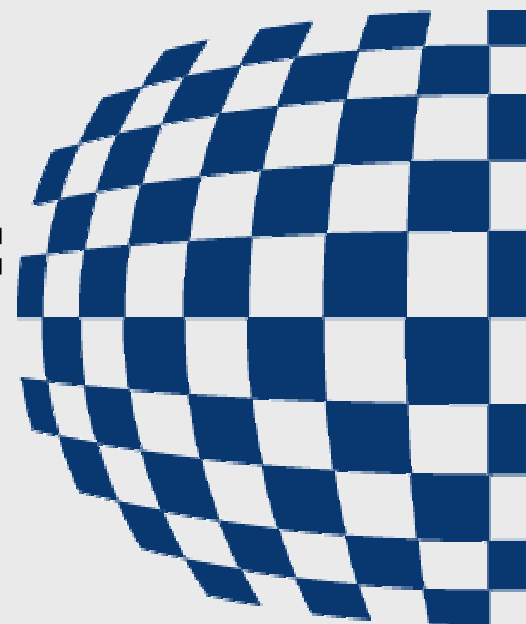




UNEP Finance Initiatives

Innovative financing for sustainability

Foreign Direct Investment: Financing Sustainability



**Paul Clements Hunt
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UNEP Finance Initiatives**

**Belgrade, F.R.Y
19 June, 2002**

Attracting the « Right Kind » of Foreign Direct Investment (FDI)

- **The challenges – what we know**
- **The « Right Kind of FDI » – the finance sector's role**
- **UNEP Finance Initiatives**



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The Challenges - What we know

The dynamics and drivers of FDI are complex and multi-layered. The players in the FDI game are numerous & vested interests manifold.



The 80/20 hurdle

Race to the bottom?

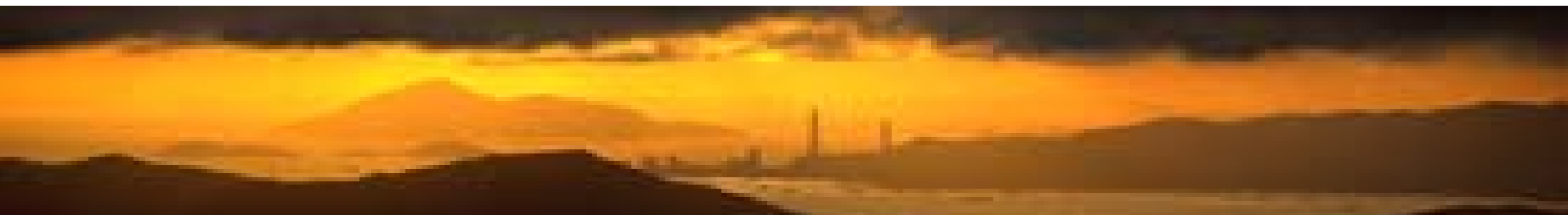
Leap to the top?

Sectoral imbalance

Does the community really need the plant?

Building “dynamic, productive investments” in sound industries and businesses.

Investments which build longterm social , environmental, and economic capital.



The Challenges - What we know

- **Project developers**
- **Domestic government – Boards of Investment**
- **Supporting government – Export Credit Agencies**
- **Capital markets & finance Sector:**
 - Equity and bond markets
 - Project finance
 - Insurance/ Re-insurance
 - Corporate finance
 - Trade finance

The Challenges - What we know

Private sector continually calls for:

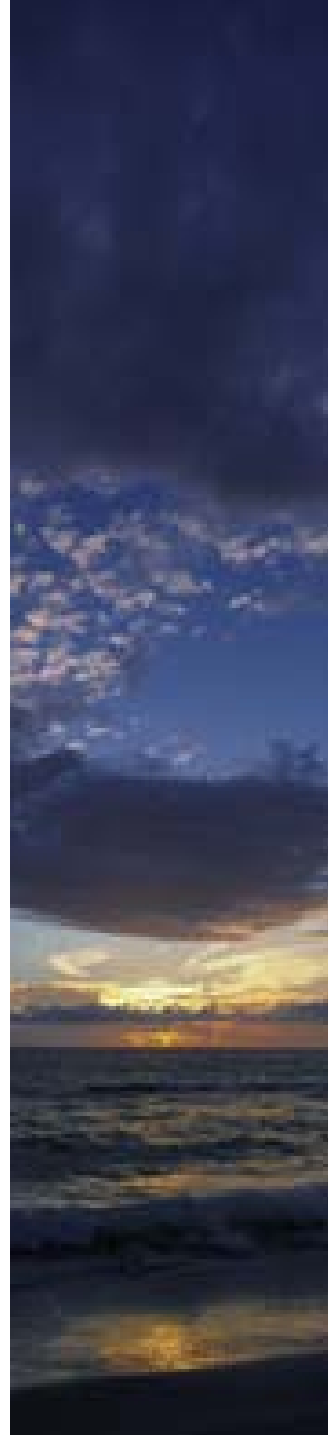
- A sound regulatory, commercial and legal framework for investment to flow.
- A level playing field and unrestricted capital movement/ profit repatriation.
- A rich mix of FDI goodies: « tax holidays, supporting infrastructure, well trained, educated & cheap labour supply »

**WHAT SHOULD BE THE QUID PRO QUO
FOR RECIPIENT COUNTRIES?**

SIMPLE:

**FDI which respects
sustainability.....**

**Push and pull factors are at
work to drive this change**



PUSH FACTORS: Increasingly if governments, corporations or supporting financial institutions get FDI projects wrong then



Mass Media
The Internet
NGOs
Ethical Consumers
Local communities

Reputation and value will suffer.



PULL FACTORS

- **Progressive corporations and financial institutions see sustainability as a competitive advantage.**
- **Slowly OECD consumers and investors are integrating sustainability considerations and this will impact global supply chains.**
- **FDI are often longterm, capittally intensive projects. Succesful FDI projects become integrated in the supporting community fabric. A sustainability approach is a powerful mechanism to achieve this.**

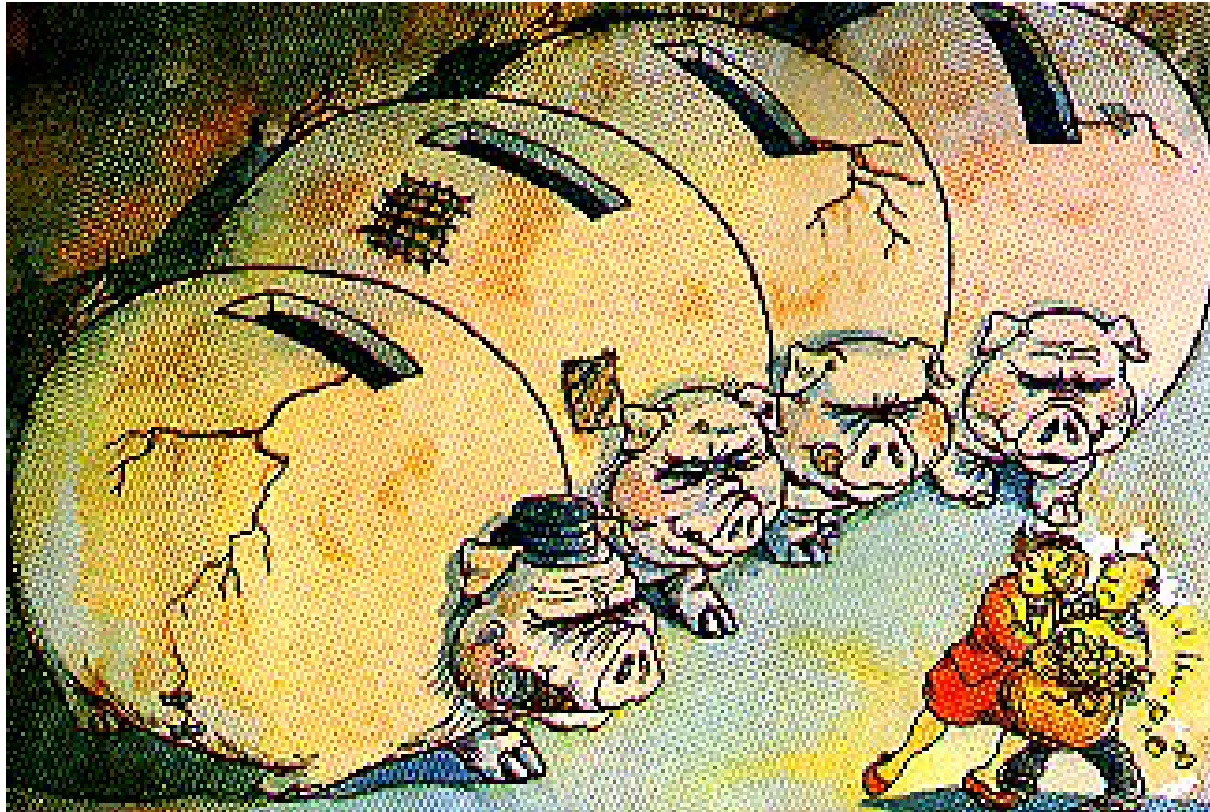
**UNEP FI Supporters sit at the heart
of the Foreign Direct Investment (FDI) process.**

**Project finance, trade finance, insurance and
re-insurance and venture capital...**



**A new FDI dynamic is
emerging:**

- **Governance**
- **Accountability**
- **Transparency**



Economist – May 2002

Public Perceptions of Traditional Finance.



A changing FDI dynamic is one of the critical sustainability challenges for the finance sector



Calls for More rigorous credit screening processes:

**“How clean is your financing chain
and asset portfolio?”**

Greater pressure for asset managers to influence corporations more directly.



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“More and more financial institutions: investors, bankers and insurers; are realizing that their future depends on backing the right kind of economic development.”

Dr. Klaus Töpfer



A final word:

- **Conceived at the 1992 Rio Earth Summit, UNEP Finance Initiatives has grown from from 6 banks to some 290 financial institutions by 2002**
- **There are two UNEP FI statements of commitment - one each for the banking and insurance sectors. A company joins UNEP FI by signing one of these statements.**
- **The Finance Initiatives (FI) are a voluntary pact between UNEP – *the environmental arm of the UN* - & the 290 member institutions globally.**

Belgrade, F.R.Y. , 19 June, 2002