

Financing and accounting for sustainability: Show me the value

BY HERMAN MULDER*

Anyone who has seen "Inside Job", the recent Nobel-prize winner for documentary movies, is asking himself why so many leaders and experts did not read the signs on the wall of clear and imminent danger. Collective blindness, unintentional or in denial, was the reality. Many are subsequently asking themselves whether this or something else with the same profound impacts can happen again. Are crises not of all times? And what are those possible signs on the wall today. Who are the "canaries in the coalmine"?

Monday (as always), 12 October (often), 2015 (the biblical 7 years later) will be the day at which the next crisis will manifest itself: the 2bln poor of the world, living at the beginning of the supply-chains of the elites: affected by the present financial crisis, by natural disasters, climate change, loss of ecosystems and biodiversity (their GDP), natural resource depletion, increasingly better informed about the lifestyle of the elites, with faith lost in their governments and in international organizations, will realize their pricing power, similarly to what OPEC did in 1973. The increasing density of people, the interconnectivity and complexity of overarching issues, the velocity of information sharing will exacerbate the effectiveness of their protest. We, the elites, are living beyond our planetary and ethical boundaries, with too many excluded from the wealth of our world. Clearly unsustainable!

Can this "tragedy of the commons" be converted in a "strategy for the commons"? How can we act to ensure a peaceful and fair transformation to a better place for everyone, including our own (grand)children? And who are "we" as agents for "change for the better"? International organizations and national governments have their role to play, but are, despite



their ambitions, failing because of their resource-strained, myopic, fragmenting, mostly policy-oriented reality? Civil society organizations can make significant contributions; but how resource-efficient and effective are they in the long run? Academia may provide different perspectives, but no solutions into practice.

The business sector is an essential partner, as it has some of the key elements to succeed: resource availability and efficiency, operational effectiveness, with the world as its oyster. Rio+20 will show how important and urgent the role of business has become to contribute to a better world: without it, there is no solution. But is the business sector prepared and able? In particular, which role does the financial sector play therein? By now most business practitioners and observers will confirm that

"sustainability" has become a mindset without which you cannot create long term value: it may be by the bottom line, the preferred licensee, employer, and/or partner and the brand-value. Stock exchanges (through indices; disclosure requirements), long term investors ("duty of care"; SRI portfolios; exclusion lists), governments (procurement; reporting requirements: "report or explain why not"), rating agencies, auditors (non-financial reporting) realize that risks and opportunities have a triple dimension: Planet, People, Profit. Many companies are setting clear sustainability targets on their future business, are increasingly focusing their R&D programs on sustainable solutions, on standards and disciplines in their value chains, and on sector codes of conduct. Public disclosure by sustainability/ ESG reporting is gaining ground. Sustainable business is clearly becoming strategic and mainstream. This trend will only accelerate, including SME's and companies from emerging economies.

What is the role of the financial sector (banks, long term investors, asset managers, equity funds, but also advisory and accounting firms) in this inevitable process: can it be an agent for "positive systemic change"? Prudent risk & opportunity management is foremost taking informed decisions and applying the right valuations, while considering its desired outcomes and possible impacts in tomorrow's context. The financial sector must be an incubator and enabler: its own business portfolio is at risk if clients are not fit for tomorrow's reality. The ethical standards, the coming of the "New Economy" (with recognition of Natural Capital; payment for ecosystems services), improved public accountability by independently verified financial and non-financial reporting, enhanced product information, impact financing, and liabilities: these are all part of this new paradigm. Sustainability is not a question or niche anymore: it is a business imperative, becoming normal good practice; and the financial sector must lead!

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