Sustainability Center


Developing a Sustainability Credit Score System

Abstract:

We present a credit score system based on sustainability issues to improve financial institutions' lending policies. The Sustainability Credit Score System (SCSS) is based on the analytic hierarchy process methodology, and is used in loans to the agricultural sector in Brazil.

The SCSS is developed through the following stages: analysis of the industry selected; definition of three different development paths for the average company in the industry: business as usual (BAU), sustainable business (SB) and future sustainable business (FSB); the variables related to the firms’ activities, in each of six sustainability dimensions: economic growth; environmental protection; social progress; socio-economic development; eco-efficiency; and socio-environmental development; the combination of all the information to obtain questions for the composition of the score system; and the weights for the analytical hierarchy process.

We relate and discuss the implications of the integration of sustainability criteria into risk management practices. We argue that new internal banking practices may change, albeit marginally, the view that sustainability is a constraint on the profit function of firms towards one in which financial markets can promote sustainability because of its many linkages with the rest of the economy.