DEVELOPING A SUSTAINABILITY CREDIT SCORE SYSTEM

ABSTRACT:

Within the banking community, the argument about sustainability and profitability tends to be inversely related. Our research suggests this does not need to be strictly the case. We present a credit score system based on sustainability issues, which is used as criteria to improve financial institutions’ lending policies. The Sustainability Credit Score System (SCSS) is based on the analytic hierarchy process methodology. Its first implementation is on the agricultural industry in Brazil. Three different firm development paths are identified: business as usual, sustainable business, and future sustainable business. The following six dimensions are present in the SCSS: economic growth, environmental protection, social progress, socio-economic development, eco-efficiency, and socio-environmental development. The results suggest that sustainability is not inversely related to profit either from a short- or long-term perspective. The SCSS is related to the Equator Principles, but its application is not driven to project financing. It also deals with short- and long-term risks and opportunities, instead of short-term sustainability impacts.

KEY WORDS:

Sustainability, risk management, lending policies, equator principles, management practices, corporate social responsibility.