



Presentation on

Sustainable Responsible Investment (SRI)

Tuesday, December 3, 2002

SRI: What is it?

Definition

- Corporate Governance
 - Accountability and transparency
 - Protection of minority shareholder rights
- Environmental Responsibility
 - Compliance with world-class standards
 - Pro-active environmental approaches, such as investments that reduce energy consumption
- Social Responsibility
 - Labor-force health and safety
 - Local community support

Ten years ago, private finance and government aid played a roughly equal role in development funding. Private flows to developing countries is now roughly 4 times the US\$50 billion in development aid annually

Private enterprise is a key lever for sustainable development

SRI: Why does it matter?

A pragmatic pursuit, not an ideological exercise

When a company...

Improves Working
Conditions

Makes Sound
Environmental Decision

Is Sensitive About Local
Economic Growth

It achieves...

Greater Productivity
and Lower Costs

Stronger Brand Image
and Reputation

Broader Market Access
and Revenue Growth

SRI becomes a...

Value Driver

Indication Of Quality

Sound Investment
Rationale

Positive Correlation Between SRI and Corporate Performance

SRI: Why does it matter?

Companies are being pressured to change due to...

- Competitors
- Investors
- Growth of socially responsible investment funds
- Supply chain initiatives
- Guidelines to foster social responsibility

Success in developing prosperity is of fundamental strategic importance to almost every company

Pressure to change is making SRI a necessity

SRI: Can emerging markets afford it?

IFC's study of 176 emerging market companies challenges conventional wisdom...⁽¹⁾

Conventional wisdom...

- Sustainability is a public relations gimmick that can be used effectively in developed nations
- Does not make business sense for the private sector in emerging markets

New analysis shows...

- Companies in developing countries have benefited financially from SRI
- Going beyond minimum standards and avoiding a 'race to the bottom' creates value
- Integrating SRI into 'upstream' core business decisions instead of downstream public relations yields genuine results
- SRI is not a 'one size fits all' endeavor: business size, type, and location determines where the biggest gains can be made

Notes: (1) "Developing Value: The Business Case for Sustainability in Emerging Markets", August 2002

The biggest opportunities are at the intersection of the private sector and emerging markets

SRI: An IFC focus

IFC lends to private firms for ...

- Strategic projects in
- Developing countries on a
- For-profit bases, while setting out
- Environmental standards and
- Labor protection

In the IFC report, SRI produced the greatest benefits in the emerging markets in the areas of cost reduction, productivity, revenue growth and market access

Sustainable development is not charity

SRI: An IFC focus

IFC projects: SRI success stories

| Country | Company | Improvements |
|----------------|--------------------------|--|
| Poland | Intercell | Pulp and paper maker that cleaned up operations and saved US\$12 million in pollution tariff over 5 years. Sold sludge to a local power plant in exchange for electricity |
| Mexico | Biggest private hospital | Able to keep talent from leaving the country due to high standards |
| Czech Republic | Cembrit | Switched from asbestos-based production to cellulose-based process. Would have been forced to close without modernization. Now expanding rapidly through exports to EU. Sales doubled in 4 years. ISO14001 certified in 2002 |
| Brazil | Sadia | Company was initially unhappy with environmental conditions imposed by IFC until it received an award for being the most environmentally conscious company in Brazil, which enhanced its marketing |
| Ecuador | Reybancorp | Company believes that it not only benefited from the environmental conditions imposed by IFC but that markets will also be closed to companies that don't improve in a few years |

Doing good and doing well

Case Study: PTP Holdings Ltd.

IFC Project Description

Country

China

Company

Plantation Timber Products Holdings Limited's (PTP Holdings) sole purpose is to invest in wood related projects in China through two main subsidiaries: **PTP Leshan** and **PTP Hubei**, both sino-foreign joint ventures

Business

- Manufacture and sale of medium density fiberboard (MDF) and related value-added products aimed at China's interior markets
- Commercialize timber plantations that have been developed over the past decade with support from the World Bank and Chinese authorities
- Product and project advantage: competitive pricing, international product quality, localized production and distribution, customer service

Market

- High-quality MDF panels are in demand by the fast-growing furniture and construction industries
- Demand tends to be divided along regional lines due to high costs and distance of transporting products

IFC provided multiple tranches of long-term project financing

Case Study: PTP Holdings Ltd.

SRI Initiatives

Corporate Governance

- Ensure that environmental and occupational health and safety issues were addressed at the corporate level and are integrated into the company's general business function
- Transfer international management and marketing practices to China's interior

Environmental Responsibility

- Promote cultivation of timber plantations on a sustainable basis
- Comprehensive approach to environmental management for all facilities
 - Control fumes/ air pollution from wood processing
 - Treat wastewater before discharge
 - Minimize waste

Social Responsibility

- Both subsidiaries are located in the interior region of China
- Provides direct employment and training for more than 300 employees
- Promotes well-being of thousands of farmers as timber plantations become a major source of income

Benefit to Company

- PTP Holdings is the MDF market leader in its regional market.
- The company's enterprise value is currently estimated at US\$120 million with debt of US\$40 million. IFC's stake is now worth US\$4.8 million, which translates into an IRR of 16.8%. Focus on SRI has been a sound investment rationale for IFC

Early adopters of high standards can gain significant comparative advantage

Case Study: Sino-Forest Corporation (SFC)

IFC Project Description

Country

China

Company

Sino-Forest Corporation (SFC) is a Canadian listed company with Hong Kong management that has 5 years of experience operating plantations in China.

Business

- Manufacturing of various wood products for use in China's interior decoration and furniture manufacturing industries in 3 provinces
- Harvest and replant aspen and eucalyptus plantations in Guangdong, Jiangsu, and Jiangxi
- SFC has a 50-year contract to manage 60,000 hectares of trees

Market

- China ranks 9th in furniture production value and 7th in furniture export
- Guangdong province is a major center for manufacturing furniture
- Jiangsu province is the 2nd strongest province in terms of GDP
- To form a cluster of mutually sustainable high growth activities around residential construction, interior decoration, and furniture manufacturing
- Sites have ample plantation three resources and are in close proximity to water or land transport

IFC provided equity and debt financing in 2002

Case Study: Sino-Forest Corporation (SFC)

SRI Initiatives

Corporate Governance

- SFC worked with the local government in an innovative way to keep capital investments low and to align interests of all stakeholders
- Listed on the Toronto Stock Exchange

Environmental Responsibility

- SFC harvests and replants at a sustainable rate thereby reducing deforestation and increasing conservation of forested areas
- Can help to ensure responsible environmental practices in 2 provinces
- World Bank provided the original funding and technical support for some of the plantations that SFC will manage in order to reduce pressure on China's natural forest

Social Responsibility

- Generate cash from tree sales and plantation maintenance for local inhabitants
- Improvement in living standards for local communities through employment
- Encouraging farmers to "intercrop" plantation with food crops and entering into long-term contracts to grow three for the company

Benefit to Company

- Established long-term, viable business model
- Enhanced positive reputation in investment community
- Secured critical funding by doing business in an environmentally-friendly way

Demonstrate that 'green' projects must be financially viable for success in the long run

SRI: Challenges For Asia

Market Dynamics

- Shareholders vs. The Company
 - Good Corporate Governance hindered by low penetration of institutional investors and high levels of family ownership
- The company vs. The Public
 - Management sense of responsibility targeted at employees over fiduciary duty towards public shareholders
- The public vs. The Company
 - Reluctance to challenge authority

Cultural issues abound when examining Asian Corporate Governance



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