

Finance – the cutting edge of sustainability

By Wayne Visser

Money may not make the world go around, but unless sustainability issues find a place on the financial agenda, our spinning earth may very well be in for a seriously wobbly future. I am referring to sustainability in the same way that the King Report on Corporate Governance in South Africa defines it – to include social, transformation, ethical, safety, health and environmental issues.

Fortunately, there are various ways in which the historical gap between sustainability and finance is narrowing. For example, financial accounting, auditing and reporting and the equivalent sustainability disciplines are coming closer together, with the help of the international standards like Accountability 1000, Social Accountability 8000 and the GRI Sustainability Reporting Guidelines.

According to KPMG's International Survey of Sustainability Reporting, which is due for release in June 2002, the Top 100 companies in each of the 19 participating countries showed that 23% of companies produced a separate sustainability-related report. 83% of these reports focused mainly on environment or HSE issues, with the remaining reports focusing on social and community issues. The analysis of the Global 250 companies produced a different picture. The results show that 45% of top 250 companies produced a sustainability-related, and that 84% of these reports focused on environment/HSE issues.

Even statutory audits should now consider the impact of environmental matters on financial statements, according to international and South African accounting standards (IAPS 1010 and SAAS 2501). Mergers and acquisitions are another interface for finance and sustainability, with due diligence assessments increasingly considering potential environmental, health and social liabilities in the course of their investigations of target entities and operations. The ISO 14015 standard is a useful reference in this regard.

And then there is the emerging financial trading market in so-called “carbon credits”, under the Kyoto Protocol, the multilateral agreement on climate change. The International Energy Agency estimates that \$30 billion of these carbon credits will be on the market for trading in 2008. For South Africa and other developing countries, restrictions on the greenhouse gas emissions of industrialized nations are creating opportunities for foreign investment in cleaner technology and sustainable development projects.

If this isn't enough to get the financial services sector interested, screened sustainability investments are also taking off. In the US, sustainability investment funds grew 82 percent between 1997 and 1999 (about twice the overall growth rate) and reached a total of \$2.2 trillion or some 13 percent of all funds under management. Growth rates in Europe are similar, riding on the success of various sustainability indexes, like the Dow Jones Sustainability Index and FTSE 4 Good Index. In South Africa, funds like the Community Growth Fund and Earth Equity Fund are leading the way.

Putting financial values on our social and environmental resources is a complex and controversial process, but it is vitally important that we persist in this field. For unless we succeed in understanding sustainability into monetary terms, and in a way that business can relate to, the integrity of our planet and welfare of its most marginalized people will continue to be allocated, by default, a zero value or something close to that. There *is* a price on our children's future and it's time we started paying our dues, rather than shifting the human and environmental costs of our negligence onto the generations to come.

Postscript

Wayne Visser is Director of Sustainability Services at KPMG. KPMG offers a variety of services that aim to assist companies to integrate sustainability issues into their business strategy, management systems, financial accounting and auditing processes.

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