High-Level Meeting on Accounting for Development

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STATEMENT OF

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Transparency to support sustainable growth

Global challenges ahead
Our future world needs to be sustainable. With a world population reaching nine billion people by 2050, the global challenges ahead are manifold. Major issues in this respect are addressed in the Millennium Development Goals. These challenges are of vital importance and need to be addressed now. Examples include the scarcity of resources (including raw materials, energy, food and water), social inequality, health and well-being and global climate change. Business responds to these challenges. For example, the World Business Council for Sustainable Development developed in its vision 2050 a pathway how business can improve the quality of life and our planet over the next four decades. The transformation ahead represents a change in mindset from thinking in constraints to creating business opportunities, in order to create shared value for business and society. Sustainability will become a strategic growth driver. This requires amongst others public-private partnerships to increase transformational innovation, inspirational leadership, and a shift from maximizing short term profit to creating long term stakeholder value. Sustainable growth will be integrated in the overall strategy and operations throughout the value chain and links economic profitability with social and environmental progress. In the Netherlands for example leading companies have established the Dutch Sustainable Growth coalition that pro-actively drives sustainable growth business models.

Trust and transparency are key to a good functioning economy
These global challenges also impact reporting. In the preparations for the Rio+20 conference there is increasingly support for a call for action for a global policy framework requiring to consider to integrate sustainability information within the reporting cycle. The call for more transparency started over 20 years ago and moves now from niche reporting to mainstream reporting. Investors started with requesting information for sustainable investment funds, with now increasingly mainstream investors wanting to gain insight in the company’s capacity to create value for the long term. Value not only in financial terms, but also in social and environmental terms as they impact financial performance in the long term. For example information in relation to the dependency of very scarce natural resources or carbon emissions that have already a price mechanism. But also on a company’s innovation capacity and the quality of its human resources, and the overarching business model covering the business strategy, risk management and corporate governance that will impact a company’s ability to sustain and create value become of more importance. High quality corporate reporting is a key element for strengthening the economic infrastructure at global and national levels, for investment facilitation and enterprise development. Financial statements are no longer sufficient, and information on these wider issues is required for a more complete overview of the company’s position and performance. Transparency on these issues therefore increases trust and therefore the willingness to do business or to invest in companies.

Reporting on sustainability in an integrated way
The International Integrated Reporting Committee was established to move towards a reporting framework to assess organizational value in the 21st century and published its first discussion paper in 2011. It was established by the Prince of Wales Accounting for Sustainability, the Global reporting Initiative and the International
Federation of Accountants and is supported by the world’s largest international organizations active in the area of accounting and reporting, business and investors. Integrated reporting aims to provide insight about significant external factors that affect an organization, the resources and relationship used and affected and the availability, affordability, quality and management of financial, natural, social and intellectual resources used to sustain and create value over time.

**The importance of building a framework to enable high quality corporate reporting covering both financial and non-financial information**

High quality corporate reporting is crucial for economic and financial stability, inclusive and sustainable economic development. Non-financial reporting often starts with voluntary reporting based on international accepted standards such as Global Reporting Initiative with incentives for organizations to improve the quality of such reporting, such as reward schemes. Non-financial reporting on environmental, social and governance issues now becomes increasingly embedded in laws or regulations from Stock Exchanges. However, high quality corporate reporting requires more than laws, regulations and standards in relation to financial and non-financial reporting. It would also require proper monitoring frameworks that monitor compliance with the laws and standards in relation to reporting in place. In addition, non-financial reporting should be included in the curricula of accountants in business and internal and external auditors and continuous educational updates need to be offered. With the current sustainability challenges accountants should be able to follow courses that support them in developing awareness of the importance environmental, social and governance issues for the long term ability of companies to sustain and create value. This is needed to create a different mindset and ability to support sustainable entrepreneurship of the future. Further there is a need for accountancy bodies that stimulate the debate around integrated reporting, and become a knowledge hub for practitioners. The framework for high quality corporate reporting developed by UNCTAD-ISAR can assist countries in their efforts of building such capacity, covering questions on the legal and regulatory framework, an institutional framework, human capacity building and the capacity building process itself. High quality reporting, using both financial and non-financial indicators and context related information provides shareholders and other stakeholders with a more holistic view of company's activities and performance. Such corporate transparency will support sustainable growth by enabling investment decisions, based on the full information of a company’s performance and more broadly, allows governments and other stakeholders to assess company's contribution to social and economic development.