Sustainable Venture Finance

An Expert Workshop on Sustainability Oriented
Venture Capital and Entrepreneurship June 7 – 8 2002

Workshop Report

Organised By

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Innovative financing for sustainability

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Workshop Report

Editors: Anastasia O'Rourke and Jacob Malthouse

November 2002

Acknowledgements
We would like to thank all the speakers, session managers, rapporteurs and participants for their important contributions to the UNEP FI and INSEAD Expert Workshop on Sustainable Venture Finance. We are also grateful to our keynote speaker and sponsor Dr. Alan Gillespie of CDC Capital Partners and as well to H. Landis Gabel of INSEAD for his support and introduction. Thank you as well to the INDEVOR student club of INSEAD for coordinating the entrepreneurs' panel. Lastly many thanks go to INSEAD for the warmth of their welcome.

Table of Contents

Introduction

Solutions to environmental and social problems (be they technologies, products or services) are being touted as the next wave of hopeful monsters for investors. Is such enthusiasm for the business benefits of sustainability justified? Others perceive sustainability as equalling high risk and lower returns. But are their risk/return models simply too narrow to see the opportunity?

A forward looking workshop was held at Fontainebleau, France in June 2002 to explore the broad theme of *whether and when it is profitable to invest in sustainability-oriented venture capital funds and entrepreneurial ventures.* Over one hundred participants were addressed by some twenty-five speakers in a structured programme over a day and a half. Participants (including venture capitalists, analysts, investors, NGO representatives, academics, entrepreneurs and MBAs) questioned, discussed and networked their way through two days that had many on the edge of their seats discussing a new and highly stimulating topic: Sustainable Venture Finance (SVF).

This conference report will remind participants of the event and the outcomes and the ideas generated by the group. For those who were not there it will give an overview of the presentations, a flavour of the discussion, a description of the next steps for the research network and highlight what participants felt to be the most pressing issues.

In preliminary investigation into the field, INSEAD and UNEP FI found that there was a real knowledge gap between stakeholders active in the sector. For example, few entrepreneurs or investors knew what SVF funds already exist nor what environmental criteria are already being used by some mainstream VCs. Nonetheless, we found many instances of new funds being launched, new ventures financed and new techniques for selecting deals - all being developed with a sustainability agenda.

It was this gap that led us to create an event that would bring together relevant groups to exchange information, research and network with one another. Our aims for the workshop were thus to stimulate participants' imaginations, to take a rigorous look at the up and down-sides of this type of investment field and to provide a framework for inspired people to meet, exchange and fast track their learning and competence.

We designed the event with the following five different points of view, reflected in the subsequent workshop programme:

1. Trends in mainstream venture capital;
2. Trends toward sustainability in the finance sector and in investment groups;
3. The emerging sustainable venture capital sector;
4. The sustainable entrepreneurial ventures they are investing in; and
5. Hybrids entities that employ a combination of non-profit/profit models and public/private partnerships.

The results? The Sustainable Venture Finance 2002 event brought a range of diverse range of delegates together. For most this was their first time talking about this issue in a group setting. The workshop certainly sparked new ideas and initiatives – one new VC fund has been launched as result, deals were discussed, several research efforts initiated, and new collaborations forged. UNEP FI and INSEAD are now in the process of setting up a SVF research network that we invite you to join.

For more information visit www.unepfi.net/venture

UNEP FI and INSEAD thank all the speakers for sharing their expertise and passion; the participants for voicing their questions, comments, concerns; the authors who generously provided their papers as background papers found on the workshop website and lastly, our sponsors CDC Capital Partners.

This was a highly successful event that had its participants buzzing. We hope you also enjoy reading this summary report. As organisers we are very pleased with the event, and look forward to seeing you at Sustainable Venture Finance 2, in 2003!

Sincerely,

The Conference Secretariat

Anastasia O'Rourke, INSEAD
Jacob Malthouse, UNEP FI






Part One:
Current Issues in Sustainable Finance

Part One of the workshop provided an introduction to some of the broader issues currently facing the sustainable finance and venture capital sectors.

The morning began with introductory remarks from Professor H. Landis Gabel, Deputy Dean of INSEAD, and Paul Clements-Hunt, Coordinator of UNEP FI. Mr. Clements-Hunt spoke about increasingly negative public perceptions of the financial sector as a result of losses and poor governance during and after the IT bubble. The below cartoon, taken from the Economist magazine, summarizes these perceptions. He suggested that there is an opportunity for firms to distance themselves from the damaged reputations of their competitors by focussing on long term value and risk management; also core aspects of sustainable development.

Public Perceptions of the Financial Sector.
From UNEP FI Presentation June 7 2002, Originally from The Economist May 23 2002

Conference Secretariats Anastasia O'Rourke and Jacob Malthouse then gave an overview of the event and some insights into the thinking that lay behind it. They posed the following questions for the audience to keep in mind throughout:

- Where are the potential gaps and problems in Sustainable Venture Finance for the different actors?
- What societal and regulatory conditions will increase the likelihood of return on investment for socially responsible investors who want to take the next step and finance start-up ventures?
- Is SVF just a niche market activity, or does it have the potential to make the current mainstream VC market more sustainable?
- What are the crossovers into other innovative financing mechanisms, including micro-finance, venture philanthropy for non-profits, public/private partnerships for governments, insurance and asset management?
- How can Sustainable Venture Finance be adapted to different situations in both the developing *and* the developed world?

The speakers for this session were kindly introduced by John Cusack, former CEO of Innovest. Adam Quarry of 3i plc began the presentations with an overview of the state of the European venture capital market to give some context for the field of Sustainable Venture Finance.

State of the Venture Finance Market

Adam Quarry, 3i plc

Adam Quarry joined 3i in 1994 as Marketing Director. During the last eight years he has led the development of marketing as 3i has expanded its business internationally.

In 2000 a staggering US$ 182 billion was invested in the global venture capital market.

In order to frame the debate Mr. Quarry presented an overview of the current state of the venture finance market. He noted that venture capital and private equity accounts for 0.6% of global GDP.

The US and Europe controlled 90% of this market but lost market share to Asia by 4% and to Africa by 1% during this time. Between 2000 and 2001, investment declined sharply in North America from $131b to $63b and in Europe from $32b to $22b, whereas in Asia Pacific investment increased from $9b to $12b. In Western Europe funds and investments were equal in 1996 and again in 1999. However, in the year 2000 fundraising increased significantly more than investment.

Investment rose steadily from 1995 to 2000 reaching its peak ($32,018m) in 2000 and then falling to ($22,150m) in 2001. Fundraising reached its heights ($43,701m) in 2000 and took a downturn (to $35,000m) by 2001. Historically in the European Union, the United Kingdom (UK) has raised the most funds. In Western Europe, sources of new funds are mostly banks and pension funds.

Private equity investment as a percentage of GDP in 2000 shows that Austria was the lowest with 0.079% and Iceland the highest with 1.497%. In general, investments remain highly concentrated in the bio-technology and technology-intensive sectors.

In Europe, for the first six months of 2002 vs. same period in 2001, the value of the buyout market is down 40%. Technology investment is about 50% down by value for Europe.

Sustainability in Financial Services Companies

Jean Pierre Sweerts, Rabobank

Jean-Pierre is currently Department Director of Sustainable Markets at Rabobank. As such he is responsible for business development and delivering financial services to the clients in two markets: the water sector and sustainable asset management.

Companies with a sustainability strategy in general have an advantage over companies that do not have such a strategy.

Mr. Sweerts focused on the role of Corporate Sustainability for companies. Corporate Sustainability was described as "a business approach to create long-term shareholder value by embracing opportunities and managing risk deriving from economic, environmental and social developments".

Corporate Sustainability is part of the mission statement and strategy of Rabobank. The executive management of Rabobank is convinced of the contribution of Corporate Sustainability to the long term compatibility and profitability of the bank. An example is the interest of investors in Rabobank Bonds because of the combination of the triple-A nature and the high sustainability performance of Rabobank (one of the four most sustainable banks worldwide, as rated by the SAM Group from Switzerland). Rabobank invests in early stage companies with a corporate sustainability strategy by its Rabobank Innovation Capital Fund and Rabobank Sustainability Fund of Funds.

Rabobank is active with sustainability in several fields. Firstly, in bringing sustainability products and services to the market, such as investment funds (e.g. the Robeco Sustainability Fund, Robeco Environmental Technology Fund). Secondly, in incorporating sustainability criteria into credit approval process (i.e. putting social and environmental criteria in each credit application). Thirdly, in their internal environmental care (energy efficiency and recycled paper). Fourthly, in advisory services to the clients regarding sustainability issues (i.e. for farmers: the effect of certain spatial planning initiatives on agriculture and as such on the profitability of the farms). Fifth, in grants to local social and community activities by the local banks, and to international co-operative initiatives by the Rabobank Foundation.

Does Corporate Sustainability also contribute to the performance of early stage companies? Of course, but exactly how would have to be seen case by case. However, Mr. Sweerts believes that all companies with a sustainability strategy have an advantage over companies that do not have such a strategy. Reasons for this include: environmental care stimulating effective and efficient processes from the start, focusing on sustainability means that executive management not only focuses on operational issues but takes time for strategic decisions, and sustainability may contribute to both pride and customer focus of the employees. Finally, a transparent corporate governance structure minimises financial and reputation risks deriving from non-sound accounting practises.

Obviously an early stage company has many things to worry about, such as a positive cash flow, and a sustainability focus should be in balance with the other focuses of the company. This is not only valid for companies working in environmental fields (wind power producers, waste water treatment producers) but for companies in general.

Mr. Sweerts concluded noting that "It is a challenge for venture capitalist to stimulate early stage companies in applying a sound sustainability and corporate governance strategy, with the objective to contribute to the companies compatibility and profitability and at the same time increase the value added by the company to the society in general".

Regulatory Drivers to Sustainable Venture Capital and Investment.

Brian Pearce,
Centre for Sustainable Investment
Forum for the Future

Brian Pearce is Director of the Centre for Sustainable Investment (CSI) at the UK-based Forum for the Future. The work of the CSI aims to demonstrate why financial institutions should take sustainability into account and advises how they can most effectively do this.

It is ultimately the technologies embedded in replacement capital assets that will determine the sustainability or otherwise of the economy

Mr Pearce described the key role of venture capital in the financing of sustainable development. He noted that access to new finance for sustainable technologies, businesses and projects is key to promoting sustainability. It is ultimately the technologies embedded in replacement capital assets that will determine the sustainability or otherwise of the economy, rather than changes in the behaviour of existing companies. SRI funds play an important role in the latter but buy stocks on secondary markets, providing little new capital to companies. However their impact could be enhanced by allocating funds towards initial public offerings (IPOs), and other asset classes such as property, project finance, and venture capital.

Pearce described the importance shown in the London Principles project of getting finance to the developers of clean technologies and sustainable businesses. Providing access to capital is one of the key functions of the financial system and, since many of these businesses are early stage, venture capital is an extremely important financial instrument to do this.

In the UK the key regulatory drivers for venture capital investment in early stage sustainable technology businesses have been:

- Utilities deregulation (providing the opportunity to challenge incumbent service providers)c
- Environmental regulation (providing the incentive for service users and therefore demand)

Added to these regulatory drivers have been technology developments (making these clean services a commercial proposition) and of course the increasing preference of customers for sustainable goods and services.

Pearce also noted that regulatory changes elsewhere in the financial system were having indirect impacts to encourage the provision of venture capital for sustainable businesses. These are the various disclosure regulations that are forcing companies, investors and lenders to look more closely at non-financial risk, including environmental and social impacts. Public governance, in the form of regulation, can provide further incentives for the development of sustainable financial markets such as:

- Pension fund disclosure on SEE issues;
- Stock exchange rules of corporate risk management
- Company Law Review on reporting the material aspects of corporate SEE performance.

Disclosure allows an assessment of impact. Since venture capital can be one of the most effective financial instruments to generate new business activity and sustainability benefits, these regulations in themselves should encourage a reallocation of assets towards venture capital investment in sustainable businesses.

Financial Risk and Sustainability

Leo Johnson, International Finance Corporation

Leo Johnson is a consultant specializing in environmental and social risk for the financial sector in emerging markets. He is the author of the IFC's forthcoming best practice publication: "Environmental Risk for the Emerging Markets Financial Sector".

Friedman believed that social responsibility is a socially subversive doctrine

Reciting Milton Friedman's argument, Johnson began by asserting that "the business of business is business". Friedman believed that social responsibility is a socially subversive doctrine and that the environment is not relevant to emerging markets or the financial sector. Friedman's contention that there is no environmental or reputation risk in emerging markets is often thought to be true for two reasons. First, because it is often difficult to develop formal and enforceable regulation in emerging markets. Second, because of a communication vacuum between emerging markets where resources are extracted and wealthy nations where they are consumed. This vacuum prevents consumers from making informed decisions about the products they purchase.

Johnson embarked on a series of case studies to test whether Friedman's view is still standing up to reality. The studies included an IFC financed hydrochloric acid plant in Thailand that was burnt down by the local community and Rabobank financed pulp and paper plant in Indonesia that met a similar end after engaging in unsustainable forestry practices. He argued that in the absence of a sound regulatory framework risk arises from the public itself. Citizens will often adopt a de facto regulatory role in order to protect their interests. Johnson suggested that firms can account for this risk by actively seeking to understand and respect these interests.

Countering Freidman then, Johnson declared that the environment is not only relevant to emerging markets but especially to investors in those markets.

In addition to environmental risk, there are many new stakeholders and mediums that can report negligence to a wider audience. This has resulted in an increase in reputation risk that can lead to brand erosion, criminal liability, as well as SRI and IFI boycotts.

Banks attract initial investment largely on the basis of *trust*. Fund managers develop this trust by focusing on *risk control, innovation and value added*. By accounting for the environmental and reputation risks outlined above firms can build trust with fund managers and fund managers can in turn build trust with investors thus attracting even more investment.

Keynote Address

ALAN GILLESPIE, CEO, CDC Capital Partners

Dr Alan Gillespie joined CDC in December 1999, at the time of its transformation from the Commonwealth Development Corporation, a UK Government statutory corporation, into CDC Group plc, a public limited company wholly-owned by the UK's Department for International Development (DFID). Dr Gillespie worked in investment banking for over 20 years. His activities at Goldman Sachs included mergers and acquisitions and corporate finance across a wide variety of sectors, with particular emphasis on financial services. As a Managing Director of Goldman Sachs International in London, he was responsible for investment banking activities in the UK and South Africa.

Doing business in nations with political volatility, little infrastructure and little regulation is a challenge.

Dr. Gillespie began by noting that investment capital has been traditionally divided into two broad categories. The first is government capital, where funds are distributed primarily for job creation. The second is private capital, where funds are distributed solely for returns. He proposed a third category, enterprise capital, where investors are as interested in the company in which they invest and the well-being it generates, as they are in returns.

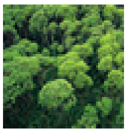
CDC began in the first category as a development bank financed by the UK Government. For forty-five years CDC offered government capital as a subsidy donor to developing countries. It has since moved into private sector investment with the goal of falling into this new category of enterprise capital. While there are many sources of debt financing for firms in developing nations, CDC wants to fill the equity gap. This is a difficult task in high risk emerging markets

Doing business in nations with political volatility, little infrastructure and regulation is a challenge. This challenge is compounded by the need to develop sustainable companies in these markets as well as getting a return on capital. CDC aims not only to provide private equity but to provide it with transparency.

Keeping this in mind CDC's initial investments have focused on the transport sector, banks, investment, power, telephony, healthcare and agri-business. Specific examples of CDC's investments include an offshore gas pipeline in Tanzania that is being developed in order to set up a electricity generating station and re-establish the manufacturing base. The provision of electricity has a direct development impact and energy is also a safe investment with solid returns. Hydrodelectric investments of $160 million have been developed in Peru. CDC persuaded Scudder in Boston to bring in $35 million for those investments representing a diversion of first world institutional capital back to the developing world.

Projects like these are redeveloped under CDC's aim of enterprise capital. Once they are developed or re-developed into an attractive investment they can be sold on to private investors.

CDC believes that if it can **make capital available as equity** to sound businesses **and work directly with entrepreneurs**, it is possible to demonstrate that adequate returns can be made. Once this has been demonstrated, private capital will follow.



Part Two: Financing Sustainable Ventures Leveraging Value and Experience

The afternoon began with perspectives given from five sustainable venture funds. Each venture fund presented their unique approach to identifying winning sustainable enterprises in which to invest. A lively debate ensued in an hour-long discussion. The participants and speakers discussed the difficulty of finding winning opportunities, the lack of supporting regulation to encourage entrepreneurship, the definition of a sustainable venture, and the value-added that sustainability can bring to investors. SAM Sustainable Asset Management gave the first presentation.

Sustainable Asset Management (SAM)
Dr Rolf Wüstenhagen

Dr. Wüstenhagen is part of SAM's private equity team. He is responsible for analysing investment opportunities in solar, wind and wave energy as well as combined heat and power technologies.

Dr. Wüstenhagen began by describing SAM as an independent asset management company exclusively focusing on Sustainability Investments. SAM's product range includes Mutual Funds, Investment Companies, Private Equity and in 1999, they developed the first global Sustainability Index together with Dow Jones.

Corporate sustainability for SAM is a business approach to create long term shareholder value by embracing opportunities and managing risks deriving from economic, environmental and social developments.

This forward looking and analytically rigorous approach leads SAM to invest in leaders and pioneers. **Sustainability Leaders** are large cap companies that excel in corporate sustainability on a global basis. They are selected following a best-in-class approach. SAM also invests in **Sustainability Pioneers**, that is private as well as small and mid cap companies that substantially add to sustainability through their innovative products and services. They have two PE funds, Sam Energy Fund (at 48 million Euro) and SAM Sustainability Fund (at 37.8 million Euro). The identification of appropriate service/technology clusters is key for the sustainability of SAM's pioneer investments.

To illustrate both the opportunities and the challenges in sustainable venture investing, Dr. Wüstenhagen presented Evergreen Solar (ESLR), which was SAM's first Private Equity investment in January 2000. ESLR is a manufacturer of solar cells and modules specialised in string ribbon technology that is 20 - 30% more material efficient than conventional crystalline silicon solar cell technology. ESLR went public in November 2000. They have successfully ramped up their first large-scale manufacturing line and continue to make good progress in technology development. However the share price suffered when the company announced it would delay expansion plans for a second manufacturing line in order to conserve cash. This highlights differences between a conservative management and the expectations of the financial community. While Evergreen has a very promising technology base, recovery of the share price depends on clarification of the financing issue.

Dr. Wüstenhagen concluded by identifying **energy technology** as an area that can generate venture capital returns while making a substantial contribution to sustainability. He noted that while sustainability plays a large role in SAM's strategy, all of their investments are best practice within the broader spectrum of venture capital.

Quadris

Ian Hook, Quadris

Ian Hook joined Quadris Group in 2000 with an objective to establish an open-ended investment company and a UK sales and marketing operation. Prior to this appointment Ian spent a number of years in the international financial services insurance and reinsurance markets.

Quadris invests in the Floresteca teak plantation in Mato Grosso Brazil. Floresteca is a large-scale efficient plantation forestry business, operating in accordance with the Forestry Stewardship Council (FSC) guidelines.

The plantation currently occupies a management area of approximately 33,000 hectares, of which 9,000 hectares of land are teak plantations and 8,000 hectares nature conservation areas. Planned development will enlarge this area each year by between 1,000 and 1,500 hectares.

Quadris was founded in 1993 by an entrepreneur, a lawyer and a forestry engineer. The original funding costs in 1994 were initially financed by the founders and since then financing has been secured by approximately 6,500 individual investors. The business was set up in order to meet growing demand for hardwood anticipated as a result of diminishing natural stocks.

Hook noted that Quadris' initial challenges were finding an appropriate investment vehicle, serving investor's interest, adhering to commercial objectives and measuring environmental and social standards. The challenges for growth included maintaining investment for future planting, remaining at the forefront of the industry, differentiating their product and raising investor awareness.

Quadris wants to expand and diversify their activities, broaden their investor base, improve shareholder value and promote broader acceptance of environmental funds. Hook suggested that **communication** and **transparency** are two key elements that define success in sustainable ventures. Communication includes education and the importance of targeting specific marketing and sales channels. Transparency includes not compromising ethical nor commercial criteria, refraining from overstating expectations, and not relying on sustainability as a market niche or as compensation for poor performance.

Crocus Ventures

Fred van Beuningen, Founder CROCUS

Fred van Beuningen is the founder of Crocus Ventures. Crocus is planning on raising a venture capital fund in 2003 with a focus on renewable materials and energy technologies. Crocus has expertise in building businesses , assessments of business and technology and in linking entrepreneurs to capital.

Mr. Van Beuningen noted that it is essential for the investor to have an adequate prediction on the opportunities and risks involved for a venture to become profitable and sustainable. The business plan is an important part of this prediction process, and serves two main purposes. First, it thoroughly explains the business concept. Second, it is used to raise funds and or assets from external parties.

For Crocus, only one in three of the feasible business plans received by sustainable entrepreneurs were classified as winning propositions. Though an investor will not base their opinion on the business plan alone, a positive assessment is important to any deal. Following are some suggestions to sustainability entrepreneurs on how to improve their business plans.

Indicators of a sound business plan include:

- Strong implementation focus;
- Response to a direct and recognisable customer need;
- The solution needs little explanation to the prospected customer;
- Complete innovation and
- A balance between marketing and process.

Indicators of a poor business plan include:

- Claims of unique concepts;
- Overly detailed financial statements;
- Weak assumptions and reasoning;
- Excessive use of fancy buzzwords; and
- A business plan that mimics a business brochure.

It is important for SVF funds to **develop a comprehensive set of criteria** to help assess the strengths and weaknesses of a business concept and the qualities of the team involved. Along with the venture capital itself, investors' key asset is their business sense. Such criteria can help to speed up the assessment process, and develop more accurate judgements on the potential of new ventures – on both the business and sustainability fronts.

Parker Venture Management (PVM)
Kerri-Lyn Hauck

Kerri-Lynn Hauck is a Senior Analyst and Associate with Parker Venture Management (PVM) Inc. based in Toronto. The PVM team provides high value venture services to investors seeking superior returns from emerging clean technology enterprises. At PVM, Kerri-Lynn undertakes research, due diligence and project management relating to clean technology investment opportunities.

Some clean technology markets are growing at compound annual rates of more than 20%

PVM has mandates with a major utility venture capital group, two large endowments focused on sustainable development and a labour sponsored venture fund focused on energy and efficiency investments.

PVM is doing deals primarily in the clean energy, water and advanced materials areas. They are also performing research and designing investment strategies, building and servicing investment networks and developing capital pools for commercial and non-commercial investors. This helps to promote interest in and understanding of sustainable venturing.
PVM feels that there is an **opportunity for clean technology to span many industries** ranging from alternative forms of energy generation and water quality to new and innovative forms of low pollution transportation. The market for clean technology is rapidly developing due to industrial restructuring, scientific and engineering advances, changing socio-political values and deepening concern for environmental sustainability.

In fact, some clean technology markets are growing at compound annual rates of more than twenty percent. Emerging fields such as nanotechnology offer the prospect of products that cost less, perform better, and sustainably satisfy human demand in ways that previously could not be achieved. There are also market opportunities emerging in the multi-billion dollar agricultural, manufacturing and transportation sectors.

Some examples of the industries in which clean technology is flourishing are agriculture, manufacturing, transportation, water. However the venture community has traditionally favoured sectors such as telecommunications, biotechnology, software and, most recently, the Internet. So far in 2002 information technology and bio-medical have captured ninety percent of venture investments in the US, with clean technology related investments capturing less than three percent.

The Corporate Venturing Interest Group is a partnership between PVM, the Sustainable Enterprise Academy and a group of multinational corporations.

This group looks towards new ideas, models, market insights and technologies for reducing or eliminating risks and identifying opportunities in the sectors that PVM invests in.

Sustainability reflects long-term trends and venturers can play a key role by picking out and nurturing the potential winners for high financial return on investment and societal benefits.

Materials Productivity LLC

Kelly Collins

Sin*ce 2000, Kelly Collins has worked as a consultant with Materials Productivity, LLC, an environmental management and investment consulting firm. Her work includes researching and recommending investments in companies that have positive environmental and economic impacts in the marketplace.*

There is a vast middle ground of opportunity when one focuses on *using existing resources in a sustainable way*

Her presentation was entitled 'The Basis of Ventures is the Basics of Business: Finding the Trojan horse for environmental sustainability.' Collins began by stating that people commonly see sustainability as having a large cost, for example in the cases of end of pipe treatment and radical reinvention.

In fact, there is a vast middle ground of opportunity when one focuses on using existing resources in a sustainable way. This can apply equally well to early stage ventures and established companies. Existing products may have a sustainable application not currently being realized by the firm that produces them. Materials Productivity calls this a **Trojan horse**.

For example, the firm Ciphergen developed a predictive toxicology technology that already had corporate buy-in and market potential. The Trojan horse in this case was predictive toxicology technology that can also be used for more efficient drug toxicity testing, harnessing associated social benefits.

Another example is the firm Strategic Diagnostics which is a leading provider of biotechnology-based diagnostic tests for a broad range of agricultural, industrial, and water treatment applications. The Trojan horse here was that these tests could also be used for more efficient food safety and drug efficacy testing.

In conclusion, Collins suggested that many barriers to sustainability exist because of disparate practical definitions of environmental sustainability that divide the debate and hinder broader understanding. This in turn makes it difficult to put sustainability into practice. Materials Productivity uses its innovative way of viewing sustainability, via the Trojan horse, to generate return for its investors.

Part Three: Experiences of Social and Environmental Entrepreneurs

The entrepreneurial panel, organised by the Indevor student club of INSEAD, introduced the experiences of five social and environmental entrepreneurs. Each entrepreneur presented their venture: new businesses that strive to achieve positive financial, social and environmental results.

At the heart of sustainable development are those individuals with the creativity and entrepreneurial spirit to successfully incorporate these three concepts into their business models. Entrepreneurial ventures like the ones introduced below are examples of how people are changing the structure of the global economy and getting a head start on being responsible corporate citizens.

After the presentations participants and speakers discussed the difficulty of securing financing, the need for supporting regulation to encourage entrepreneurship, the need for better knowledge of the value of sustainable development amongst investors, and the best ways to present a sustainable business plan to investors. David Tepper from Future Forests gave the first presentation.

Future Forests

David Tepper

David Tepper advises Future Forests on the strategic development of the business and assists in the development of large corporate clients. David provides strategic advisory services for companies embracing environmentally sustainable business models. He has also provided advisory services to a number of private equity funds.

Future Forests firmly believe that there is longevity in schemes built on a solid commercial basis.

Future Forests developed a practical tool and facilitating mechanism to help corporations take action on climate change. It is leading the way to take a complex scientific and environmental problem (climate change) and convert it into a simple branded label 'Carbon Neutral' and a simple action. Customers can either 'neutralise' their greenhouse gas emissions by planting trees in the forest of their choice, or support one of their climate-friendly energy projects. Such projects invest in reducing CO_2 emissions at source by funding the use of clean technologies such as solar power in developing countries.

The mission of Future Forests has two aspects that are aligned: to protect the earth's climate and to meet its shareholders objectives of generating the highest possible return on the funds invested. In both in its business and its products, it demonstrates that business and the environment can be aligned. We firmly believe that there is longevity in schemes built on a solid commercial basis.

Future Forests helps to move corporate sustainability initiatives from being PR and compliance driven, to actions that have direct links to shareholder value (through true brand building, consumer engagement similar to loyalty programs, employee engagement which can be integrated into human resource policy, and selling more products through brand building. Future Forests have clients all over the world including: Avis Europe, Hilton (Trafalgar hotel), Environmental Transport Association, Swiss Re, Partner Re, St Luke's, Business in the Community, Barclays Bank, O2, The Brit Awards, MTV, Pet Shop Boys, Damien Hirst and Atomic Kitten. Equally important are the 30,000 individuals who have committed to carbon offset with trees or energy-switch programmes in the last 18 months.

We also work closely with NGOs, regulatory bodies and governments. The Johannesburg Climate Legacy (see http://www.climatelegacy.org/) which is managed by Future Forests is creating tremendous awareness among the participants at the World Summit and bringing real development support to the region.

Future Forests is operating in a pre compliance market. It has developed high standards for carbon offset in a pre Kyoto environment. The products offered will of course evolve as the carbon-offset market evolves and a Kyoto compliant market approaches.

Future Forests is a professionally managed business with independent board of directors. Venture capital shareholders have injected a few million dollars into the business. Indeed, one of the key successes of Future Forests was the founders' ability to bring in professional investors. The VC money has helped transform Future Forests from a small "garage" business to a company building international joint venture agreements, hedging and managing carbon liabilities and assets, and putting in place the appropriate risk management tools to grow in an uncertain and evolving market. Future Forests has hired a professional independent management team, including recent INSEAD graduates.

Mr. Tepper has personally worked with and analysed a number of environmentally friendly business models and businesses. These companies potentially have access to cheaper capital (environmentally friendly angels), lower operating expenses (the ability to attract high quality people at below market wages) and benefit from strong stakeholder support (in the case of Future Forests it has had tremendous trade and public press for doing good). However, these businesses also face some greater risks from being in the limelight. Some NGOs and press hold these small inexperienced and fast growing businesses to the highest business standards and transparency.

Ultimately, to maximize the number of success stories of sustainable enterprises, I am convinced that smart capital is required. Capital providers should develop and push the management teams - these teams are then properly compensated for the additional risk inherent in managing small highly transparent companies operating in emerging sectors such as environmentally friendly products and services.

Natour Eco Tourism

Eduardo Novaes

Eduardo Novaes joined Natour in May 2001 as a Business Marketing Director / Partner of Natour. Natour's mission is to improve the quality of people's lives by having them interact with preserved nature.

Natour is an enabler of top-end eco-tourism in Brazil. Natour has two distinct operations: jungle lodge development and travel operations. Its business principles and revenue model are based on strong environmental preservation and employment of indigenous people. It is a truly triple bottom line business.

Natour offers three types of products: sport fishing, bird watching, photo safari and exploring. The benefits of sustainable tourism are shown by the success of the Natour Thaimaçu Lodge, which is a successful Sport Fishing Lodge in the heart of the Rain Forest.

The lodge's social and cultural value comes from the creation of thirty-six new jobs for people formerly involved with gold mining, lumbering and agriculture.

In addition the lodge provides revenue sharing with the Kaibi Indians by helping them protect their reserve. This is an area of very high biodiversity value, especially in terms of fish and bird populations, many of the species being endemic. The lodge led the process of creation of a sport fishing reserve and today operates along ninety kilometres of preserved river, which guarantees the preservation of this area. The lodge has also undertaken various studies and monitoring programmes of the surrounding wildlife in order to manage its operations in an environmentally friendly manner.

Natour is currently developing a number of projects either for upgrading or for building new jungle lodges in some of the richest ecosystems of Brazil. Its main source of funding is from individual investors who are passionate about nature, about some of the activities undertaken by the lodges (fishing, photo safari etc) and who are after a responsible and profitable investment. Natour also raises funds with institutional investors and governmental bodies.

Water Circle Technologies
Michael Harrison

Michael Harrison founded the Groundwater Group in 1992. It is now the largest independent supplier of borehole water to industrial customers in the UK. He is now launching Water Circle Technologies, the 2001 winners of the INSEAD Business Plan Competition. The winning company is provided financial assistance (by sponsors 3i and Roland Berger) and incubator support at INSEAD's Fontainebleau campus.

WaterCircle Technologies aims to provide industrial companies with cost savings through the use of ecologically-responsible and technology-driven water-recycling systems.

Mr. Harrison explained that currently, large companies across Europe are spending in excess of 5 billion Euros each year on water and wastewater services. The market faces considerable growth prospects as tougher EU environmental legislation forces industrial companies to clean up their wastewater to increasingly stringent standards.

WaterCircle have identified process technologies that offer the possibility of considerable cost savings to industrial water users through water recycling. The savings arise by reducing water needs and by lowering the costs of waste disposal. The membrane recycling technology delivers high quality water, often of a higher standard than municipal drinking water supplies.

Water recycling can be cost saving. For example, in the case of cotton bleaching, water that enters a factory at a cost of 1€ per cubic metre leaves as effluent at a cost of 3€ per cubic metre. A firm can capture and recycle that effluent into the bleaching process, reducing both the input and output of water and saving money.

WaterCircle Technologies are currently in their first round of financing.

The Little Gym
Alexander de Wit

Alexander de Wit is the founder and Managing Director of The Little Gym of Europe. In 2000 Alexander, together with Belgian partners, became the master franchisee of The Little Gym in Belgium and in 2001 he created The Little Gym of Europe.

The Little Gym aims to develop the concept of 'societal entrepreneurship' by pursuing dual objectives, both financial and societal, while building a company with strong performance and image. The Little Gym's mission is to promote the long-term mental and physical development of children aged 4 months to 12 years throughout the world.

The curriculum-based program provides a specific weekly lesson focusing on building a particular motor skill in a non-competitive environment, while adding to the child's intellectual and social development. The specific teaching approach also builds children's self confidence and self-esteem. The Little Gym franchise concept involves a network of individuals exchanging best practices and contributing at a corporate level.

Currently there are 40,000 children in a The Little Gym every week in over 120 locations in 15 countries. After the success of two initial pilot units, one in Waterloo, Belgium and the other in Lyon, France, the Little Gym already opened gyms in Sevilla, Nancy and Amsterdam. Further development is planned within Europe with additional units soon to be opened in Belgium, France, Spain, Luxembourg, UK and Sweden.

The achievement of The Little Gym represents a large-scale societal impact as well as an attractive investment opportunity.

Ceres Power Ltd

Bruce Girvan

Ceres Power was founded as a spin-off from Imperial College in 2001 to commercially develop the technology that has been generated within Imperial College in the area of IT-SOFCs over the last ten years. CERES were winners of the European Business Plan Competition in 2001.

Stakeholders need to increase awareness amongst the investment community of the benefits of environmental payback.

The core of Ceres Power's business is a patented fuel cell technology that overcomes many of the challenges facing existing traditional Solid Oxide Fuel Cell (SOFC) technologies.

Ceres Power's Intermediate Temperature for SOFC (IT-SOFC) operates at around 550ºC allowing conventional materials, such as a steel substrate, to be used in the fuel cell construction. This provides a technology platform that overcomes the technical challenges impeding the progress of fuel cell commercialisation. It endows a simple, robust, modular design with the potential for reduced manufacturing costs, rapid start up and dynamic load following capability.

When these advantages are combined with a choice of fuel supplies that include natural gas, propane, methane, methanol, as well as hydrogen, then the Ceres Power IT-SOFC technology matches many of the needs within the rapidly expanding global distributed energy market.

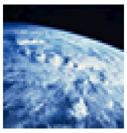
With significant funding now secured, the company is expanding its commercial and development team to complement its eminent technical knowledge base.

According to Mr. Girvan the compelling reasons for investors to support Ceres include:

- A global market;
- A strong, balanced team; and
- Patented technology.

Mr. Girvan noted that Ceres Power has a strong lead investor with knowledge of the energy market and wide investor links.

Ceres believes that Sustainability has a role to play and offers political strengths and reduced power generation risks. However, the third and fourth quarters of 2001 were not good times to use sustainability as a means of securing funding - as many investors have become risk averse with the decline of the markets. Stakeholders therefore need to increase awareness amongst the investment community of the benefits of environmental payback.



Part Four: For-profit / Non-profit Hybrids and Community Development

Official development assistance (ODA) is an important part of the development process. But as new markets are built on the foundations provided by ODA new challenges are created that require specialised solutions. Private direct and indirect investment flows from developed to emerging markets have been increasing in recent years despite perceptions of inherent increased risk. Most of this investment is concentrated in large enterprises. Many start-up, small and medium enterprises in emerging markets still have difficulty accessing this risk-averse private capital. For-profit / non-profit hybrids are one response to this challenge.

Hybrid organisations seek to combine the positive aspects of non-profit assistance (e.g. less risk averse capital, guarantees to investors, stakeholder inclusiveness, etc.) with the positive aspects of for-profit enterprise (e.g. promotion of internal efficiency, accountability, responsiveness, etc.). At the essence of this process is reconciling the perceived conflicts of the triple bottom line in a high-risk environment.

The Saturday morning session of the workshop was introduced by the Dr Ken Thomas who gave an overview of the US model of Community Finance. We then heard from four such hybrid organisations working in emerging markets.

Introduction and the U.S. Model of Community Finance
Dr. Ken Thomas, Wharton Business School

The morning began with an introduction by Dr. Ken Thomas, who has been a Lecturer in Finance at the Wharton School since 1970 and written two books on the Community Reinvestment Act (CRA) of 1977.

Dr. Thomas defined the "U.S. Model of Sustainable Banking" as a triangle with three corners. Community interests, with longer-term social and environmental concerns, are at the bottom left corner. Banking corporate interests, primarily with short-term profit-maximizing concerns, are at the bottom right corner. And, the government, operating through Congress, the Administration, and regulatory agencies, is at the top of the triangle acting as an arbiter trying to find the proper balance between community (public) and corporate (private) interests in the context of regulated capitalism.

There are countless examples of over-regulation, which stifles competition and innovation, and under-regulation, which played a role in the S&L crisis and Enron. The government, however, apparently got it right (i.e., "fair regulation”) after 25 years with the Community Reinvestment Act (CRA) This law "encourages" federally-insured banks and thrifts through a carrot and stick approach to lend to their entire communities, including low-and-moderate income (LMI) areas. LMI people represent about 40% of Americans.

Banks are periodically examined and publicly rated on their CRA performance. Those banks rewarded with good ratings are praised in the media and often receive additional benefits such as tax credits and government and other business. The few (about 2%) of banks with poor ratings are precluded from certain corporate expansion activity (e.g., branches and mergers) in addition to suffering from public ridicule and even possible government regulatory enforcement action.

Despite the successes of the CRA model in terms of significant increases in LMI lending, this process can break down when government regulators get too close to banks and inflate CRA ratings (estimated to be the case about half the time according to www.CRAHandbook.com). It is also possible that community groups can get too close to banks as a result of grants and other benefits and cease representing community interests.

For these and other reasons, CRA is periodically reformed as is being done this year, its 25th anniversary, and Dr. Thomas' recommendations in this regard are found in "Optimal CRA Reform: Balancing Government Regulation and Market Forces" (Public Policy Brief No. 68, 2002, The Levy Economics Institute) at www.levy.org.

ENLACE

Christian Arce

ENLACE is a non-profit private organization sponsored by the Avina Foundation devoted to catalysing sustainable development projects. Christian Arce is one of its founders.

There is venture capital looking for sustainable business projects, but very few entrepreneurs in Latin America know this.

ENLACE prepares entrepreneurs for presentation to a network comprised of venture capital funds, business leaders with social responsibility, academic institutions and NGOs. It also promotes the creation of local venture capital funds with a sustainable approach.

ENLACE believes that a development model rooted in entrepreneurship and sustainable development is the most highly leveraged way to achieve economic, social and cultural development in emerging markets.

Mr. Arce noted that there is already venture capital looking for sustainable business projects but very few entrepreneurs in Paraguay and its surrounding area know that.

ENLACE promotes the concept of venture capital in the region and helps the sustainable venture capitalists feed their deal flow. Their key challenge is to find enough interesting projects in a region with little entrepreneurship culture to feed the pipeline of funds.

The example of sustainable forestry was given. The forestry industry in Paraguay thinks that sustainable forestry is not profitable or possible. ENLACE demonstrated that sustainable exploitation is feasible by implementing a pilot project with progressive players of the forestry industry.

CDC Capital Partners

Lucy Heintz

Lucy Heintz joined CDC Capital Partners in March 2001, having completed an MBA at INSEAD during 2000 after several years in the financial services sector.

Within the public sector CDC focused on the reputation and the halo effect of UK government ownership, risk management, returns and timescale.

CDC has 50 years of experience in building businesses and as a risk capital provider focusing exclusively on emerging markets. Originally the CDC was formed in 1948 with a focus on creating strong and sustainable private sector businesses in Commonwealth countries through the provision of debt finance.

Investment policy shifted during 1980s and 90s towards provision of risk capital financing, on the path towards public private partnership since 1997.

CDC is building a successful business through investment in emerging markets. This will then act as a catalyst to mobilize larger private sector capital flows.

Within the public sector CDC focused on the reputation and the halo effect of UK government ownership, risk management, returns and timescale. This is slightly different from the private sector where the focus is on a commercial approach and an ability to attract and incentivise talent. This investment model will be proven when CDC has demonstrated a track record of exits at commercially appropriate returns.

One example of this model being used successfully is CDC's investment in GrameenPhone. Bangladesh has one of the lowest telephone densities in the world. Women in rural villages purchase mobile phones from GrameenPhone and generate income by selling telephone services locally. GrameenPhone has created 40,000 jobs and improved access to market information in rural industry. GrameenPhone has 50,000 users and has seen growth rates of 100% p.a. in its subscriber base over the last 5 years. GrameenPhone has exceeded budgeted profit in 2001.

CDC's model reflects the belief that true sustainability must be profitable.

IUCN / Kijani Project

Frank Vorhies

Frank Vorhies heads up IUCN's new initiative on business and biodiversity. Frank has worked for IUCN since 1995 when he was hired as their first full time economist. IUCN is the world's association for nature conservation with approximately 1000 government and non-government members as well as commissions of technical experts.

Africa, especially rural Africa, desperately needs socially responsible capital

The Kianji project focuses on engaging business in triple bottom line biodiversity objectives. This includes promoting corporate biodiversity strategies and biodiversity benefiting business investments. The concept of sustainability focuses on 3 components when applied to biodiversity: conservation (environmental aspect), sustainable use (economic aspect), and benefit sharing (social aspect).

Africa, especially rural Africa, desperately needs socially responsible capital. For this reason Kianji Project is focusing on private equity which includes financial and biodiversity due diligence, medium sized opportunities $0.2 to 8m with long term requirements from 5 to 10 years involving active and engaged management support.

The biodiversity business is terribly complex and often controversial. Risk has been mitigated through the merging of biodiversity and banking expertise; in this case the Kianji Project is a joint venture of IUCN and the IFC.

The two key features of the model are a bio-financing and bio-service facility (pre-investment technical assistance such as developing biodiversity business plans and providing access to export markets).

Sustainable venture grants for Kijani bio-services have been used to promote biodiversity conservation, poverty alleviation, indigenous entrepreneurship and sustainable development in Africa. Sustainable venture capital for Kijani bio-finances has been used to promote socially responsible investments, greening private equity, capitalising emerging markets and triple bottom line project in rural Africa.

Mr Vorhies gave the Vilanculos Coastal Wildlife Sanctuary as an example wherein 25,000 ha have been converted into a private sanctuary of islands, coastline, coral reefs, wetlands and bush. This has enabled ecosystem restoration and the protection of endangered species. The Conservation is put to sustainable use through eco-tourism lodges, private holiday homes, community-based fishing and sustainable agriculture. Such a development has presented far-reaching benefits through the development of the integrated local community development in the form of education, health, and jobs.

Norfund

Svein Ove Faksvåg

Mr Faksvåg started in Norfund 1st September 2001 as Head of Investment Committee and Deputy to the Managing Director at Norfund, after 22 years in different top positions in the company Orkla ASA.

Mr Faksvåg began his presentation with some reflections on the difficulty of really practising corporate sustainability with so many different versions of the sustainability concept being contested. He stated that this is a key challenge, and one that needs the finance sector's support.

The Norwegian investment fund for developing countries came into operation in 1998. Capital was provided by the Norwegian government over the development assistance budget. Norfund's mission is to invest in profitable private enterprise in developing countries and promotes business development in developing countries. The instrument is risk capital i.e. fresh capital and risk sharing through equity and quasi-equity.

Norwegian developmental support attempts to separate traditional, grant-based forms of aid from investment-related commercial support. This enables Norfund to focus on the use of the development of the private sector as the vehicle for growth in developing countries. Norfund uses three models of capital organisation: venture investments, local funds, and separate business units (energy).

Influential factors for growth include:

- **Infrastructure and good governance, local venture managers,**
- **a commercial focus,**
- **avoiding bureaucracy,**
- **a long term view,**
- **exit markets, and**
- **deal flow.**

Along with CDC, Norfund is part of a Joint Venture Company (50:50) named Aureos Capital that operates in a number of countries including: Sri Lanka (Ayojana), Mauritius (VCP), Mozambique (MCP), Zimbabwe (TAK), Zambia (ZCP), Tanzania (FCP), Kenya (KCP), Ghana (VFMC) and Central America (CAIM). The Norfund international network consists of: Aureos Capital, IFC, IDB, CDC Capital partners, NORSAD, Nordic based IFIS, SEAF, Local investment funds and Norwegian and international consultants organisations and companies.

The influential factors involved with growth in developing countries, are: infrastructure and good governance, local venture managers, a commercial focus avoiding bureaucracy, a long term view, exit markets, and deal flow.

Given the above issues are taken into consideration, private investors, international industrial actors and top venture managers are able to invest in developing countries promoting sustainability and growth through profitability.

Questions in Sustainable Venture Finance: Key points of Discussion

The workshop participants catalysed a number of thoughts, comments questions and areas where more work is needed. Highlights from these have been loosely grouped and are described below to stimulate further work in the field[1].

General Issues of Financing Sustainability

- The key issue is actually not a lack of capital but rather how best to organise it for sustainable ends.
- If sustainable venture capital is perceived as more risky – how can one break down this risk, quantify and manage it so that this risk is not such a threat? One would need to make this work very accurate to ward off the pre-conceived notion that environment and ethical approaches necessarily involve a trade-off.
- We need more proof that sustainability can be profitable.
- How can one best leverage the current interest in SRI towards Sustainable Venture Capital?
- Why is there such a mismatch between the sustainable development rhetoric and fraternity (the SRI Niche), and mainstream capital?
- How does one package the interest in Sustainable VC for the mainstream asset management community?
- There is a need for the public to realise that finance is ‘both an art and an institution’.

[1] The opinions expressed below are below are solely those of participants and are not necessarily those of UNEP, UNEP FI, INSEAD or CDC Capital Partners.

- Reflecting on the possibility of the September 11th attacks as an attack on 'capitalism': what does the attack mean for sustainable development, and for financing sustainable development in particular?
- How can we develop markets for sustainable products and services – are they currently there, but hidden, or do they actually need to be created? If so, by whom?

On the Concept of Sustainability for the VC sector

- A useful definition of sustainability is: 'to meet the capital needs of the present, so as to not compromise the capital needs of the future' (here capital means financial, social and environmental capital).
- Can one ever have sustainability *without* profitability? This reflects the idea that markets are only sustainable if they are profitable.
- Mainstream VCs use a sector-focused approach to sourcing deals. Though useful, this approach covers over the intersection between businesses, new business ideas, and new technologies. Are they missing an opportunity?
- What are the different meanings of sustainability in each of the VCs and funds?
- How can one measure the sustainable element and outcomes of the enterprises? (i.e. social or environmental return on investment)
- There is a need to develop the concept of 'responsible ownership', and to make it both attractive and practical.

On developing the field of Sustainable Venture Finance

- There is a need to develop a common language between environmental and social worlds and finance sector. Translators are needed.
- Problem – there is bottleneck created by a lack of experience and skills in the varied fields that SVF calls on (which is also a problem in the VC market generally).
- There is a need to develop the finance, VC, and entrepreneurship skills of environmental/ social professionals.
- There is a need to promote sustainable entrepreneurship.
- Not enough VCs are looking into this sector - indeed there are not enough deals in general.
- There is a need for more angel investors – more capital and support needed to develop entrepreneurs in pre-VC stages. Helping them to get to the VC level is also a challenge.
- A key challenge for investors is to *find* interesting projects to invest in and then to help develop them.
- There is a need to build good governance systems to manage the growth and to provide accountability of these firms in the long term.

- Why aren't entrepreneurs working together more?
- A better network is needed so that sustainable entrepreneurs and VCs can find each-other, and learning can be accelerated.

On Regulation and Government Incentives

- What regulatory instruments would best stimulate innovation? Does SVF and Entrepreneurship provide a way to connect the sustainability goals of governments to their economic development roles?
- If the EU was to pass the 'Sustainable Venture Finance' Act, what would it look like?
- What existing regulation is *hindering* the development of the Sustainable Venture Finance industry?
- What role does government have in creating and regulating new markets that favour sustainable products and services? How can they better regulate externalities?
- How should government money be most effectively used to stimulate sustainable technology development?

On Developing Country Issues: From Global to Local Capital

- Currently there are two levers: government money and mission investing. However there is too large a gap between government grant money (which floods the market and is not accountable) and possibilities for private equity investing in emerging markets.
- There is a lot of cash floating about – but the question is who has access to it and for what. Funds tend to be targeted towards large scale, large cap infrastructure projects that do not promote entrepreneurship and local responsibility. Equity investment has the possibility to fulfil this need.
- Sustainable growth in developing countries can be achieved through profit making ventures and entrepreneurs.
- Specifically, what can private equity achieve in these contexts? How can it facilitate entrepreneurial development, capacity building and empowerment – as well as provide capital?
- Who is in the best position to take the fundamental risks – and who should come later. Government money first – e.g. CDC – then private equity later? A partnership approach?
- Is private equity more efficient and effective than official development assistance? Why? Why not? In what situations might it be?
- Investors need to adopt a long-term view when going into developing markets: 5 - 10 year horizons.
- There is a need to modify venture concepts in developing countries, one cannot expect the same systems, infrastructure, and cultures to prevail.

- There is a need to channel external savings and investments through local venture capital funds to invest in projects in a more efficient way (e.g. via the ENLACE project in Paraguay).
- There is also a need for a sophisticated exit strategy that leaves entrepreneurs self-reliant or creates opportunities for local investors.
- Difference in values – have to be careful that we are not simply applying a G8 nation ethical model to countries where this does not have credence. Can we really impose our models of returns, ethics and sustainability on cultures that are simply struggling to survive?

Next Steps for the Sustainable Venture Finance Initiative

As this conference deliberated upon, most socially responsible investors currently cover large-cap companies who strive to minimize their environmental footprint while contributing to the economic and social development of the communities in which they operate.

Entrepreneurial spirit is required not only by those developing new businesses, but also by their investors.

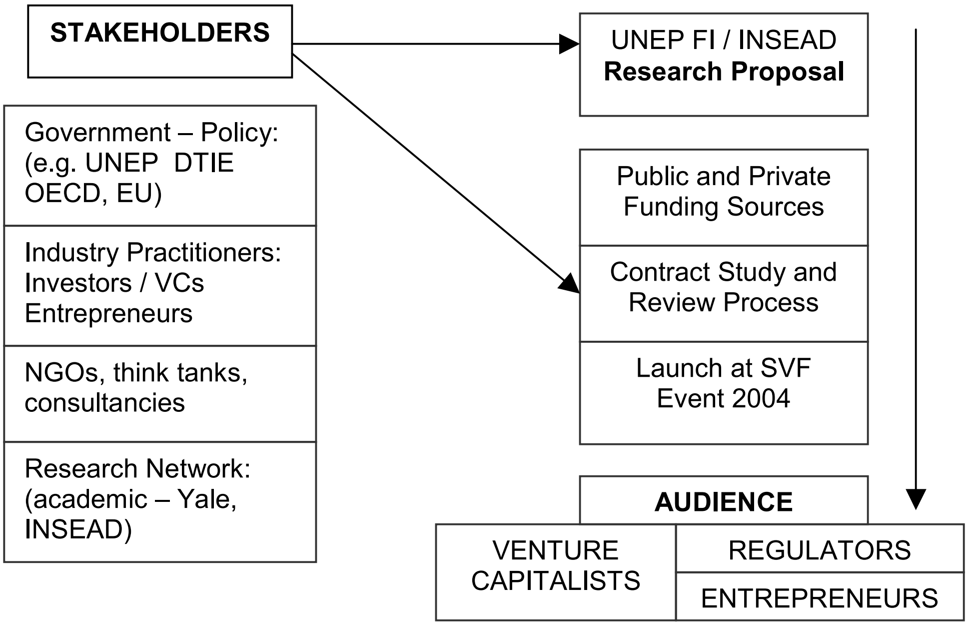
We posited at the outset that large-cap companies are not the only organizations focused on corporate social responsibility and delivering investors a substantial return. We also stated that '*Innovative solutions to environmental and social problems are often found with entrepreneurs and new ventures'*.

What we found in this conference was that there is clearly a big potential for sustainable entrepreneurship. An entrepreneurial spirit is required not only by those developing the new businesses, but also by their investors. We heard many stories that illustrated that by focusing on sustainability – the innovative capabilities of businesses were also developed.

In almost every area of the economy, new ideas, concepts, inventions and techniques are emerging that, collectively, will form a new market. Particularly in these young markets there is a need for risk-bearing capital.

INSEAD and the UNEP FI Asset Management Working Group (AMWG) are implementing a work programme that intends to develop the field of SVF further. This collaborative effort will identify the barriers and pathways towards profitability in sustainable venture finance. Specifically, it will develop a research proposal, supervised by a peer review process as illustrated below.

Peer Review Process



Potential Outputs of SVF Resarch and Collaboration

- A roadmap of the sectors and different main issues in each (to scope and prioritise areas).
- A Substantial literature review – including historical perspectives on SVF development.
- A Review of best practice cases demonstrating successful lessons for investors and entrepreneurs.
- Business cases of sustainable VCs and entrepreneurs / start-ups.
- A regulatory assessment and policy review.
- The development of new instruments: e.g. baseline screening criteria or business plan guidelines.
- Performance attribution for best methods of ensuring 'social and environmental return on investment'.
- Outline the barriers and opportunities for mainstreaming SVF.
- Develop a framework for a European sustainable business plan competition
- Design a SVF / Sustainable entrepreneurship networking portal.

We look forward to your input into this effort.

To contact us and for more information visit:

www.unepfi.net/venture

Further Online Reading

British Venture Capital Association Environmental Investment Survey
Escponent - Sponsored by WWF-UK

Community Development Venture Capital
A Double-Bottom Line Approach to Poverty Alleviation
Julia Sass Rubin - Harvard Business School

FEE Discussion Paper Providing Assurance on Sustainability Reports
Fédération des Experts Comptables Européens

How Carbon Neutral® Programmes Generate Business Value
A Future Forests occasional paper

Social Entrepreneurship in Developing Nations
Sara Foryt - February, 2002

The Emergence of Green Venture Capital
Anastasia O'Rourke, Jelena Randjelovic and RJ Orsatto, INSEAD working paper, March, 2002

The London Principles of Sustainable Finance:
The contribution of UK-based financial institutions to sustainable development.
Forum For the Future UK

Toward Sustainability Venture Capital:
How venture capitalists can realise benefits from investing in sustainability-oriented start-up businesses
Jelena Randjelovic - Thesis for the fulfilment of the Master of Science in Environmental Management and Policy Lund, Sweden, September 2001

Venture Capital/Private Equity: Environmentally Conscious Investing
Diana Propper de Callejon
EA Capital Spring 2001

Information on Organisers

The UNEP Division of Technology, Industry and Economics (DTIE) www.uneptie.org

The mission of DTIE is to help decision makers in government, local authorities and industry develop and adopt policies and practices that:

- Are cleaner and safer;
- Make efficient use of natural resources;
- Ensure adequate management of chemicals;
- Incorporate environmental costs;
- Reduce pollution and risks for humans and the environment.

UNEP DTIE activities focus on raising awareness, improving the transfer of information, building capacity, fostering technology cooperation, partnerships and transfer, improving understanding of environmental impacts of trade issues, promoting integration of environmental considerations into economic policies, and catalysing global chemical safety.

UNEP Finance Initiatives
http://unepfi.net

Project Team:
Paul Clements-Hunt
Jacob Malthouse

UNEP FI is a global partnership between the finance, insurance and public sectors that develops and promotes sustainability best practice in financial institutions.

In 2002 over 278 signatories in 51 nations work with UNEP FI towards the common goal of maintaining the health and profitability of their businesses within the framework of sustainable development.

INSEAD Centre for the Management of Environmental Resources
www.insead.edu/cmer

Project Team:
Kai Hockerts
Anastasia O'Rourke

In 1992 INSEAD created the Centre for the Management of Environmental Resources (CMER) as a specialised environmental research and teaching facility. CMER research activities focus on corporate decision-making, studies in industrial ecology and industrial metabolism, studies of European environmental policy and policy-making processes. Research topics include building the business case of environmental corporate strategy, life cycle analysis, full-cost pricing, competitive opportunities from the green consumer movement, green accounting, sustainability in the financial sector (SRI's, Venture Capital, Shareholder Activism), the international trade implications of pricing environmental resources, and clean technologies.

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Sustainable Venture Finance
An Expert Workshop on Sustainability Oriented
Venture Capital and Entrepreneurship
Conference Report

The emergence of sustainability as a profitable business strategy is rapidly transforming the landscape of the financial industry. Investors are increasingly targeting companies that are sustainable and being rewarded through their financial returns.

So far most socially responsible investment funds cover large-cap companies who strive to minimize their environmental footprint while contributing to the economic and social development of the communities in which they operate. Yet large-cap companies are not the only organizations focused on corporate social responsibility and delivering investors a substantial return. Innovative solutions to environmental and social problems are often found with entrepreneurs and new ventures.

On June 7 and 8 2002 INSEAD and UNEP FI hosted a workshop in Fontainebleau France that brought together a unique network of participants representing the full spectrum of the field to discuss *whether and when it is profitable to invest in sustainability oriented venture capital funds and entrepreneurial ventures.* This report summarizes the presentations and key questions and answers from that workshop.

Partners

United Nations Environment Programme
Division of Technology Industry and Economics
Finance Initiatives Unit

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www.unepfi.net/venture