

# Sustainability Outlook

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Sustainability Reporting

Extended Producer Responsibility

Financing Sustainable Infrastructure

Green Leap needed to shape global leadership



Moving from operating defensively,  
to capturing advantage

# SUSTAINABILITY REPORTING: AN ENABLER OF RESPONSIBLE FINANCE FOR SUSTAINABLE DEVELOPMENT



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The financial services sector plays a catalytic role in the promotion of sustainable development through deploying finance responsibly. As intermediaries in allocating capital, investors and lenders have the power to influence social and environmental practices and performance of companies dependent on its finance, rewarding those who effectively manage their risks and penalize those who fail to account for their environmental and social impacts<sup>1,2,3</sup>. This is recognized as not only in the interests of the greater good but for the 1071 UN backed Principles for Responsible Investment signatories, with assets of over US\$ 30 trillion, it represents a public commitment to incorporate ESG criteria into their decision-making and ownership practices. But why do so-called responsible investors and banks call for disclosure by entities they invest in or lend to and call for sustainability reporting? Moreover, what role does sustainability reporting play to facilitate the process of responsible finance?

Responsible Finance is a broad umbrella term for strategies employed by financial institutions involving the integration of environmental, social and governance (ESG) criteria and metrics into financial lending and investment decision making. Banks and investors apply ESG criteria both from a risk and opportunity perspective in recognition that these non-financial factors also contribute to long term financial returns and sustainable economic development. This recognition of the relationship between financial and non-financial performance is illustrated by the increasing number of signatories to a plethora of international

commitments and declarations related to responsible finance by both investors and banks.

As of today 73 banks have signed up to the Equator Principles (Eps), a credit risk management framework for determining, assessing and managing environmental and social risk in project finance transactions. Similarly, more than 655 institutional investors representing in excess of US\$78 trillion in assets have signed up to the Carbon Disclosure Project (CDP) endorsing a questionnaire that requests information on greenhouse gas emissions, energy use and the risks and opportunities from climate change from thousands of companies worldwide. In doing so, these financial institutions are highlighting their recognition that water and carbon present risks to companies' financial performance.

Beyond these commitments, financial institutions increasingly translate these commitments into practice by developing policies and screening criteria for their clients or investees. In turn against these policies they apply positive screening strategies, wherein they lend to or invest in companies with good practices; and negative screening strategies, where they seek to screen out companies based on their unethical practices or poor sustainability track records<sup>4</sup>.

To be able to assess a company's performance using responsible finance strategies, the financial sector is dependent on data from companies on their sustainability practices. As such investors and banks routinely call on companies to disclose their sustainability performance through sustainability reporting.



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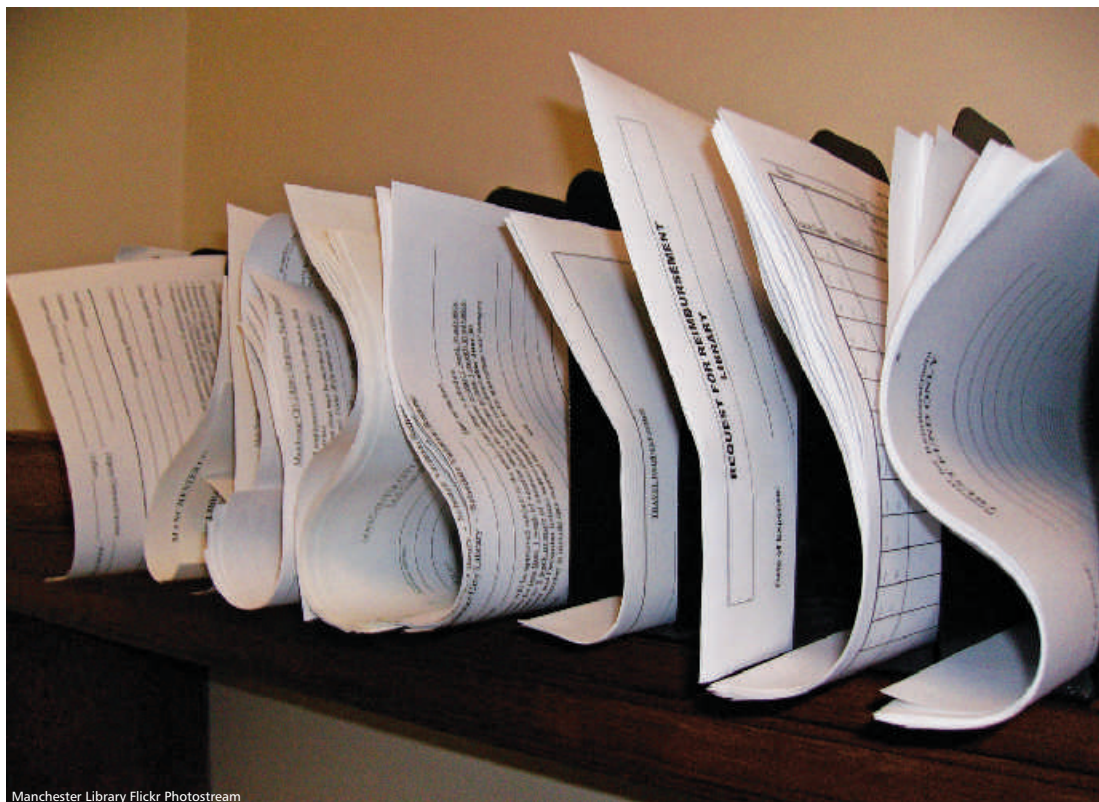
<sup>1</sup>EY, GIZ 2012, *Responsible Finance – A Catalyst for Responsible Business*

<sup>2</sup>IFC 2007, *Banking on Sustainability: Financing Environmental and Social Opportunities in Emerging Markets*

<sup>3</sup>UNEP FI 2006, *Translating ESG into sustainable business value – Key insights for companies and investors*

<sup>4</sup>EY, GIZ, 2012, *Responsible Finance – A Catalyst for Responsible Business*:

“Despite the various efforts to promote responsible finance by a mixture of regulatory and voluntary initiatives taken to expand sustainability reporting, there are a number of operational challenges, especially in the Indian context, which stand in the way of responsible finance”



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A recent Ernst and Young study on the international and Indian trends in responsible finance, commissioned by Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), shows sustainability reporting is a key trend in the promotion of responsible finance.

This demand for transparency in the sustainability practices of companies is driven not only by financial institutions<sup>5</sup> but also by other stakeholders such as governments and NGOs demanding greater transparency and accountability by companies through disclosure on their contributions towards sustainable development. Furthermore, it is driven by companies themselves who are internally recognizing the benefits it brings<sup>6</sup>. Improved brand reputation and reduced costs are cited as the greatest benefits in addressing sustainability, according to a 2011 survey with 862 respondents undertaken by MIT Sloan Management Review, and the Boston Consulting Group<sup>7</sup>. As a result of these drivers, in 2010 alone, approximately 3,500 sustainability reports were produced globally<sup>8</sup>.

Nevertheless, corporate disclosure is not enough for banks and investors to make informed lending and investment decisions. This information needs to be standardized to facilitate comparability. It is for this reason financial institutions call for reporting in line with the Global Reporting Initiative (GRI), a standardized global framework for sustainability reporting. This framework has been developed using a multi-stakeholder consensus seeking approach including investors. In 2010, a total of 1866 companies published GRI sustainability reports, out of which 24 were Indian<sup>9</sup>.

To further promote sustainability disclosure and obtain corporate sustainability performance data financial institutions are encouraging stock exchanges to include sustainability reporting as criteria in their listing requirements. In January 2011, investor signatories to the UNPRI sent a letter to the top 30 stock exchanges calling on them to encourage firms to adopt integrated reporting, including sustainability information<sup>10</sup>.

<sup>5</sup>EIU, 2010, : *Global Trends in Sustainability Performance Management*. <sup>6</sup>MIT Sloan Management Review & BCG, 2012

<sup>7</sup>EIU 2010, <sup>8</sup>GRI, 2011, *GRI Reports List 1999-2011*. <sup>9</sup>UNPRI, 2011, *Principles for Investors in Inclusive Finance*

<sup>10</sup>Responsible Research, 2011.

