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SUSTAINABLE FINANCE

By attaching sustainability criteria to their lending and investment conditions, financial institutions are helping to raise standards in critical markets.

Financial markets depend on a steady flow of key natural resources to support the global economy. An eroding environmental resource base poses both acute and systemic risks to investors for which many are not fully prepared. Issues like water security, climate change and biodiversity loss present risks and opportunities that can have a material impact on profitability. In the food and fibre (or "soft commodities") sectors especially, sustainability is now a mainstream concern for companies and, increasingly, their financial backers.

"There's a sound business case for sustainability," says William Bulmer, Director for the Environment, Social, and Governance Department at the International Finance Corporation (IFC), the private sector arm of the World Bank Group. "That could include cost savings from using resources efficiently, avoiding reputational risk, and access to markets.

"Clients are increasingly coming to us for environmental and social advice as well as financing. Almost 80 percent of our clients say they find our environmental support is important to their business. There's also a strong correlation between financial performance and performance on environmental and social issues – we've found there's an 11 per cent higher return from companies that demonstrate high environmental and social standards. And our standards have a real and positive impact on the lives of people in developing countries – from creating safer working conditions, to cleaner water, to more effective community engagement."

"The way WWF works constructively with business is essential. The only way to solve issues is by working in partnership."

William Bulmer
Director for the Environment, Social, and Governance Department at International Finance Corporation (IFC)

CREDIBLE STANDARDS

The IFC recently updated Performance Standards on Environmental and Social Sustainability, which define its clients' responsibilities for managing environmental and social risks. These require companies involved in the production of soft commodities to use practices consistent with credible voluntary standards – such as the Marine Stewardship Council (MSC) or the Forest Stewardship Council (FSC) – or be on track to do so.

These voluntary standards, and others that WWF has helped develop, demonstrate that a company recognizes sustainability as a

WWF TARGETS

2020 The banking system finances global soft commodities in a robust, sustainable, and profitable manner, meeting the world's growing needs for food and fiber while preserving precious environmental resources

PROGRESS

Currently witnessing a convergence among global investors toward the use of credible standards as a key lending and investing threshold for soft commodities.

CONTEXT

Threats

- Higher business risk and sub-optimal outcomes among investees from poor environmental and social performance;
- Unanticipated exposure to macro-risk from underlying resource scarcity and volatility;
- Reputational risks to banks and investors from exposure to negative practices.
- Loss of access to markets reduce financial performance of investee company.

Opportunities

- Better-informed decisions based on better understanding of environmental and social risks reduces lending risks and creates new opportunities for banks;
- New financial products and services based on sustainable production and trade;
- Better client relations and more repeat business for banks
- Higher value creation for investors.

TRENDS

Risk and opportunity drivers

Population, income, resource scarcity, food security

Future focus for success

Engage with major domestic banks in key emerging markets, due to their close involvement with priority commodities and places

business issue, is managing it well, and sees business opportunities from sustainability.

The impact could be vast: the IFC's Performance Standards form the basis of the Equator Principles, adopted by over 70 financial institutions worldwide.

"We know our standards are a global benchmark," says William. "Of course we want to see good results on individual projects, particularly in globally important areas like West Africa, Indonesia, and the Amazon. But our aim is to transform whole sectors to manage their operations sustainably, to protect habitats, and to prevent biodiversity loss everywhere."

SUSTAINABLE SUPPLY CHAINS

With guidance from WWF, the Dutch bank Rabobank – the largest agricultural financer in the world – has attached similar sustainability conditions to its investments. These cover issues such as biodiversity, natural resources and food security. They include social and environmental standards for 12 sensitive sectors: aquaculture, biofuels, cocoa, coffee, cotton, fishing, forests, mining, oil and gas, palm oil, soy, and sugarcane.

"WWF acted as our sounding board on these issues," says Richard Piechocki from Rabobank. "The philosophy, science, and expert opinion of WWF were brought into our policy."

"Developing policy is difficult," adds Richard. "And implementing it is even more difficult. We're very glad to have our partnership with WWF worldwide, as it means we can show staff and stakeholders examples of how standards and policies are applied in concrete projects on the ground."

Richard has seen how voluntary standards are helping to transform these sectors.

"The RSPO is a good example. The whole supply chain is increasingly convinced they have to buy certified palm oil – the most important players expect it, farmers know corporates will request it. The RSPO standard provides a common view and a common language. That makes it much easier for banks to ask clients to comply."

In deciding which projects to finance, banks have a crucial role to play in shifting markets toward sustainability, Richard believes: "Banks can make the difference."