



UNEP Finance Initiative
Innovative financing for sustainability



THE WORKING CAPITAL REPORT





Responsible investment matters because we are talking about where people's savings meets society's goals.

By July 2007 assets approaching USD 10 trillion, owned or managed by more than 200 major investment organizations from 25 countries, had committed to the Principles for Responsible Investment.

In the future this commitment by investors to the PRI could have a huge impact on the way capital markets work and indeed on how we collectively address the pressing global social and environmental issues of the 21st century.

The Working Capital Report is a snapshot in time describing how the PRI came about and capturing the views of leading thinkers in the field of sustainable finance and responsible investment.

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Foreword

Georg Kell

Executive Director, UN Global Compact

The world of finance and investment has a pivotal role to play in the realization of sustainable development. Capital markets also will have a fundamental influence on investment for the ideas, technologies and companies of the future that will drive solutions to many of our common environmental and social challenges.

The Working Capital Report provides an up to date examination of the inspiring steps that so many individuals and institutions have taken in recent years to embed responsibility and sustainability at the heart of our financial activities. The arrival of the Principles for Responsible Investment in April 2006, backed now by assets approaching USD 10 trillion, is a testament to the fact that the world's largest investors understand that integration of environmental, social and governance issues is fundamental to good business and thriving societies.

The work of the finance and investment companies supporting the UN Global Compact and UNEP Finance Initiative has been an important contribution in efforts to mainstream sustainability thinking and action in the sector. More than anything it is the leadership positions taken by an increasing number of executives from finance and investment that is driving change and this must be further encouraged and recognised.

The perspectives presented by contributors to this report highlight the dynamism, energy and innovation that exist within the financial services and investment communities and which have created a positive, forward-looking agenda that supports sustainable development.

While acknowledging the significant steps forward this report confirms also the need for renewed commitment to ensure that the values of the Global Compact are welded firmly into all aspects of our markets.

Introduction

Sustainable finance and responsible investment – the state of play

In this introduction Paul Clements-Hunt of UNEP FI and Gavin Power of the UN Global Compact review the exciting recent history of responsible investment. From their positions within the two UN agencies that spawned the PRI, they offer both personal and historical perspectives on its emergence.

Purpose of the report

Over the past four years, the acronym ESG – environmental, social, and governance – has rooted itself in the lexicon of the financial services community. Some of the largest finance and investment companies have begun to grapple with the complex business of mainstreaming ESG values within their core business activities.

The Working Capital Report traces a number of the key developments that have accelerated the evaluation of ESG issues within mainstream finance, investment and the capital markets. The report also provides an opportunity for a group of recognised global thought leaders to provide their perspective on recent achievements and the challenges ahead. It closes with an assessment – informed by the perspectives gathered – of what might be needed to ensure that ESG values are truly integrated in the marketplace.

As with any evolving area of activity, sustainable finance and responsible investment has created its own community. This community has developed initiatives, institutions, language, including an inevitable growth of acronyms, and a way of operating and interacting. When you combine these developments with the unfathomable mystery that, for many people, surrounds the world of high finance then it is easy to understand why non-specialist audiences can often be left behind. Part of the purpose of the report, therefore, is to provide a straightforward, and to the extent possible, jargon free description of the developments that have contributed to the growth in sustainable finance and responsible investment activity. In summary, the purpose of this report is to:

- explain the major developments in a manner that enables the broader sustainability community to understand what has happened in the fields of sustainable finance and responsible investment;
- highlight the drivers for this change within the financial services sector and investment communities and to explore whether the activities underway are driving real change in the marketplace;
- and draw on the experience and insight of global thought leaders in the area to provide comment on what is working, what is not and what should come next.

The Working Capital Report will employ a lens that focuses principally on United Nations supported efforts that focus on systemic change to promote sustainable finance and responsible investment in the global marketplace. More specifically, the report will highlight and crystallize the lessons to be learnt from activities undertaken and driven by the United Nations Global Compact and the United Nations Environment Programme Finance Initiative (UNEP FI). The Working Capital Report

should be read in conjunction with the first annual overview assessing the actions undertaken by the more than 200 signatories to the Principles for Responsible Investment (PRI), which were launched in April 2006. The 2006-7 PRI progress report, published in July 2007, provides an in depth analysis of how responsible investment is evolving in the marketplace.¹

Background

Whether you probe the investment, banking, or insurance fields, the period 2003-2007 has witnessed a staggering range of new initiatives as institutions, individually and collectively, have focused on their role in responsible investment and sustainable finance.

In April 2006, the launch of the Principles for Responsible Investment (PRI), now backed by more than 200 institutions representing assets approaching USD 10 trillion, heralded a significant step change for the world's largest institutional investors. The change has profound implications for the way capital markets work, for the financial service organisations that compete in those markets and for the companies that raise capital on those markets.

Some observers allege that the work underway is little more than a public relations exercise at a time when the public, clients and politicians have become increasingly sensitised to environmental issues, notably climate change, and also to scandals in the marketplace as a result of the high profile corporate debacles in the early years of the century. Those sceptical about the upsurge in ESG focused activities within financial services and capital markets also often question the real impact of voluntary initiatives.

Others see that forward-looking financial institutions are re-casting their policies and operations, in effect embedding a new ESG supporting DNA that plays a role in determining corporate identity, values and activity, to finance the entrepreneurs, technologies and companies of the future rather than being seen as institutions and investors associated with the grime of the industrial past.

Increasingly, anecdotal market evidence suggests that the relevance of ESG risks and the emergence of new ESG market opportunities are rapidly being accepted as mainstream themes that are part of the core business thinking of the most forward-looking institutions rather than being a marginal issue of no or limited use to hard-nosed, deal-hungry financiers. The extent to which the "Heavies" of Wall Street and The City of London – including the largest investment banks – are staffing up new units with ESG savvy executives is further confirmation of the sea change taking place within financial services. The next section of this overview takes a brief look at major developments in the investment, banking and insurance sectors.

Responsible investment

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