
- Case example - PUMA

1.5

1.6 RESOURCES

- **Natural capital declaration**
- 40+ financial institutions collaborate to - increase awareness - develop methodologies - build consensus for private sector accounting and integrated reporting
- **Corporate assessments**
 - Natural capital coalition
- **Corporate reporting & disclosure**

1.7

1.8 CONCLUSION

1.8.1 How can FIs contribute

- A long list (get slide)

1.9

1.10 DISCUSSION

- Identifying initiatives of new paradigm and old paradigm
 - Initiatives of new paradigm often start at small scale (e.g. investing for impact)
 - When they try to scale up, maybe they get incorporated in old paradigm

1.11

1.11.1 References

None