



**OCT 14, 2011
FOR IMMEDIATE RELEASE**

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New framework for government bonds to incorporate ecological risks

Geneva, 14 October 2011 – Could an abundance of natural wealth be a factor in positively influencing a country's credit rating and the quality of its bonds? Could a resource-guzzling economy be cause for a downgrade?

Early next week, the UN Environment Programme Finance Initiative (UNEP FI) in collaboration with Global Footprint Network, an international sustainability think tank, and leading financial institutions, will endeavor to shine a light on these questions with the launch a groundbreaking project to explore the role of natural resource accounting in strengthening risk models for government bonds.

Tightening constraints on resources and their potential impacts on national economies have been largely absent from financial analysis. Yet such factors are thought to have growing implications for the long-term credit risk of many government bonds, especially those with long-dated maturities.

The project will be launched at a workshop on 17 October in Washington, D.C., and counts among a series of side-events to the UNEP FI Global Roundtable. The Global Roundtable, taking place in Washington D.C. on 19-20 October, is expected to draw hundreds of leading financial experts along with high-level government officials who will seek to address the link between financial stability and environmental sustainability.

The government bonds project has two aims: it will investigate the linkages between ecological risk and country-level risk in sovereign bonds, and develop a methodology to explore how credit rating agencies, investors and financial information providers can integrate ecological data into their respective models. In particular, the analysis will look at the risks to countries whose populations and/or industries require more resources than is domestically available and which are hence reliant on ecological services from abroad.

Journalists are invited to attend the launch briefing and workshop. To register, go to:
<https://events.r20.constantcontact.com/register/eventReg?oeidk=a07e4w3fbax3b37acdf&oseq>

Quotes

Paul Clements-Hunt, Head of UNEP FI: "The global financial crisis has taught us more than anything that some of the core risks that affect the value of debt securities and derivatives can simply run ahead of our ability to understand them. This is why we must deepen our understanding of the risks posed by climate change, water scarcity and the overuse of natural resources for securities. We should not be

caught off-guard again. This project is one of the first that tries to quantitatively and systematically consider the linkages between the use of natural resources and its impact on a country's core economic indicators that in turn influence the quality of its bonds”.

Dr. Mathis Wackernagel, President of the Global Footprint Network: “As resource constraints tighten globally, countries that depend heavily on ecological services from other nations may find that their resource supply becomes insecure and unreliable. This has economic implications – in particular for countries that depend upon large amounts of ecological assets to power their key industries or to support their consumption patterns and lifestyles.”

“Meanwhile, those countries with reserves of valuable natural capital may find themselves in an advantageous position.”

For further information, please contact:

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About the Global Roundtable

Since the success of the first Global Roundtable edition, held in 1994 in Geneva, Switzerland, Global Roundtables have matured into major global agenda-setting events. Global Roundtables are convened by UNEP FI to offer an opportunity for leaders of the financial world and environmental experts to come together to discuss and exchange views on sustainability issues and responsible financing.

www.unepfi.org/grt

About the United Nations Environment Programme Finance Initiative (UNEP FI)

UNEP FI is a unique global partnership between the United Nations Environment Programme (UNEP) and the global financial sector. UNEP FI works closely with nearly 200 financial institutions who are Signatories to the UNEP FI Statements, and a range of partner organisations to develop and promote linkages between sustainability and financial performance. Through peer-to-peer networks, research and training, UNEP FI carries out its mission to identify, promote, and realise the adoption of best environmental and sustainability practice at all levels of financial institution operations.

www.unepfi.org

About Global Footprint Network

Global Footprint Network is an international research organization working to advance sustainability through the Ecological Footprint, a resource management tool that measures how much nature we have, how much we use and who uses what. Global Footprint Network coordinates research, develops methodological standards, and releases annual data on the Ecological Footprint and biocapacity of more than 150 countries and humanity as a whole. By providing robust resource accounts to track supply of and demand on ecological assets, Global Footprint Network gives decision-makers the data they need to succeed in a world facing tightening resource constraints.

www.footprintnetwork.org