

sustainable
finance geneva

Geneva: touching the world



UNEP **Finance Initiative**
Innovative financing for sustainability



Thoughts on sustainable finance

To celebrate the launch of Sustainable Finance Geneva a group of globally recognised thought leaders on sustainable finance and responsible investment have been invited to contribute articles covering this complex field. These contributors join their peers from SFG to provide a snapshot in time examining how the finance and investment community is approaching the environmental, social, governance and human rights challenges we face.

The articles are complemented by images donated by Laos-based development photographer Jim Holmes.

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La promotion de la finance responsable

Genève se dote d'une nouvelle plateforme dédiée à la finance durable et à l'investissement responsable. Elle ambitionne de devenir un centre de référence en la matière.

Cette nouvelle dynamique a été initiée par la rencontre de professionnels de la place financière et d'organisations internationales visant à développer un nouvel espace d'échange entre les acteurs de la finance et les tenants du développement durable.

Cette collaboration permettra d'explorer et de proposer des solutions innovantes d'investissement. Où, comment finance et développement durable peuvent s'allier pour répondre aux défis contemporains.

Genève est en effet un centre financier et bancaire de renommée internationale et est aussi une terre d'accueil pour nombres d'organisations internationales promotrices de causes globales dont le développement durable. Comment ces deux communautés, que sont la finance et les organisations internationales, peuvent-elles se rencontrer ? Comment peuvent-elles se nourrir mutuellement ?

Telles sont les questions qui nous ont interpellés et qui sont au cœur de la nouvelle association, Sustainable Finance Geneva (SFG),

La finance durable et l'investissement socialement responsable en particulier bénéficient d'une croissance importante.

En termes de fortune sous gestion, cependant, elle ne représente qu'une fraction des investissements globaux (7-8%). Cela s'explique en partie par un manque d'information et l'absence de standards pour l'industrie. Quelle information est pertinente pour la prise de décision en matière d'investissement ? Où trouver cette information ? Et comment intégrer cette information dans nos outils d'analyse financière ?

SFG est une association de professionnels installés à Genève dont l'intérêt commun est la promotion de la durabilité et de la finance responsable. Représentant plusieurs secteurs d'activité, nous sommes des spécialistes, des conseillers et des chercheurs en ISR, des pionniers de la microfinance, des experts de la philanthropie ainsi que des représentants des organisations internationales actives dans le développement durable. En tant que membres d'une association interdisciplinaire, nous pouvons exploiter des synergies et créer des liens entre nos divers domaines d'expertise.

Soutenue par Genève Place Financière, notre association verra officiellement le jour le 28 octobre 2008.

Notre mission ? Faire de Genève un centre d'excellence de la finance durable et responsable.

Nos principes fondamentaux ? L'indépendance, la compétence et la passion pour la réflexion qui mène à l'action. Nous nous engageons pour des idées et des collaborations innovantes au service du

développement durable. Nous croyons que Genève, en tant que centre de compétence en finance et politique internationale, peut jouer un rôle de référence mondial dans la promotion de la finance durable et de l'ISR.

Nos objectifs ? Offrir l'occasion aux professionnels de Genève de participer à la création d'une plateforme d'apprentissage, d'échange et de promotion de la finance durable.

Nos futures réalisations?

- Définir des principes d'investissement responsable spécifiques aux professionnels de la finance, microfinance et philanthropie.. Nous souhaitons développer prioritairement la prise en compte plus large des enjeux ESG [Environnement, Social et Gouvernance] parmi les professionnels de la branche
- Mettre sur pied des séminaires et autres tables rondes de partage des connaissances et expériences et développer un espace propice à la discussion et à la rencontre avec des experts.
- Développer les meilleures pratiques en matière de finance durable,
- Faciliter l'accès aux sources les plus récentes et les plus pertinentes de l'information disponible sur la finance durable au niveau mondial.
- Organiser des événements à Genève pour encourager le dialogue, les débats, le progrès et le leadership en finance durable.

Cette publication, éditée en collaboration avec UNEP-FI – que nous remercions –, est donc pour nous l'opportunité de présenter cette initiative et de mettre en évidence les tendances actuelles de la finance durable à partir des domaines d'expertise de SFG : ISR, microfinance, philanthropie et recherche en développement durable menée par les organisations internationales. C'est aussi l'occasion de VOUS inviter à un débat plus approfondi dans le cadre des forums SFG.

Angela De Wolff

Présidente de SFG



AVANT-PROPOS

Une ville qui s'engage

La Place financière de Genève est la 7ème plus importante au plan mondial (selon une étude 2008 de la City of London). Sa force repose sur la gestion de patrimoines, privés et institutionnels (private banking et asset management), ainsi que sur le financement du commerce de matières premières (commodity trade finance), domaines dans lesquels son excellence est reconnue.

Cette réputation de la Place de Genève (140 banques, 630 gérants indépendants, 2600 sociétés financières, 660 sociétés d'assurance, 1100 fiduciaires et 350 études d'avocats, soit 34000 emplois) réside dans : une tradition pluri-centenaire, une grande ouverture sur le monde, la qualité des services dispensés, et une forte aptitude à développer des produits permettant de satisfaire les besoins toujours renouvelés de ses clients.

La finance durable (sustainable finance) est justement un de ces besoins nouveaux, qui, par des instruments et des initiatives émanant du secteur privé, contribue à favoriser le développement économique tout en respectant des contraintes sociales et environnementales. Certaines solutions d'investissement durable peuvent améliorer les conditions de vie des populations vivant dans la précarité, d'autres à résoudre les problèmes environnementaux liés notamment au changement climatique. Nombreux sont les clients de nos banques qui sont de plus en plus sensibles à ces problématiques et souhaitent que leur conseiller puisse leur proposer

des produits d'investissement de type ISR (Investissement Socialement Responsable).

Dans cette logique, Genève Place Financière, organisation de promotion et de lobby, soutient résolument la nouvelle association Sustainable Finance Geneva, et ce pour les raisons suivantes :

- L'ambition de SFG de faire de Genève un lieu reconnu d'excellence dans les aspects de la finance liés au développement durable;
- La cohérence et la variété des dimensions de la finance durable qui sont intégrées dans SFG;
- La qualité et l'expérience des personnes qui l'animent;
- SFG contribuera à renforcer le capital intellectuel disponible auprès des acteurs de la Place financière de Genève, permettant ainsi de mieux satisfaire les demandes croissantes de nos clients dans les domaines de l'ISR.

On le voit, Sustainable Finance Geneva s'inscrit dans la tradition de Genève, « a city that cares ».

Ivan Pictet

Président, Genève Place Financière
www.geneva-finance.ch

A common interest in sustainability and responsible investment

What is the contribution of Geneva's finance community to global issues and the promotion of sustainable development?

Geneva is an internationally recognized banking centre. Geneva is also a centre for international organizations addressing global issues and sustainable development. How could these two communities, finance and international organizations, connect more effectively?

These are the questions that we started to ask ourselves, and these are the questions that are at the heart of this new association, Sustainable Finance Geneva (SFG) – to be launched on October 28, 2008.

Sustainable Finance Geneva aims to fill the current gap between financial services and the international organizations in Geneva to promote sustainable finance. But even more, we believe that we have a unique opportunity in bringing finance experts and sustainable development experts together to play a leadership role in mainstreaming sustainable finance globally.

Sustainable finance is growing as a global trend. However, in terms of total assets under management, it makes up only a fraction of global investments. While the total amount of global assets under management in 2006 amounted to approx. \$61.9 trillion, only \$3.6 trillion of these were managed as responsible investments. The picture in Switzerland is very similar and leaves us with the feeling that much still needs to be done – despite astonishing SRI growth

throughout the last decade: in 1995 the Swiss SRI community comprised two funds with less than a CHF 100 million of assets under management; by 2006 that figure had grown more than 30-fold to approximately CHF 34 billion which only makes up, however, 0.7% of all assets under management.

Partly, this results from the lack of understanding of how to gather and interpret the needed information: what type of corporate information is truly relevant for responsible investment decision-making? Where can capital market actors and other financiers get that information from? And how can they integrate that information into their valuation tools?

Sustainable Finance Geneva is an association of Geneva-based professionals with a common interest in promoting sustainability through sustainable finance and responsible investment. We are finance professionals (specialized in SRI for private banking, microfinance, and philanthropy), SRI research professionals, and sustainable development professionals from international organizations. Together, we believe that we can bridge this gap. We are an association of interdisciplinary experts.

Our mission is to turn Geneva into a recognized centre of excellence and leader in sustainability and responsibility in finance.

Our principles are independence, leadership and passion for progress and action. We act as individuals, we are not influenced by specific companies or institutions, and we favour innovative ideas

and collaborations that promote progress. We believe that Geneva can play a leadership role in driving sustainable finance, and that Geneva based finance professionals have a unique opportunity to accelerate progress in sustainable finance. We share a strong passion for progress and action.

What do we want to achieve? Supported by Genève Place Financière, SFG will offer Geneva-based finance professionals with a common interest in sustainability and responsible investment the opportunity to learn, share and promote all aspects related to sustainable finance.

We plan to define principles for responsible investment specifically for Geneva-based finance professionals, to heighten SRI/ESG awareness among finance professionals, and to become a point of reference and center of expertise in SRI/ESG.

What will SFG offer?

- a space for Geneva's financial community to meet and discuss sustainable finance issues with experts – we will hold events in Geneva and encourage a dialogue, a debate, progress and leadership in sustainable finance;
- seminars, round-tables and other knowledge-sharing tools to reinforce current knowledge and best practice in sustainable finance; and
- access to the most up-to-date and relevant information available on the topic of sustainable finance and responsible investment in Geneva and around the world.

In this publication we have been given the opportunity to outline current trends in sustainable finance from SFG's areas of expertise: SRI, microfinance, SRI research and ratings, the pension fund industry, philanthropy and sustainable development research from international organizations in Geneva. We thank UNEP FI for their collaboration as SFG has worked to produce this publication.

Angela De Wolff
President of SFG



FOREWORD

A city that cares

According to a study commissioned by the City of London, Geneva ranks seventh among financial centres worldwide. As a financial centre, Geneva's strengths lie in asset management (private banking and institutional asset management) and in commodity trade finance, fields in which it enjoys widespread recognition for the excellence of its services.

Geneva's reputation as a financial centre (with 140 banks, 630 independent asset managers, 2,600 financial companies, 660 insurance companies, 1,100 fiduciaries and 350 lawyers' offices accounting for 34,000 jobs) stems from a long banking tradition that stretches back several centuries; the city's openness to the world; the quality of the services provided and its ability to develop products to satisfy its clients' ever-changing requirements.

Sustainable finance is but one of these new requirements. Drawing on instruments and initiatives derived from the private sector, sustainable finance seeks to contribute to economic development while taking social and environmental impacts and constraints into account. Sustainable investment solutions can often improve conditions for those living in poverty, while others can contribute to resolving environmental problems, including those associated with climate change. Many Geneva banking clients are becoming increasingly aware of these issues and are turning to their advisors to offer them SRI-type investment products.

It is with this in mind, and for the following reasons, that the Geneva Financial Center Foundation, an organisation established to promote and lobby on behalf of Geneva as a financial centre, has decided to give its firm backing to Sustainable Finance Geneva (SFG).

SFG's objective is to ensure that Geneva gains recognition for its expertise in financial products associated with sustainable development. SFG takes a coherent approach and addresses a broad range of aspects of sustainable finance.

The members of SFG are of high calibre and are experts in their fields. SFG will contribute to strengthening the intellectual capital available to the various actors of Geneva's financial centre, thus allowing them to better meet the growing demand among their clients in the field of SRI.

Sustainable Finance Geneva's objectives are therefore very much in keeping with Geneva's tradition of being "a city that cares".

Ivan Pictet

Chairman, Genève Place Financière -
Geneva Financial Center
www.geneva-finance.ch

Matching short-term demands and long-term goals

Rob Tacon

Chair, UNEP Finance Initiative

Just one week before the launch of Sustainable Finance Geneva, more than 100 bankers, insurers and investment professionals from around the world gathered in the Palais des Nations for the 2008 UNEP Finance Initiative Annual General Meeting. The gathering has built in the last decade from the approximately 20 executives who came together for the AGMs in the mid 1990s to the more significant numbers now. For myself, as Chair of UNEP FI, this is a fine witness to the growth, energy and hope that exists amongst those financial and investment professionals who see sustainable finance and responsible investment as a fundamental part

of the sector's future in the complex and fast-changing markets of the 21st Century.

The team that has worked during 2007 and 2008, and the senior Geneva financiers who have backed the creation of SFG as a new association, are to be congratulated for their efforts and the group's timely launch. The global financial crisis that has unfolded in the past two years confirms in the clearest of ways the urgent need that exists for new thinking and new ways-of-doing in the world of finance and investment. SFG will contribute to this process from a city which is both at the centre of intergovernmental affairs and with an unparalleled financial legacy. As a result, SFG's work will have every opportunity to resonate globally. The UNEP FI community, made up of 180 institutions from around the world, is excited at the prospect of working closely with SFG to deepen our collective thinking and making a difference through sustainable finance.

A financial services approach based on the disciplines of sustainable finance and responsible investment can never become a "silver bullet" for all of our institutional challenges and the systemic problems the financial system now faces. These disciplines can, however, provide a mechanism to broaden the way financial communities think about risk and reward and how short-term demands should serve long-term goals. Importantly, sustainable finance is also a way of understanding the emerging demands of those clients, whether individual or institutional, who are increasingly aware of

the need to ensure financial activity, as well as investment policy-making and decision-making, acts to protect our natural wealth and the planet's precious resources.

In its broader thematic work in a range of fields, including climate change, water and finance, and biodiversity and ecosystems services, as well as in our sectoral work across banking, insurance and investment, UNEP FI seeks to build awareness of the role the financial sector can play in defining the solutions through market-based approaches. At the same time, our partner UNEP, as the legitimate environmental voice of the entire United Nations system, brings the deepest of expertise to the partnership in terms of understanding the state of the planet and the policy responses required at the global and intergovernmental level.

This coming together of public and private interests, through the lens of finance and investment, is a powerful combination that can drive change. We look forward to working with SFG in the months and years ahead as sustainable finance and responsible investment is progressively mainstreamed within our markets.



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A rescue package for the 21st Century

Tessa Tennant

Executive Chair, Ice Organisation

The Ice Organisation provides environmental rewards services to the banking industry, including carbon footprint calculation services

When complacency goes out the window in moments of crisis, there is a chance to act, to make bold transformational moves. Our fiscal masters need to act now, not just to stabilise the acute distress in the markets but also to ensure that remedies catalyse green economic growth at the same time. Failure to do so means the global economy will still be vulnerable to the growing impacts of man-made climate change, making the devastation of the current banking crisis look in comparison little more than the mess to be cleared up after a lunatic's tea party. Solutions are not just to be found in green subsidies, as some commentators and the US bail-out package suggests. The fundamental answers lie in writing green finance into the operational DNA of banks rescued by the public purse. This in itself would sweeten the very pricey pill which the public is being asked to swallow, and it would bring some much needed meaning back into the role of financial service institutions. Indeed there is already sufficient evidence in the industry to demonstrate that environmental finance is not 'odd', so these are reasonable requirements to make. We already have the precedent of energy utilities and telecoms companies being mandated to serve the public good, through the promotion of energy conservation, provision of universal coverage, and service options for the poor. It is possible to remain profitable while doing the right thing. So we must be explicit about the public obligations of the finance industry, as the most potent of all intermediaries, in enabling individuals to

make the right investment and expenditure choices in support of collective action to drive the creation of low carbon economies.

If I were Hank Paulson or Alastair Darling, I would insist that any financial institution meriting a publicly funded bailout would have to agree to implement the following policies, once their immediate financial position was stabilised. These policies could be reviewed in five years time to allow for up-scaling and improvement. In Consumer Finance, they would:

- undertake to provide carbon footprint calculations on all statements, from bank accounts to credit cards, to help individuals understand the impact of their own expenditure patterns. As the saying goes, "if you can't measure it, you can't manage it" and this applies to each of us in our daily lives, as much as it does to organisations;
- guarantee that customers have access to sustainable investment options and are properly informed about all SRI and Clean-tech products available in the market;
- agree to incentivise all mortgage customers to undertake home improvements to reduce energy use. Further incentives could be created through home insurance schemes. Such measures could be tied to national tax schemes which rewarded individuals for living in zero-energy homes;
- be restricted to car financing for energy efficient models only

- run climate warnings on all bank advertising which encouraged the public to be energy intensive. For example, loans for far-away holidays, or use of products such as patio heaters in promotional images more generally.

In Business Lending, I would insist the banks accepted their role in influencing supply chains through carbon disclosure and other means such as the Principles for Responsible Investment and Equator Principles. These standards should be strengthened and incorporated into the Basel process applying to the banking industry as a whole. These are not unreasonable demands given that some banks practise these standards already. More broadly, I would make sure that the shadowy corners of banking activity such as the hedge fund and private equity sectors are brought to account through higher standards of disclosure and transparency. In so doing we have some hope that regulators and investors can keep adequate track of risks and financial flows to avoid new rounds of over-leveraged activity and future credit bubbles.

These recommendations are all about transforming the focus of banking activity to be aligned with the greening of nations. This is not about strangulating the financial services industry nor is it about making further demands on overburdened government funds. It is about making the power of private capital work right in the first instance. From this the world has a chance to grow.

Sustainable finance: a high rate of interest in human rights

Gerald Pachoud

Special Adviser to the Special Representative of the UN Secretary-General on Business and Human Rights

Markets go up. Markets go down. Sometimes violently. But in addition to these cycles, there are new and growing expectations from investors and increasingly from regulators and the industry itself that the financial sector perform in a sustainable manner, not only because it is the right thing to do, but also because it makes business sense. While some have taken a decisive leadership role in responding to the challenge of integrating environmental, social and governance criteria, others still use its complexity as an excuse to lag behind. Clearly, it is not time to lag behind any more.

The scale and influence of market forces has grown much more rapidly than the ability of societies to manage their adverse effects. This situation has happened in the past, resulting in the collapse of open markets, rises in nationalistic and protectionist policies and in the worst cases, eventually world wars.

What sustainable finance does really mean is still up to debate. There will be no simple manual which would provide all the answers on how to operate a business in an environmentally and socially sustainable fashion. Further, the globalized economy and the high integration of financial markets impose a common space marked by deep differences in ethical traditions, in political systems, in wealth distribution, and too often by racial, ethnic, and gender distinctions. Finding a common set of references is therefore crucial and, increasingly, human rights are perceived as the shared values able to underpin this common space.

We are still in the early stages of fully articulating the human rights regime to business operations, in particular in the financial sector. But much progress takes place and initiatives such as the United Nations Environment Programme Finance Initiative (UNEP FI) plays a key role in contributing to understanding and clarifying how human rights relate to the activities of financial institutions worldwide. A first important milestone was reached when member states unanimously welcomed the framework proposed by Prof. John Ruggie, the Special Representative of the Secretary General on business and

human rights. This framework rests on three foundational principles: the state duty to protect against human rights abuses by third parties, including business; the corporate responsibility to respect human rights; and the need for greater access to effective remedies.

The first principle is the state duty to protect. The human rights policies of states in relation to business need to be pushed beyond their narrow institutional confines. Governments must actively encourage corporate cultures respectful of human rights at home and abroad. They need to consider human rights impacts when they sign trade agreements and investment treaties, and when they provide export credit and investment guarantees for overseas projects, especially in contexts where the risk of human rights challenges is known to be high. The second component is the corporate responsibility to respect human rights – meaning, in essence, to do no harm. In addition to compliance with applicable laws, companies are subject to what is sometimes called a social license to operate – or prevailing social expectations, which typically evolve more rapidly than the law. The baseline social expectation for companies is that they respect human rights, as is widely recognized by firms and business groups in their voluntary initiatives. Access to remedy is the third principle. Even where institutions operate optimally, disputes over adverse human rights impacts of companies are likely to occur, and victims need redress. Currently, access to formal judicial remedies is often most difficult where the need is greatest. And



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non-judicial mechanisms are seriously underdeveloped – from the company level up through national and international spheres.

This framework provides a first overarching set of principles. The financial sector has a key role to play in developing this framework and contributing to articulate the operational consequences of the three overarching principles. In this context, the creation of an association of Geneva-based professionals and investors through Sustainable Finance Geneva is a very welcome contribution to translating these principles into sustainable best practices for the industry. Geneva always appears to be smaller than anticipated to first-time visitors, but size isn't everything. In a globalized economy, "local" initiatives do not really exist any more when the local actors are directly connected to and have a direct influence on world markets. The presence of finance professionals, international experts from non-governmental and international organizations and the long-standing private banking tradition ensure that decisions and practices initiated in Geneva will not stay there and have an impact world-wide.



Where do the bees come in? The fiduciary's need for holistic thinking

Donald MacDonald is the Chair of the Principles for Responsible Investment (PRI) Board. As a Member Nominated Trustee, he is presently a Director of the Trustee Board of the British Telecommunications plc Pension Scheme with assets of approximately £36bn. The PRI, launched by former United Nations Secretary General Kofi Annan in April 2006, is a voluntary association of some 400 institutional investors representing more than USD 15 trillion in assets. The PRI was incubated by Geneva-based UNEP Finance Initiative between 2003-2006 in collaboration with the UN Global Compact

In the past, financial institutions have rarely regarded extra-financial matters as being of importance to their main purpose. However, recent events in the financial markets have demonstrated that good governance and stewardship must be at the heart of our capital markets.

For institutional investors, the fundamental ideas behind responsible investment are very simple: we believe that well governed companies and entities are best able to deliver long-term value for investors. We recognise that environmental, social, and corporate governance (ESG) issues may affect the performance of our investment portfolios and that, as active and responsible owners, we

should exercise our fiduciary duty in the best long-term interests of our beneficiaries.

Those simple concepts are critical when considering that institutional portfolios increasingly are spread across sectors, asset classes, countries, and regions. Indeed, as globalisation of investments has proceeded, the concept of the "universal investor" has gained ground; institutional investors who own a significant share of the total market, and who therefore have an economic alignment with the world's long term health, take into account the straight financials, as well the extra-financials, e.g. environmental degradation, water and food supply, labour and human rights, political risk, corruption, and basic good governance.

Real-time globalisation driven by technology and market liberalisation, coupled to the rapid shift of production, power and wealth, from the old economies of Europe and North America to the new powerhouses, have rapidly changed our world. The growth of China and India into economic superpowers, and the world's thirst for energy and commodities, pose new challenges for institutional investors.

All of these factors, particularly underpinned by the impact of climate change, make it ever more necessary for investors to consider, and factor in, environmental, social and governance risks.

Perhaps one other concept is required to meet these challenges – a holistic approach, with which we can seek a better understanding of how our actions impact upon the many complex factors at play. For example, when investors and farmers sought to capitalise

on governmental commitments to biofuel production, were the wider aspects seriously considered? Did we really think about the processes that led to Mexico's "Tortilla Riots" in 2007, or the further deforestation of the Amazonian rain forest, the Earth's lungs?

To what extent has the institutional investment community considered biodiversity to be a fiduciary issue? As with the fragility of interdependency in the capital markets and the banking system, there are some very delicate connections that, if broken, could undermine the ability to feed, even, the OECD countries.

Take the humble honey bee. Bees play an integral role in world food supply, and, we are told by the US Department of Agriculture, are essential for the pollination of one third of the world's crops. The value of this service is calculated to be \$15 billion in the US, and \$70 billion annually, worldwide.

Being, as we are, dependent for one in three mouthfuls of our food upon the humble bee, perhaps we ought to be rather concerned about the substantial worldwide loss of bee colonies.

While there appears to be no single definitive cause for this potential disaster, with reasons proffered for the international loss of colonies being many and varied, it is not beyond the realm of possibility that intervention by man has been a factor. Among the man-made causes being considered are the use of pesticides, and the stress caused by bee colony transportation by the agricultural industry for pollination purposes.



The purpose of this example is not to apportion blame but to illustrate the fragile nature of the biodiversity that puts food on our plates. We therefore need to consider the impact of our actions as institutional investors in areas such as biodiversity.

Signatories to the UN Principle for Responsible Investment are trying to tackle the apparent disconnect between short-termism within the investment process, and the longer term issues for our beneficiaries and the world at large. For the first time, institutional investors, fund managers, and professional service partners have developed a truly international and mutually supportive framework within which we can consider, and take action on, these big issues.

UNPRI has set up its Engagement ClearingHouse for Signatories to engage in collaborative engagements and projects. Amongst its other activities, the UNPRI's Academic Network will become part of a two-way process of learning from the experiences of the investment community, while being able to inject fresh ideas and thought leadership.

The foundation of Sustainable Finance Geneva, SFG, marks a landmark for sustainable finance and responsible investment.

With your prime focus in Geneva, SFG has a particularly vital role to play, providing a bridge between the worlds of the investment professionals, and the many international and inter-governmental organisations that are based within your city. We share many common goals and wish you every success with your initiative.



Harmonious investing – West and East

Dr Wayne Silby is Co-Chairman of the Calvert Foundation and Chairman of Syntao, Ltd, Beijing. Dr Silby founded Calvert, a \$15 billion investment management group in Bethesda, MD, noted for their leadership in the area of socially responsible investment. Though he is no longer active in most of the day-to-day business of Calvert, he serves as President of Calvert Social Investment Fund and supervises its private equity activities. Mr Silby chairs the China Committee of Grameen Foundation USA.

Swiss bankers have long been the standard bearers for good banking in the old world economy. In this globalized electronic era, new actors, from the sovereign wealth funds to the levered hedge funds, have been shaking the financial system and are forcing a relook at value and values. The question in times of turmoil: What is real?

I am Co-Chair of Calvert Foundation in Washington, D.C. We have a big part of our assets with low income housing groups that lend to the poor. How are we faring in this tumult, as many major financial institutions fail? We have almost no delinquencies or losses. We lend to the poor for houses they can afford instead of what a Wall Street salesman can flip. Geneva bankers, with their historical stature, have a responsibility to lead the world back to basics about real lending to a real economy.

I was at a World Bank reception for the sovereign wealth fund managers last year. I met a well dressed hedge fund manager, and, after one too many drinks, I said to him, “so how does it feel to be so talented and waste those talents on zero sum games?” Contrast this to the Swiss banker I met in Hong Kong who had headed up the microfinance section of a large Swiss bank. He told me of the time he timidly asked his private wealth clients what type of return they would expect on their micro finance investments. The response was almost universal: “Oh, as long as we get the money back, and it is going for good purposes, we don’t need much return.”

I remember the time I was chairing the annual meeting for the Calvert Social Funds.

We were proposing to place one per cent of our fund assets into projects that had a low return but a high social impact. A shareholder stood up and said, “Why not three per cent?” To my amazement, the audience murmurs were overwhelmingly supportive of his proposal. We stayed with one percent, and the programme has been in operation now for almost 20 years and has had net positive returns. Many other funds later adopted this model that recognizes promoting social justice is also part of creating an investible society. Europe’s IFIs, such as FMO and DEG, have long been engaged in this work, but with limited public resources.

Bankers have the ability to shape the conversation about true wealth, and especially now as the world is so hungry for examples and leadership. I chair the Mission Ventures Roundtable which is a “show and tell” conference call where foundations share their interests and opportunities in placing some part of their investment assets into socially oriented projects. And next week I will be at a first time conference in San Francisco, SoCap08, around social capital markets. It’s standing room only! At Harvard Business School, the popular clubs were investment banking, private equity, or hedge fund. Now the most popular club is the Social Enterprise Club. This phenomenon of emerging values talent and social capital is nascent, but real, and needs the support, talent, and imagination of the traditional banking community.

Yet, it is not enough that we in the West move into the sustainability era. We must also share our aspirations with the largest

savers/investors on the planet – the Chinese. It’s a bit sad, but maybe instructive, that their first equity foray into the US was with the Blackstone Group, a levered M&A get-rich-quick-play, on which they soon lost almost half their investment. I was at the Peoples Bank of China a few years ago discussing the merits of expanding their small microfinance program on behalf of Grameen Foundation. After the meeting, I said to the vice-governor, “why are you lending all this money to us Americans so we can buy bigger and bigger homes? This toxic symbiosis of thrifty Chinese and spendthrift Americans can’t go on forever.” The Chinese now own almost \$1 trillion of US debt securities, purchased without much strategy, and now with dire consequences.

In Beijing, I am chairman of Syntao, a company consulting in the area of corporate social responsibility, and whose work includes helping Chinese companies issue their CSR reports. It’s been exciting to see the growth and development of this area in China, and there is still a window to collegial relationships and edification from the West. But Western investors must make some proactive effort and help encourage the path of sustainability. On our part, we were early investors in the China Environment Fund in Beijing, to demonstrate our support for solutions to this important need.

More bankers need to step up as champions for a harmonious vision of the world that makes for good banking. Geneva bankers have a special opportunity to leverage their historical cache, their knowledge and connections to make a real difference.



Corporate social responsibility is nothing new!

David Evans MBE, Chairman and CEO of The Grass Roots Group PLC, was awarded membership of the Most Excellent Order of the British Empire (MBE) in the Queen's Birthday Honours List 2008. Mr Evans is the first person to have this honour for the single citation of Corporate Social Responsibility

Judging by the proliferation of senior executives responsible for corporate social responsibility, one might imagine it is a new and potent discovery. The truth is the term may be new and adding to the excessive number of TLAs, three letter acronyms, but the idea and actions that flow are far from new.

When the godfather of economic science, Adam Smith, referred to "natural self interest and competition, operating in a social framework of adherence to moral obligations can lead to economic prosperity and well being", he felt that there was a moral unseen guiding hand on our economic decisions. In the perfect storm of the current banking and economic crisis, has the hand gone?

Some places, some special groups are in spaces that make them part of this guiding hand. Geneva, with over 20,000 financial executives, is such a place. Its special, perhaps unique, position in connecting with the planet, makes the responsibility to do good very important and as I have told my staff around the world on many occasions, if we do good work, have fun doing it, we will make progress and yes money!

Social responsibility has existed for centuries. The great Quaker companies of the Victorian period, and many more, displayed it in ways which have been mirrored around the globe, a great example being TATA in India. But giving a three letter acronym – CSR – to the enormous area of social responsibility concerns me because it could end up becoming just another corporate

badge, heavily displayed but lightly borne. The subheading CSR is conspicuous in the modern day annual report, but in some cases I wonder how much is actually happening beyond the printed page?

More awareness

Nevertheless, no one would argue that the appearance of social responsibility on the Board agenda is a bad thing. This transition to enlightenment may well spring, like many powerful rivers from different tributaries: greater awareness of the cost of our consumption due to the work of action groups like Greenpeace; our children becoming knowledgeable and communicative about social and environmental issues (education is an essential to any movement for change), and a latent understanding of our responsibilities to our communities and societies, switched on by huge media coverage. All of these factors contribute to a "Mexican wave" where people stand up and say these are important issues.

Economic growth, a more demanding and selective workforce, greater knowledge around our environment, more evidence of the dangers around taking no action and rising energy prices mean that businesses have been forced to think more about how they are doing business. From a supplier perspective, customers now demand real evidence of activity, rather than just a few bullet points in a tender submission.

Transition from marketing jargon to commercial tangibility may become essential. In the last ten years, the change in the social

responsibility area is palpable. In terms of marketing, its activities are now a fundamental part of any strategy meeting. You only have to be waiting in a call queue of an energy company to gauge the importance of social responsibility in the mind of a corporate.

Business v Government

However, to echo my earlier note of caution, my wish would be that social responsibility does not just become a nice thing to say, but a real thing to do. We do not need the government of whatever colour telling us how to do it. What we need is a national movement, encouraged by government, but left to enlightened enterprise to lead it. Rudyard Kipling had a pithy way of expressing the best way to get started:

*I kept six honest, serving men
They taught me all I knew
Their names were What and Why and When
How and Where and Who!*

Social responsibility beyond the "credit crunch"

In the current climate, many are now wondering how possible it will be for companies to maintain their social responsibility activities.

My personal view is that the "credit crunch" should be removed from the lexicon. Economics is cyclical and we should not use a bump, no matter how large, to defer the future, if only for the sake of our children. Companies don't have to devote any more resources, they just have to take a cold, hard and regular look at what they do and



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ask some practical questions to ensure that effectiveness and delivery are being achieved in their socially responsible activities.

A socially responsible philosophy, truly embedded within a business, should not change just because times are tough. Since 1980 we – Grass Roots that is - have experienced economic ups and downs, but our philosophy has not changed in all that time. In my view, being socially responsible is not all about spending money – indeed in the environmental area it can be quite the opposite.

Why are we such advocates for social responsibility?

I've always believed that social responsibility goes hand in hand with running a successful business. Grass Roots was aptly named. From the earliest days we looked after the small town community of Tring from which we draw many of our staff and colleagues, as a major stakeholder in our very existence. As we have grown, so has our commitment to our community, from helping schools with educational support and facility development, sponsoring amateur sport (football, cricket and rugby) at every level, providing the town with its theatre and supporting local charities.

We know through the feedback we have received from the Sunday Times Best Companies survey, in which we have featured for the past two years, that our staff value the way we give back to and work with a whole host of local institutions covering schools, sport, arts and charities. Our score in this

category of "Giving Something Back" is in the top 5% of all companies surveyed.

In a national framework, we have pioneered work with large corporates, Government agencies, educational institutions and indeed Government departments on a deeper grass roots approach to the understanding of diversity in our society through practical learning programmes.

Internally, we practice what we preach and have built on practical strategy. All with a belief that in doing what we do, our internal audience build self-respect, respect for who we are and what we do. Interestingly, this is also reflected in our position in the league table of Best Companies to work for in the UK.

We have spread ourselves around the globe so we are a 24-hour a day business. This gives us an opportunity to share our learning. Our little revolution is to take the corporate gene of our experiences, IQ & IP and plant it in the soil of our businesses from Brazil to Beijing.

The point is that doing "the right thing" has come naturally to us for 28 years. It helps make us what we are, which is a successful business run by motivated people. If that means we are socially responsible, then that's fine by me.

The relationship between UNEP and Grass Roots is only four years old and started with us helping to organise a large and successful conference in the home of the United Nations, New York City. In that time we have debated many ways to help them and

their institutional supports have more impact on the world. We have reached a very special intersection and junction point in speaking of corporate social responsibility and doing meaningful, measurable good!

The great privilege of being a reasonably successful entrepreneur is that you can choose a path that has good through its core. In this path I have pioneered work in the understanding of the needs of the disabled, the appreciation of human diversity in the work place and life in general, to name just two of many good things. I and many colleagues have embarked upon the daily debate and argued over it vehemently. Whether you are a "global warmist" or not, you need only understand the sheer volume of CO₂ that your personal consumption throws into the atmosphere each year and you must take notice. My own consumption is as large as four family houses – this can't be good.

So going back to Kipling and his little poem: what, why, when, how etc. We have embarked on a global exercise, but on a GLOCAL basis – think global, but act local. To achieve that we must make the CO₂ consumption of individuals, both personal and connected, and take actions that can help reduce or compensate for it. Because our professional purpose in life is performance improvement for corporates and public institutions, we, like Geneva, find ourselves in a special position.

How to do it is not without its complications and our strategy and methods have

two prongs. Firstly, paying off our debt for the CO₂ we use consuming the things we buy daily. October 2008, will see the launch of a carbon credits system called, ironically, Carboncredit.com. This public web domain will give the thousands of corporates the chance to help offset the carbon cost of everyday purchases and services. Based on a consumer incentive to act for the planet and for those that profit from the sale seeing a direct connection between seller and user. We already have 400 corporates ready to connect.

The second route is the responsible employer; helping employees offset in meaningful ways. In ways connected to their work, in ways where you can raise the awareness of the issue and where you can monitor the progress of the individual and the good that the offset is being used for. Again through a vast array of technology solutions we can make the process simple and the affects tangible.

I have set up a low admin Charitable Trust that will assign funds to gold standard projects, monitor their progress and feed back both the actions and visible results to those who have contributed. This I hope will help me fulfil Adam Smith's great belief which I leave with you: "how selfish soever man maybe supposed, there are evidently some principles in his nature which interest him in the futures of others and render their happiness necessary to him, though he derives nothing from it except the pleasure of seeing it."

The power of “magic and timing”

Geneva, the home of the United Nations in Europe and a city that combines centuries-old tradition with new ideas, exerts a remarkable influence on our collective global thinking. Bringing together as it does the worlds of international organisations, civil society and the business community, Geneva is one of those special places where humankind comes together to fashion the future and to address the fundamental environmental, social and humanitarian challenges we face today.

As such, the launch of Sustainable Finance Geneva is a testament to the role the city's financial services community can play in providing leadership around environmental issues and sustainable development. Today, as we survey the economic wreckage of the global credit crisis, the worldwide financial services sector is under an intense spotlight. Our banks, insurers and investment companies are facing a period of forensic examination in terms of their ethics, integrity and the fundamentals of their business model as well as an exploration of the workings of the global financial system itself.

In a beautifully sculpted recent article in the Financial Times, the columnist Lucy Kellaway mooted that the world needed a “Mary Poppins” figure to magic away the gloom and confusion that could descend after the unimaginable financial turmoil of recent weeks. For “Poppins”, an iconic heroine from the 1964 smash

hit Hollywood musical, read Sustainable Finance Geneva (SFG). Why? How could you possibly associate the bewitching character played by the actress Julie Andrews with a group of bankers, asset managers and financiers from Geneva? The answer relates to both timing and magic.

Timing? The launch of SFG comes when the world needs the philosophy, approach and actions associated with sustainable finance and responsible investment more than ever. Whether you explore the ethical, moral, governance or operational aspects of our global financial system something has clearly gone wrong in a devastating manner. SFG can play an important role – both locally and globally – in bringing new thinking to our financial institutions, leaders, and executives when they most need it.

Magic? Geneva has cast its spell over many diplomats, financiers, business people and advocates over the decades. The city's magic is, in part, based on the fact that it is a place where seemingly very different worlds come together. For those Geneva-based institutions, many of them from the United Nations family, dealing with some of the most pressing issues of our time, whether they be environmental, humanitarian, human rights or poverty alleviation, the world of alpha, asset allocation, and high finance can appear a universe apart. And, yet, these worlds are merging and SFG is a powerful representation of that transition.

Over the past decade, a quiet revolution has taken place around sustainable finance and responsible investment. The emergence of SFG will enable Geneva to play a more direct role in this process and to build on the financial innovation around sustainability that has taken place already in the city. Let me highlight just two examples, amongst many, of how Geneva is and can contribute:

The Principles for Responsible Investment (PRI), launched by former United Nations Secretary General Kofi Annan in April 2006, is now backed by more than 400 institutions representing USD 16 trillion in assets. The conception, incubation and delivery of the PRI began here in Geneva through UNEP Finance Initiative who then worked with the UN Global Compact to deliver the voluntary standard for institutional investors.

In 2007 USD 37 trillion was controlled by the high net worth (HNW) community and that is projected to grow to USD 60 trillion by 2011. In the next fifteen years we will see the greatest ever transfer of private wealth as these assets flow from one generation to the next. And that “next generation” of HNW families is, undoubtedly, more receptive to the themes of sustainable finance and responsible investment. The long tradition of private banking in Geneva is already assisting this transition and can assist further as the HNW community seek responsible investment products

that reflect the values of sustainable development.

The United Nations Environment Programme, through UNEP Finance Initiative, our own 16-year-old partnership with the global financial services sector, has seen the growth of green finance and responsible investment in recent years. New businesses realizing opportunities in carbon markets, clean energy provision, ecosystems services and the technologies of the future, are emerging as part of a transformation to a green economy. The financial services community, as well as our capital markets, have an opportunity to play a pivotal role in creating these transformational markets.

The launch of SFG, at the simplest level, should be a pure celebration. Sure, the serious work will come later but the creation of this new association of Geneva-based financiers represents a great change happening in the world. At the heart of that change is a recognition of the need for an approach to finance that delivers on the two ROIs. Namely, the Return on Investment and the Responsibility of Investment as they relate to our common environmental and social wealth underpinned by robust governance. In the years to come, SFG can play an important role in placing Geneva at the centre of new thinking around finance and investment in a manner that accelerates the transformation to a green economy and where a deep appreciation

Trends in socially responsible investment

of the environmental and social dimensions of the market-place ensure that our financial system has a rock solid foundation that protects the planet's environmental integrity.

Paul Clements-Hunt

Head, United Nations Environment Programme Finance Initiative

Since 2000, the market for socially responsible investment (SRI) has grown considerably. It is a relatively heterogeneous market, responding to different needs and philosophies. A broad definition of SRI is an investment philosophy that takes into account environmental, social and governance (ESG) issues.

Historically, the ideology of bringing together sustainability principles and investment has been implemented through ethical screening, also known as negative screening, which consists of aligning a

portfolio's holdings with the investor's moral convictions by excluding industries or companies whose activity is considered "non-responsible".

However, rising awareness of corporations' social and environmental impact among consumers and policymakers over the last twenty years, has raised interest in SRI within the broader investment community, first among pension funds, and more recently among private banks and family foundations.

The nature of SRI has changed, and the investment philosophy behind it has evolved significantly. Denying the impact of environmental, social and governance considerations on the long-term performance of companies today is rather difficult. Pension fund trustees have the responsibility to act in the best interest of their investors. Given their long-term performance objectives, it is not surprising that a debate would begin about what their fiduciary duty entails.

The trustee's duty also includes systematic proxy voting. There are increasing regulations requiring institutional investors to provide a statement on voting rights policy. Furthermore, we see the emergence of a new fiduciary capitalism, where large shareholders, such as pension funds, become active stockholders. They engage in a dialogue on ESG issues with the management of companies in which they are invested, usually when strategy and performance are disappointing. The engagement can take place on several

levels. Usually a direct and discreet contact brings positive results. However, sometimes bringing the issue to a broader audience is necessary, either through a shareholder's resolution or even through a press campaign.

Climate change and the debate about finite resources have been important catalysts in increasing public awareness about sustainability issues. The urgency of climate change, and the necessity of finding ways to address it, has increased greatly over the last five years. This has driven investment opportunities in fields such as clean technology and alternative energy, as well as the emergence of thematic investment products.

The diversity of SRI approaches reflects a still young and maturing market, but also the necessity to provide tailor-made solutions to a diversified investment community.

Natacha Guerdat
Ulrike Kaiser
Jean Laville



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The ingredients of responsible investment

The concepts of environmental, social and governance accountability and the Triple Bottom Line (people, planet, profits) have gained considerable momentum in the past decade within the financial community. Globally, Ethical Investment and Socially Responsible Investment (SRI) are growing at a rapid pace. The increase in awareness of the social and environmental impact of investments has created a tremendous demand for research on corporate performance in areas such as human rights, environment and corporate governance, as well as qualitative ratings that will capture and express this research.

SRI analysis is well-developed in Europe and North America, and has begun to spread in developing countries. SRI ratings and research, based on evaluation of so-called ESG criteria (environmental, social and corporate governance), provide essential information to investors who seek to distinguish among the social and environmental performances of companies in which they might invest.

This extra-financial information also enables institutional investors, such as pension funds, to engage in dialogue on issues of concern with corporations whose shares they own. In addition, academic

researchers and practitioners use SRI data and analysis in their efforts to study the link between corporations' financial and ESG performance. Numerous studies have been carried out over the years to document and understand this link. While the type of ESG assessment considered, and the methodologies used, are almost as numerous as the studies themselves, a generally accepted conclusion is that in the short term a systematic link cannot be demonstrated, but, in certain cases, incorporating ESG factors has a positive influence on portfolio performance.

It is in these ways that ESG ratings and SRI research contribute to the larger responsible investment movement, whose goals include changing the behaviour of investors, financial analysts and corporations in ways that favor sustainable development. The ability to measure and report on the extent to which these responsible investment practices do actually contribute to sustainable development is an emerging challenge for the SRI community.

The role of ESG research agencies will be of utmost importance in exploring the links between investment decisions and sustainable development. As Sustainable Finance Geneva members are recognized professionals from both ESG research agencies and the investment sector, SFG will be well-placed to develop and promote investment approaches that explicitly integrate environmental and social factors.

Antoine Mach
Philippe Spicher
Elizabeth Umlas



A new asset class emerges

Microfinance is the provision of financial services (credit, savings, fund transfers, insurance) to the working poor in developing countries and countries in transition, who would not normally have access to such services. The large majority of these populations are effectively cut off from banking services.

And yet among these are an important number of micro-entrepreneurs, many of them women, for whom adequate savings and credit services would allow them to graduate from a situation in which they are consumed by their families' day-to-day subsistence to one where they can participate in small

businesses that generate longer-term growth and income. It is this expanding market that is targeted by microfinance institutions (MFIs), those specialized financial entities that seek to respond to these needs and to mitigate the incapacity, or the lack of interest, of the traditional banking sector to cover them. Recent studies estimate the size of this market at USD 250 billion, at a minimum, of which only one-tenth would be financed to date.

Since the end of the 1990s, microfinance has seen an unprecedented boom and has enjoyed growing public recognition, thanks in large part to the efforts of the United Nations, which declared 2005 the "international year of

micro-credit", and to the 2006 Nobel laureate Muhammad Yunus and his Grameen Bank.

Birth of a stable industry

Having gotten its start from international development players and NGOs, microfinance has progressively moved closer to the private sector. The emergence of MFIs, which join profitability and financial inclusion, has permitted the establishment of a stable and responsible industry.

At the same time, a growing number of microfinance investment vehicles (VIMs) has appeared in the past decade, with the goal of financing the phenomenal growth of MFIs brought about by the tremendous market demand. At the end of 2007, the total assets of these vehicles were estimated at USD 5.4 billion, a growth of over 70% from 2006. This trend was set to continue in 2008 and does not seem to have been hurt by the current turmoil in the financial markets.

A unique investment opportunity

Microfinance provides an opportunity to invest in a sustainable asset, to contribute to the fight against financial exclusion, and to democratize access to capital, while at the same time offering unique exposure to emerging markets. In exchange, these investments generate a steady return, whose non-correlation with traditional financial markets is confirmed in crisis after crisis. Many institutional and private investors have already made the choice.

Geneva and investment in microfinance

At the end of the 1990s, from within the UN Conference on Trade and Development (UNCTAD) in Geneva, the idea emerged to create an investment fund to finance MFIs. Thanks to this UN initiative, this purely commercial fund, the first of a long series, was launched in Luxemburg in 1998. In 2001, the management of this fund was brought back to Geneva and entrusted to an asset manager specializing in microfinance, the first of its kind in the world. Since then, other specialized financial intermediaries have emerged and contributed to reinforcing the major role of Geneva, which is involved in about 20% of the global volume of MFI refinancing by microfinance investment vehicles.

Vincent Dufresne
Cédric Lombard
Antoine Melo



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Opportunity and legitimacy

“To give away money is an easy matter and in any man’s power, but to decide to whom to give it and how large and when, and for what purpose and how, is neither in every man’s power nor an easy matter. Hence, it is that such excellence is rare, praiseworthy and noble.”
Aristotle

“Philanthropy” stems from the Greek: “love of humanity,” and takes many forms. However, over the last two decades, donors’ new expectations and the ever-increasing number of organizations in this field have greatly modified both how philanthropy is viewed and how it is practiced. In fact, philanthropy is a rapidly expanding sector. In Germany, 40% of philanthropic foundations were set up over the last decade, with over 850 foundations created each year. France and Switzerland also recorded major growth whilst recently American donations were close to US\$ 250 billion (1.85% of GNP) per year recently.

These developments also affect the practice of giving. Motivations that feed philanthropy, such as a donor’s emotions and subjectivity remain the same. However, there is a growing recognition of the value of foundations that consistently apply rigorous procedures. Today’s donors, individuals or foundation trustees, want generosity to go hand in hand with real opportunities and concrete, sustainable achievements. They no longer wish to only provide aid for a problem, but to rather finance genuine solutions and be assisted in this approach by independent specialists who help them to better understand the challenges and to undertake evaluations of the social or environmental impact of their donations. The professionalism of giving is increasing as donors also realize they have a direct responsibility to create wealth in a sustainable manner.

On the financing side, foundations’ agendas are increasingly exploring a more coherent strategy in their investments. The rapidly emerging concept of mission-related investment will challenge the financial community to create innovative products or asset classes to reflect the values of donors.

We expect to see a strengthening of the following trends:

- Philanthropy will continue to become more professionalized and strategic, with clear impact targets.
- There will be an increasing need for independent sources of information to support decision making.

- There will be a sharing of experience and information between donors.
- Donors will take on a stronger personal involvement.
- There will be an increasing role for advice on aligning values and investments.

The opportunity that arises for Geneva as a financial centre goes hand in hand with its strong legitimacy to take a leadership role in philanthropy. For many decades Geneva has been at a unique crossroads: it has hosted numerous regional and international civil society organizations; at the same time it is recognized as the birthplace of private banking, serving private clients over numerous generations of professionals.

Donors will expect such a competitive financial centre to both anticipate and satisfy a more sophisticated demand with the right services and products. Creating a platform such as Sustainable Finance Geneva that brings together sustainable finance professionals, including those with expertise on philanthropy or microfinance, is a timely move that will give Geneva the profile it deserves on the issue.

Etienne Eichenberger



THOMAS PFLAUM / WWW.TOMPFLAUM.COM / VISUM/STILL PICTURES

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Shifting perceptions: the power of public-private collaboration

“Thanks to a hundred or more institutions based in the city and its surrounding areas, decision-makers, experts from inter-governmental organizations, businesspeople and civil society representatives are able to put their ideas and proposals concerning the future of the planet to the test on a day-to-day basis. For these people, whose actions have worldwide ramifications at all levels of society, it is possible to have a global impact as a result of their joint efforts here in Geneva.”

Micheline Calmy-Rey

President of the Swiss Confederation in 2007.

Source: www.partnerships4planet.ch

The city of Geneva has become well known world-wide as a centre for international organizations. They are intergovernmental organizations, non-governmental organizations, international business associations, and research bodies all focused on addressing global issues and promoting sustainable development. Due to a fundamental shift of paradigms in the international debate on environment and development, many of these organizations now work collaboratively with each other - - and increasingly, with the business community. The private sector is today considered to be an essential pillar in the societal architecture needed to achieve sustainable development. These new partnerships are markedly different

than just 30 years ago when many of the same Geneva-based international bodies saw the role of business in development and environment as marginal, or even counterproductive.

Climate change, human rights, poverty and other global challenges are important issues for society, and are becoming increasingly important for business. Severe constraints on energy, water, and ecosystems are expected to impact current economies, societies, life-styles and general well-being. The new perception of a broader role of business in society is indeed mutual: not only do societies require a thriving and responsible private sector to develop; equally, businesses need developing societies to thrive. Heightened awareness of the immediate impacts and long-term risks associated with global climate change, as well as constraints on energy, water, and ecosystems is causing business leaders to consider, what systems do we have in place to address the magnitude of such problems?

It is becoming clear that only those businesses contributing to sustainability in its 3 dimensions – planet, people, profit – will be the winners of the evolution of roles throughout the 21st century. In 2005 CEOs of global businesses, and members of the World Business Council for Sustainable Development (WBCSD), concluded that leading global companies of the future will be those that provide goods and services and reach new customers in ways that address the world's major challenges. Why? Because, in tomorrow's society, companies that are part

of the solution will be rewarded and those contributing to the problem, sanctioned.

What about sustainable finance?

Progress towards sustainable development, and addressing the world's most urgent challenges, must especially involve the heart of today's economic system: the capital markets. Only if these adequately capture the sustainability performance of companies will the latter have the ultimate incentive to entirely integrate sustainable development considerations into their core business strategy; in turn, only if business valuations on the capital markets link environmental and social performance with business value, will investors be able to identify the corporate winners and losers of the coming decades and remain winners themselves. What is needed is a broader definition of value and a new philosophy of returns that includes value to society.

Yet today few capital market actors include sustainability factors in their investment decisions or valuation procedures – despite many initiatives and businesses working towards this goal. That's why the efforts of some of Geneva's international organizations will continue to be dedicated to engaging with private sector practitioners in order to better understand how sustainable development issues are material to core business and to promote the truly “mainstream” integration of ESG issues into investment practice. UNEP Finance Initiative (UNEP FI) and the World Business Council for Sustainable Development

(WBCSD), for instance, provide platforms for business and the financial sector to discuss their roles and responsibilities in addressing sustainable development issues. The appointment of a Special Representative of the UN Secretary-General on Business & Human Rights is another example of this shift in paradigms.

There is unprecedented opportunity today to leverage the vast information, expertise, and resources available in Geneva, through the international organizations, and to make this information more accessible to the financial community – and vice versa. Sustainable Finance Geneva provides a needed platform to foster these important connections to advance sustainable and responsible finance.

Cheryl Hicks
Remco Fischer

“From climate change to chemicals, from water to weather, from banking and business to wildlife conservation and law – the Geneva region has established itself in the past 40 years as a world-class city for international initiatives on the environmental aspects of sustainable development.”

**Partnerships for the Planet:
Stories from Geneva, June 2007**



Geneva: the opportunity of a generation

Geneva stands today on the cusp of an historic and strategic opportunity. The very real prospect exists for the city to become the global centre for what is arguably the fastest-growing investment style in the world – sustainable investment. The launch of Sustainable Finance Geneva could and should be the final, catalytic piece in the puzzle, and the timing of its launch could scarcely be more propitious!

One can take no satisfaction from the current meltdown in the global capital markets. The silver lining within that massive financial cumulonimbus cloud, however, is that the entire episode should serve as a trillion-dollar wake up call, and an advertorial for the broader analytical power and potential added value of “sustainability-enhanced” analysis and investment strategies. For one thing, the entire, sad episode cruelly exposes the profound limitations and inadequacies of traditional investment analysis and risk management. If anything had remained of the illusion of Wall Street and City of London omniscience before the current crisis, certainly none does now. The fact that sustainability analysts were the very first to detect the tip of the sub-prime iceberg back in October 2006 only reinforces the credibility of the entire analytical paradigm, with its long-term time horizon and more holistic, 360-degree risk radar.

Re-engineering the “DNA” of finance

The world of global investment is now in the early stages of a transformation more profound than anything it has witnessed in

literally decades. The “Sustainable Investment Revolution” is driving a worldwide industrial restructuring, radically changing the very basis of competitive advantage for companies, and therefore for their investors. Like any other global restructuring, this new one will create both new winners and new losers. Investors and fiduciaries around the world will need to learn to tell the two apart – preferably ahead of time. Literally trillions of dollars worth of institutional asset owners are now awakening to both the risks and the opportunities posed by environmental, social and governance (ESG) factors, and are actively seeking new investment products which reflect that understanding.

This new investment paradigm is being driven by a myriad of powerful transformational factors, including:

- Accelerating natural resource degradation, scarcity and constraints, driven to a significant extent by the explosive pace of industrial development, population growth, and urbanization, especially in emerging market economies;
- Dramatically increased levels of public and consumer concern and expectations for companies’ ESG performance, turbo-charged by unprecedented levels of information transparency with which to assess it;
- Tightening national, regional, and global regulatory requirements for stronger disclosure and company performance on “non-traditional” business and investment risks, including ESG ones;

- The expansion and intensification of both industrial competition and institutional investment into emerging markets, where ESG risks tend to be most acute;
- The ongoing revolution in information and communications technologies (the Internet, YouTube, Facebook, webcasts, bloggers, et al.), which has enabled and accelerated the emergence of a stakeholder-driven competitive environment with unprecedented transparency and, therefore, business risk;
- Growing pressures from international non-governmental organizations (NGOs), armed with new financial and technical resources, credibility, access to company information, and global communications capabilities with which to disseminate their analysis and viewpoints;
- A substantial reinterpretation and broadening of the purview of legitimate fiduciary responsibility to include companies’ performance on ESG matters; and
- An institutional investor base which is increasingly sensitized to ESG issues, newly equipped with better information, and both willing and able to act on its concerns.

Taken together, these global megatrends promise to make sustainable investment a dominant investment paradigm for decades to come; none of these megatrends will be disappearing any time soon.

Geneva is singularly well placed to capitalize on these global megatrends. The city arguably possesses more intellectual and organizational capital in the sustainability space than any other city in the world. Geneva is home to:

- A plethora of important UN agencies with both a direct programmatic interest and substantive expertise in sustainable development. Foremost among them is the UNEP Finance Initiative, but others include the World Health Organization, International Labour Organization, Red Cross, and others.
- The World Business Council for Sustainable Development, the pre-eminent business organization in the world in the sustainability space, and a source of both world-class research and “real-world” relationships and influence.
- A critical mass of private wealth, including family offices, foundations, and high net worth individuals. These groups not only tend to have long-term investment horizons and a culture of inter-generational capital preservation, but are also blessed with decision making processes which are much shorter, more efficient, and less intermediated than those found in most public sector institutions.
- Its exceptional private banks. Not only do they share their clients’ long-term, inter-generational investment orientation, but several have already developed both expertise and products in the sustainable finance space.

Return and responsibility

And now, as the icing on the cake, we have Sustainable Finance Geneva. By helping tie together and focus the various elements of Geneva's "sustainable finance knowledge infrastructure", SFG should be instrumental in transforming mere potential into reality. For Geneva, the timing could hardly be better: a critical mass of capability on the one hand, and deeply troubled global capital markets looking desperately for new approaches and solutions on the other.

Matthew Kiernan

Chief Executive and Founder,
Innovest Strategic Value Advisors



Financiers hold the key to the future.

This imposing statement, written by Leo Johnson for a Financial Times article, is the key driving force upholding the objectives of Sustainable Finance Geneva (SFG). Indeed, SFG believes that Finance has the ability to lead changes in our society rather than to follow them.

The measurement of macro-economic growth and micro-economic success is not god-given but a matter of interpretation: it very much depends on "proxy criteria" defined by economists and financiers. Today, we think that these criteria are too narrow and need to be re-defined. By whom? In the first place, by the same economists and financiers.

What factors are considered when determining the quality of growth? Our perceptions would certainly change if we could measure environmental and social impacts when making our calculations. In the end, it is clear that what currently prevails is increasing competitiveness in a globalized world and competition entails the need of simply being better than others. The fundamental question is: are sustainable operations less competitive than conventional ones?

Not if we establish high environmental and social standards and organize all work to uphold these. We at SFG do not believe that quality of life will suffer if we put environmental and social issues as a priority on our agendas nor that growth will be

altered in the long term. On the contrary, it will benefit.

As professionals, we must take into consideration long-term sustainable development when evaluating investment opportunities and not focus on short-term objectives that often overshadow the need for environmental and social attention. Having solid knowledge of the global impacts of our actions is the core of SFG in its three domains of expertise: SRI, microfinance, philanthropy.

In conclusion, our responsibility as financiers is considerable. As the saying goes, "Who has the money has the power." We can make a difference and be proactive rather than reactive. The path to success in the near future will be through the demonstration that financial returns alone will no longer be measurable nor will have any value unless coupled with a measure of social and environmental impact, in the same way that financial returns today have no value without a measure of risk and volatility.

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