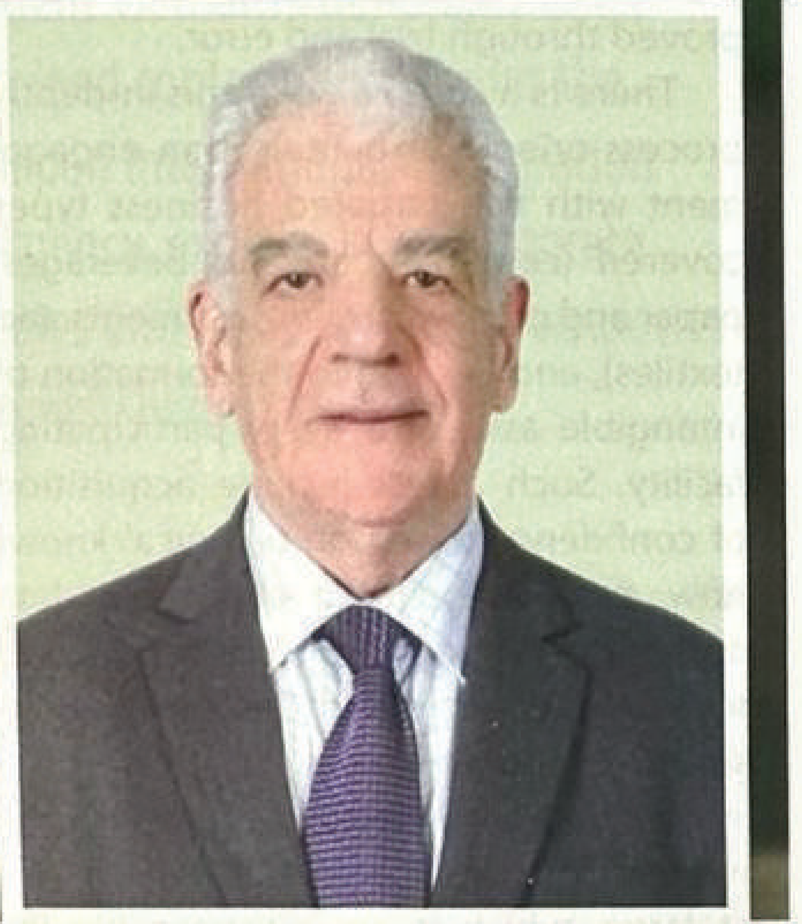
Sustainable development: responsibility for us



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Economic development has always been associated with urbanisation and this should be put into context. In 1950, the world had only reached an urbanisation rate of 30 per cent, and 2007 was the first year when more than half the world's population had moved to live in cities. In Vietnam, the level of urbanisation is reported at 38 per cent, which is the same rate as Europe was at the end of World War II.

China, on the other hand, was at this level in 2000 and has since doubled. In doing so, China has added twice the number of homes in the United Kingdom and Spain and the same number of Japanese homes. This constitutes the largest pouring of concrete in the history of our planet.

There might be some weaknesses in the real estate market today, but Vietnam will build more houses and the cities will grow rapidly - increasing efficiency, employment prospects, health, and economic growth. Above $3,000 per capita income is recognised as an inflection point for growth and China doubled from this level in just five years, and Vietnam has now reached the level of $4,000 per annum.

That growth in consumer power means more modern trade and more supermarkets - cleaner, cheaper food, and many nutrition choices and lots of new employment opportunities, but this also emphasises the negatives, such as difficulty in recycling plastic bags and other plastic containers.

From this, we can see Vietnam is a country that offers many opportunities for environmental, social, and governance (ESG) investing.

Since Vietnam's net-zero commitment made in 2021, there has been an increased focus on sustainability and ESG particularly around energy and emissions.

This sustainability will ultimately be driven by companies, investors, lenders, and by the consumer.

The global growth model is proving to be unsustainable, as we are faster consuming our resources than we can then grow them back. There is no doubt that running a profitable business has become increasingly more complex.

ESG has become a new standard in non-financial reporting and if we want to discuss the future, then we need to be aware that there is only one future that is acceptable: a sustainable one said Bruno Jaspaert CEO of Deep C Industrial Zones.

There is a strong business case for sustainability as research has shown that 80 per cent of mainstream investors consider sustainability information within investment decisions; half of consumers are willing to pay a premium for products from a sustainable brand; 40 per cent of millennial jobseekers selected one job over another because of an organisation's sustainability practices; and 70 per cent of employees report that their company's strong sustainability programme impacts their decision to stay with it long term.

Organisations commonly refer to the United Nations' Sustainable Development Goals to identify the sustainability issues that are key to their business. Aligning to these goals can help prioritise areas to ensure maximised impact.

So what can companies do to enable them to remain sustainable and meet the demands of the various stakeholders? The first step is for companies to determine which sustainability aspects are material to their business, and the good news is that there are international frameworks to help with this critical task

A four-pillar matrix is a good starting point covering ESG and economics, and the aforementioned frameworks will help identify material topics. A materiality analysis is also a recommended tool which helps analyse likely future trends and regulation, the external factors, stakeholders, and their requirements and the business model. Materiality needs to be approached from two perspectives - the opportunities to positively impact society and the risks of negatively impacting society.

So what is the business case for embracing ESG? Placing the organisation in a broader context; identifying opportunities and managing harmful developments in time; proactive and open communication to strengthen the brand; and high quality and long-term sustainable governance in order to attract capital.

A sustainable perspective also builds better relationships and keeps the organisation up to date on the demands from the external environment, while also engaging new talent and increasing productivity through motivated employees.

Looking more broadly at Asia-Pacific, climate change is projected to hit Asia hardest; the region is lagging in sustainability efforts compared to the rest of the developed world; whilst the appetite for sustainable investing in Asia-Pacific is creeping up.

Craig Martin, chairman of Dynam Capital, recently said, "As a long-term adherent to responsible investing, we use ESG as a tool to manage risk and help enhance investment returns. There are more than 1,600 public companies in Vietnam, and we need to filter those to get a portfolio of 20-30. An ESG screen is one of the ways to sort the great companies from the good, or the good companies from the bad."

Discussing ESG issues with portfolio companies can also reveal a lot about how they think about their own investment strategy, priorities, and values.

So the message to companies is more and more investors are looking for sustainability. Ultimately, unless companies implement a strong ESG framework that is both measurable and reportable, the opportunities to attract investment will diminish perhaps faster than we think.

Lenders, particularly international organisations, are similarly looking to lend to companies with long-term ESG plans and frameworks and those that measure and report reliably. At the current time, green financing can attract more favourable terms and in the long term, companies without good ESG policies and reporting will find it increasingly difficult to borrow. In addition, the regulatory environment is also moving to more accountability.

Vietnam already has some reporting requirements for public and joint stock companies, and these will increase as the country moves to IFRS standards adoption. Currently, they include a requirement for information about governance structure, business organisation, and management apparatus, as well as details of sustainable development goals and key programmes related to short- and medium-term goals.

Companies are required to state the risks that may affect production and business activities or the implementation of the company's goals, including environmental risks, natural disasters, epidemics, and more.

Management's reports and assessments must include the assessment related to environmental criteria; assessments related to employee issues and corporate responsibility to the local community; and assessments from the board of directors on company operation (for joint-stock companies), with an assessment related to environmental and social responsibility.

The company's environmental and social impact reports must include information on aspects such as direct and indirect greenhouse gas emissions; raw material sourcing management; energy and water consumption; compliance of law on environmental protection; and green capital market activities under the guidance of the State Securities Commission, which also encourages businesses to apply international reporting standards in sustainability reporting. ESG investing is not only a moral duty, but also a smart choice for both companies, institutional investors, and lenders who want to invest and lend in Vietnam.