



### **Responsible and Accountable Market Actors**

*Creating dynamics with responsible market actors, accountable for new abundance.*

*Maybe an objective of Rio+20, certainly for the EU.*

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Brussels. March 26<sup>th</sup>, 2012

### **Summary**

To accelerate the *major transformation* entailed by the new financial, economic, demographic, social and ecological context private and public investors, buyers and 'confidence' guarantors with a strong leverage effect in the value chain need to take on their responsibilities, account for their own commitments and engage in dialogue with stakeholders.

Within a systemic approach, private and public market actors do have the leverage to create a scale effect, modify companies performance criteria and change business management models, types of investment and consumption patterns towards sustainable development.

To this end, an *open coordination* platform should be set up, both at United Nations level – on the occasion of Rio+20 – and at European Union level. It would be a collective intelligence exercise focused on sustainable development goals, indicators, access to information, reporting and rewarding, monitoring and verification, innovation and lifestyles, new markets. In our times marked by 'scarcity', we can thus generate new abundance through *sharing natural and financial resources and knowledge*.

**Mandatory Environment, Social and Governance (ESG) Reporting** should become the EU rule of law for both large private companies and public authorities acting as investors (including Governments as shareholders of private banks) or buyers (public procurement agencies at Governmental, Regional and Local levels). This for three strategic reasons related to the management of Europe's value chain in which neither large Companies nor Public Authorities should be the 'weak link': the resilience of Europe in a time of resource scarcity and climate change, the re-industrialisation of Europe in a Circular Economy, the need to restore citizens trust and accelerate change towards a new prosperity and decent jobs in a Good Life for all society.

In 1992, less than three years after the fall of the Berlin wall on 9 November 1989, a series of five UN conferences was launched in Rio on Planet Earth, starting with the *Environment-Development* conference, in order to discuss on governance in relation to the world issues at stake; as for the Rio+20 conference in 2012, it will take place four years<sup>3</sup> after the financial capitalism model has fallen off its pedestal, a model imposed upon peoples by a caste established in every country in the world.

The capitalist model that is familiar to us throughout the world, at the service of 1% of the global population, will undoubtedly be regarded one day just as politically incorrect as the Crusades or slavery in today's perceptions. Clearly, on a planet hosting 9 billion human beings, with ever-increasing life expectancy, the financial, natural and knowledge-based resources will be shared out for greater prosperity for all in radically different ways from what is being done today... or else we shall enter a world of greater violence. This context will certainly still be topical in June 2012. Under what conditions may we hope that Rio 2012 might be a milestone in mankind's progress?

A United Nations conference is an opportunity for achieving 'systemic' innovations. While the human community finds it hard to cope with the aftermath of the fall of financial capitalism, what would be the consequences to be addressed in 2012 in the face of the need to take a leap and carry out the *major transformation* entailed by the new financial,

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<sup>3</sup> The bank crash started in the week of 14 September 2008, after the 2007 subprime crisis.

economic, demographic, social and ecological context? The "new capitalism" glimpsed here will be based on "shared value"<sup>4</sup>, a new definition of the notion of performance<sup>5</sup>, new forms of "transparency", "dialogue", "cooperation" and "partnerships" for a "fair" and "inclusive" transition. This is a fantastic source of innovations and consequently of prosperity and abundance!

This was the theme of the Conference of *Leaders, Champions and Pioneers of Sustainable Development and Green Economy* that took place in Brussels on 21 December 2011 with the support of the French Ecology Ministry<sup>6</sup>. The avenue explored at the conference focused on 'sharing' to be done simultaneously in three closely interconnected fields: *sharing of natural resources, sharing of financial resources and sharing of knowledge*.

While Rio 1992 was marked by three international conventions (climate, biodiversity and desertification), the conference held in Johannesburg in 2002 only produced 'partnerships' which clearly did not meet expectations, for the same reasons why the follow-up to the 1992 Agenda 21 by a Sustainable Development Commission was a disappointment, namely the lack of an *accountability* system in 1992 and 2002. In English, 'accountability' does not merely refer to responsibility but also highlights the fact that you owe someone explanations about your conduct and the fulfilment of your commitments and promises. This is certainly why a number of coalitions<sup>7</sup> propose a *Convention for Corporate Social Responsibility and Accountability*. It is the same lack of accounting mechanism for one's commitments and promises which threatens the credibility of the initiatives that have been launched since then, such as the *Principles for Responsible Investments*<sup>8</sup> (PRI) which have basically failed to truly change the underlying commercial and financial models of their signatories<sup>9</sup>.

A United Nations conference is an ideal opportunity for establishing a new framework and new rules. 2012 should be the time when a new accountability system is initiated, not only for States but also – in a market economy – for its main public and private actors. This corresponds to developments in the concept and ethics of 'responsibility' and new 'accountability' mechanisms<sup>10</sup> which should be implemented: on the one hand, we should not focus on responsibility towards the past but rather include responsibility about *determining what remains to be done*<sup>11</sup> in a dual, forward-looking and interdependent perspective; on the other hand, we should have an 'integrated' approach based on sustainable development.

### Open coordination

Naturally, although we are all market actors, this UN and EU accountability system would focus on those market actors which have a strong leverage effect in the value chain. This means 'private' market actors together with 'public' market actors which, apart from their legislative power, have leverage relating to the market economy, such as public procurement or investment. These public authorities have binding 'duties' in relation to the 'common good' and to 'public goods', hence the importance of the objectives in the field of 'green' or 'sustainable' public procurement. Another point is the fact that in addition to 'buyers' or 'investors', these actors may also be 'communities of agents of change' that can act through their levers in order to mobilize buyers and investors and create trust.

These public and private market actors can accelerate the major transition needed if they are able to **invent a Collective Accountability Systemic Review System (CASRS) to enter into a dialogue with stakeholders and report to them in order to make progress towards sustainable development**. A statement of fact – and a source of regret – is precisely that over the past twenty years, too little has been done by civil society to "activate market levers". The initiatives taken in the field of procurement (such as fair trade) or "socially responsible investments" have remained niche markets.

The *CASRS system* should therefore involve: (i) major public buyers (public procurement from governments, cities and regions, for example) and private buyers (through their purchase of products & services, including in the financial and advertising fields, or the guidelines that they impose on their suppliers), (ii) both public and private financial institutions, (iii) large 'communities' or societal organizations which are also stakeholders on the market or may have an impact on

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<sup>4</sup> *Creating shared value*. Michael E. Porter, Professor at Harvard University, and Mark R. Kramer, senior fellow of the CSR initiative at Harvard's Kennedy School of Government, co-founded FSG.

<sup>5</sup> *The Performance Economy*. Walter R. Stahel. Ed Palgrave. Second Edition, 2010.

<sup>6</sup> For further information, see [www.epe.be](http://www.epe.be)

<sup>7</sup> Two initiatives were launched by coalitions, respectively the Stakeholders' Forum and Aviva.

<sup>8</sup> Principles for Responsible Investments (PRI)

<sup>9</sup> The study entitled "Sustainable development? A review of investment principles – trends and impacts" (Just Economics & IIED – 2011) is quite enlightening in this respect.

<sup>10</sup> Myriam Revault d'Allonnes, "Le développement durable : quels enjeux philosophiques" in *Vraiment Durable* n°1 – 2011/12, p 36.

<sup>11</sup> Ibidem, p 37.

the market or on 'trust' (the community of signatories of CDP<sup>12</sup>, PRI, networks of cities and regions, university and college networks, TV channels, press, religious<sup>13</sup> and philosophical communities, major NGOs, bloggers, etc.).

There are multiple issues at stake: ensuring a scale effect for these 'niche markets' while creating a framework for greater transparency and traceability, changing 'performance' criteria and having an integrated approach within the value chain – hence the importance of the concepts of "contributive democracy"<sup>14</sup>, responsibility about the "*binding capacity to act*"<sup>15</sup> and "transformative partnership". The objective is also to 'reintroduce' a number of topics in 'performance' criteria, such as common goods, collective rights, the 'sustainability' of products, sustainable consumption patterns and a long-term perspective.

## Resource sharing

Sharing resources in three fields (*sharing natural resources, sharing financial resources and sharing knowledge*) implies a 'positive' and even optimistic vision, in spite of the huge challenges ahead. This positive vision should be developed along the triple lines of "a desire for growth", in keeping with a philosophical approach: to grow in terms of our capacity to manage complexity, to grow in terms of human awareness of our interdependency and what it brings as new forms of freedom and abundance, to grow in our prosperity, ethics and joy of life. A new vision is also taking shape with regard to a "*less self-centred individual, better aware of interdependencies*", the "*me-us*"<sup>16</sup>.

Sharing natural resources should be based on a leap concerning all types of innovation: technology, business model, use patterns. There is therefore an essential link to be established with the sharing of knowledge and innovation. This process no longer occurs along a North/South line but also along a South/South and a South/North line. Such an investment in a low-carbon, resource-efficient society actually implies a different management of financial resources.

Sharing financial resources involves a moral revolution coupled with legislative incentives. The financialization of the economy, with an 80% automation of stock exchange trade orders and a processing time in the region of a millisecond together with disgraceful salaries and bonuses, clearly raises an ethical issue. The revolt of indignant citizens against the elites that have built up or supported the current unfair, ineffective system, reminiscent of other revolutions in past centuries, is an ethical awakening. The development of extra-financial reporting is expected. Here again, the objective is to go beyond the "*comply or explain*" concept and make reporting mandatory. In addition, apart from the moral aspect, it is in the interests of financial circles themselves to better take into account the financial risks that global imbalances (e.g. climate) present to their business portfolios (loans, investments, etc.), better take up the green economy opportunities and support them in the context of poverty eradication and the development of new technologies and services. All things considered, the 'trust' to be rebuilt will also benefit.

In the three fields of natural resources, financial resources and knowledge, 'sharing' involves a new cooperation method. Ethical rules within the framework of globalization are essential. Ethics and efficiency come together to underline that lying, a fairly harmless problem in a limited group, becomes a scourge in large social organisations such as the one we need for organizing 'sharing'<sup>17</sup>. This is why steering, control and reporting issues together with rewarding schemes are crucial at European and global levels.

Likewise, the new tools which the information society puts at our disposal have deeply changed the context of the empowerment issue since 1992, when sending a single mail was a whole adventure. The Internet revolution and its aftermath, such as new approaches like 'crowd-sourcing' (open outsourcing), the role played today by bloggers as trust builders<sup>18</sup> and other B2Bs, have transformed the market. The whole potential to steer it towards sustainable development is still largely lying fallow!

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<sup>12</sup> Carbon Disclosure Project, a community of investors asking businesses to report on three themes: climate change, water and wood.

<sup>13</sup> An example would be the leverage effect of all the relevant market players which would implement the roadmap proposed to them, either through "The Islamic principles relating to the conservation of the natural environment" by King Abdul Aziz University in Djedda, 1983, or through the *Caritas in Veritate* Encyclical by Benedict XVI, 2009.

<sup>14</sup> A phrase from Gilles Berhault, President of Comité 21 France.

<sup>15</sup> Myriam Revault d'Allonnes, *ibidem*, p 37.

<sup>16</sup> *La ré-alliance. Il y a une suite à notre société individualiste*, Françoise Bonnal. Ed. Payot, 2008.

<sup>17</sup> Teilhard de Chardin, *L'Avenir de l'Homme*. Ed. Seuil, 1959.

<sup>18</sup> Summer university 2011, ACIDD.

## Shared values

This is a time when responsible citizens, within the framework of a concerted approach among market actors about the definition and indicators of performance, should push for the introduction of shared values, business models, rewarding schemes and the issues pertaining to a *new humanist synthesis* for a fairer, more fraternal world: (i) interdependency and solidarity, one planet=one country; (ii) recognition of needs and the universal human access rights to healthy food, water services, energy, shelter and participation; (iii) environmental footprint, the water-food-energy-raw materials-climate nexus; (iv) protection of common goods; (v) consumption patterns and lifestyles; (vi) sharing land resources and managing territories; (vii) sharing financial means; (viii) sharing immaterial resources and knowledge.

Given the issues at stake, the Rio+20 process should be an opportunity for the world and for Europe to create a 'new human impetus' which should first develop in people's hearts. It should also be an opportunity for focusing and mobilizing citizens' energy on the levers for 'new growth' and new 'abundance' which are actually made possible by sharing as well as by the vision of a circular economy, the capacities of the information society and the new business models, including financial ones. To share this new impetus – this desire for growth – and the potentialities for this new abundance, a new mechanism should be created for "sharing ideas, ambitions, problems and resources" on the basis of "two distinct though joint centres for action"<sup>19</sup>: a cooperative management centre for complexity, an awareness-raising centre for the need for human solidarity and a fair transition. This would be the role of the collective accountability systemic review system (CASRS) for reporting and dialogue that should be established at world and regional levels (including European level).

Transforming the Sustainable Development Commission into a United Nations Council for Sustainable Development and launching a draft convention on the accountability of public and private market actors should be able to create a virtuous circle. As a first step, without waiting for a convention to be adopted, a dialogue and reporting process to the UN should be set up. This process should be common to the initiatives already in place in terms of analysis of sustainable development performance, though they are set on parallel tracks. This is the case for the *World Pact*, the *Principles for Responsible Investment*, ISO 26000, the *GRI* and *CDP*<sup>20</sup> now coordinated initiatives, or the evaluations carried out by sustainable development rating agencies such as the Dow Jones Sustainability Index or Vigeo.

## Five pillars

The initiative to establish a Convention at United Nations level should be relayed by regional initiatives such as those which the European Union should take. More specifically, the EU should have its own CASRS managed by the *Transition Platform* announced by the Commission<sup>21</sup>. With the events generated by the debt and euro crisis, the European Union has lost a great deal of its lustre and international influence in the face of emergent countries; it has a number of assets to turn to good account at international level if it can – faster and better than the others – propose new governance models that can foster the sharing of the three above-mentioned types of resources. This is why we need a European CASRS.

This system – with monitoring, reporting, verification and rewarding mechanisms – should be based on five 'pillars':

1. *Objectives*: Specific sustainable development targets and timetable, including sustainable consumption goals, which would incorporate and expand the Millennium Objectives. The sustainable development goals would be based on: (i) recognition of universal human needs and the access rights to food, water, services, energy, shelter and citizens' information and participation, (ii) new accounting rules.
2. *Access to information*: a United Nations convention on access to information in the environmental field (a world Aarhus Convention – a proposal supported by Brazil), but also in all social fields, particularly human rights. This convention should be more ambitious than the Aarhus Convention in the sense that it should be set within the new context of the knowledge-based society and a cooperation project.
3. *Reporting and rewarding*: a United Nations convention on corporate responsibility, including finance, performance rewarding schemes (bonuses, stock options, etc.) in connection with environmental, social and governance criteria (ESG).

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<sup>19</sup> Teilhard de Chardin. *The Future of Man*, chap. 13 "The human rebound of evolution and its consequences", Trad. Norman Denny, Ed. Image Books Doubleday.

<sup>20</sup> Linking up GRI and CDP, 2011.

<sup>21</sup> *EU Resource Efficiency Transition Platform* – Communication concerning the roadmap to a "Resource-Efficient Europe", COM(2011) 571 final.

4. *Monitoring and verification*: a system which would be supported by governments, UN agencies and environmental agencies and would be provided in particular by sustainable development rating agencies.
5. *Dialogue*: a virtuous circle would be started and amplified by dialogue – on the basis of reports – among interested parties. It would be initiated by the *Sustainable Development Council* at UN level, the *Transition Platform* at EU level and the open coordination multi-stakeholder platforms within the value chain in specific areas/fields such as the energy-food-raw materials-water nexus, oceans, transports, finance, urban development, sustainable lifestyles and youth.

### **ESG Mandatory Reporting.**

At EU level, Integrated reporting should be made mandatory for large Companies and ESG reporting should be mandatory as well for public authorities when they act as market actors, as investors or as buyers. And this for three strategic reasons of utmost importance for Europe.

Firstly : *'Perspectives on the Limits of Growth: It is too late for sustainable development'*. This is the title of Dennis Meadows conferences<sup>22</sup> 2012 celebrating the 40st anniversary of the 1992 first report to the club of Rome *'Limits to Growth ?'*. For him, the world agenda should now be 'resilience'. For others we need 'system change'<sup>23</sup>. Europe needs to prepare itself. Such 'resilience' will largely depend on the value chain management where large Companies and Public Authorities acting as market actors have key leverages and a key role to play. Both should not be the 'weak link'.

Secondly : The EU is re-discovering the need to welcome Industry. In several EU Member States 're-industrialization' is on the agenda. This is a new context and opportunity for Europe to leapfrog: the need to move, as China also seeks, towards a 'circular economy' , post-carbon and with zero waste. There is an extraordinary potential for new business, new jobs, better quality of life , better implementation of European environmental legislation and increase of European competitiveness on the global 'green and blue' economy markets.

New business models will help us better manage the value chain, the nexus food-energy-raw material- water-climate, to accelerate change and deliver new construction, food and mobility solutions. To do justice to the magnitude and urgency of changes, we today refer starkly to the Resource Efficiency Revolution, the Bio-Economy Revolution, the Third Industrial Revolution and the Financial Revolution as well as a Good Life for All agenda. It requires a new approach of land use, smart metering and monitoring systems. It will require to identify resource flows, bottlenecks, upscale best practices, improve the use of secondary materials and urban mining, new ways to protect natural resources and guarantees to preserve natural and cultural heritage. It raises the need for all to think out of 'silos', and innovate from design systemic changes to products. Large Companies and Public Authorities acting as market actors here also need to fully embrace their responsibilities and report.

Thirdly : Companies and Public Authorities acting as Market Actors have interest to restore trust and not let the laggards dictate the pace of our transition to a new economic , social and cultural development model. By making ESG mandatory the EU will raise the bar, encourage innovation, decent jobs and new business models, accelerate change along the value chain towards a new prosperity and a Good Life for All in an inclusive society.

### **New forms of governance**

Truly sustainable forms of governance? In the space of twenty years, we have made progress, but not fast enough: the business world itself proposes a vision towards a 'sustainable' world (notably, the Vision 2050 report<sup>24</sup>) which highlights the need for fundamental changes, particularly within governance structures and the economic and business framework.

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<sup>22</sup> See youtube

<sup>23</sup> It's too late for sustainability. Nicola Bullard.

<sup>24</sup> *Vision 2050*. WBCSD 2010.

The OECD<sup>25</sup>, UNEP<sup>26</sup> and Mc Kinsey<sup>27</sup> propose strategies while genuine 'revolutions' are undertaken as regards the efficient management of resources<sup>28</sup>. In Europe, development is enshrined in the European Union Treaty<sup>29</sup>. In several countries such as Germany or Sweden in Europe, South Korea and China which has taken the lead in the competition for a green economy<sup>30</sup>, a new development model is being built, to be used for replacing the obsolete model. Recently, the new WBCSD president Peter Bakker<sup>31</sup> identified the new priorities as follows: creating a scale effect and changing the corporate performance evaluation schemes. This is in line with the appeals made during the Davos World Economic Forum<sup>32</sup>, particularly those from the United Nations Secretary General calling for a 'revolution'<sup>33</sup>.

However, existing governance mechanisms at European level do not meet the needs. New open coordination mechanisms are absolutely essential, particularly in four areas: (i) the financial architecture, including the taxation system, long-term investment conditions and EU exposure to carbon-intensive investments which may constitute systemic risks for the financial system; (ii) the objectives set at world and European levels (public authorities and companies), especially in the fields of climate, energy, efficient resource management, sustainable consumption and ecological footprint; (iii) strengthening resilience in Europe and the management of systemic risks linked to the water-energy-food-raw materials nexus and the 'scarcity' problems for a number of natural resources and climate risks; (iv) innovative public/private/civil society partnerships among Europeans as well as between Europeans and the other regions of the world, for which an *eco-system for innovation* should be established<sup>34</sup>. This should be the case, in particular, for cooperation between the UE and – say – China, just as for partnerships on *poverty* and *green economy* in several areas such as access to electricity via renewable energies.

New processes have been introduced to mobilize stakeholders, such as the *Grenelle de l'Environnement* in France, the 'Covenants' in the Netherlands and the *Covenant of Mayors* at European level. In the EU the Commission has launched partnerships for innovation. But it won't be enough! It has been proposed (unsuccessfully) to the European Council President, the European Commission President and the EU Danish Presidency, on the model of the Grenelle de l'Environnement in particular, to launch a negotiation for a *Multi-stakeholder Agreement for Good Life for All in an Inclusive Europe*.

If we are serious and determined to accelerate the great transition, if Rio+20 produces a roadmap for green economy and sustainable development and if the European Union wants to accelerate the implementation of its own roadmap, the Europe 2020 Strategy, a CASRS will be the driving force for acceleration, the place for dialogue around a new *Societal Pact*<sup>35</sup> made necessary by shifting to a low-carbon, resource-efficient economy and responding to the financial capitalism crisis. The CASRS will also be the place where new objectives will emerge from the grassroots while being the lever for systemic innovations and redirecting finance towards a long-term perspective as well as the lever for shared values and new prosperity. It is no longer enough for us to be content with doing what we can on our local patch, working in silos or within the framework of a bilateral dialogue or a business/NGO partnership<sup>36</sup>. We must be part of an *open coordination* system linking the initiatives from the top and those from the grassroots, we must be part of the management of the whole *value chain*, both upstream and downstream... without forgetting the weakest link. We are all interdependent and we must learn to manage this interdependency in order to better share out the three types of financial, natural and knowledge resources, (re)creating abundance and ensuring prosperity for all.

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<sup>25</sup> *Green Growth*. OECD 2011.

<sup>26</sup> *Green Economy*. UNEP 2011

<sup>27</sup> *Resource Revolution: Meeting the World's energy, materials, food and water needs*. McKinsey, November 2011.

<sup>28</sup> *The Seven Revolutions*. Resource Efficiency Alliance opinion on the EU Resource Efficiency Roadmap. [www.epe.be](http://www.epe.be)

<sup>29</sup> Since 1992, the EU Treaty has laid down that one of the Union objectives is to work for Europe's sustainable development based in particular on a high level of environmental protection and improved environmental quality. Sustainable development is also considered as one of the fundamental Union objectives in its relations with the rest of the world.

<sup>30</sup> See WBCSD. Bjorn Stigson "For progress to be made, there needs to be much closer collaboration between government, business and NGOs, which will lead to the Chinese and Western systems starting to converge".

<sup>31</sup> European Social and Economic Committee. *Go Responsible*. 2/2012.

<sup>32</sup> *More with Less. Scaling sustainable consumption and resource efficiency*. WEF 2011.

<sup>33</sup> "We need a revolution, revolutionary thinking, revolutionary action, a free-market revolution for global sustainability. It is easy to mouth the words 'sustainable development,' but to make it happen we have to be prepared to make major changes in our lifestyles, our economic models, our social organization and our political life. We have to connect the dots between climate change and what I might call here WEF: water, energy and food". Ban Ki-moon.

<sup>34</sup> See the opinion of the Resource Efficiency Alliance ([www.epe.be](http://www.epe.be)) about the partnership on "Innovation and Efficient Water Management" launched by the European Commission under the flagship initiative "Innovating Europe" (2/12).

<sup>35</sup> See for example *World in Transition. A Social Contract for Sustainability*. German Advisory Council on Global Change, 2011.

<sup>36</sup> This is why it is becoming so important to be involved in a 'value chain', a type of participation encouraged by the CASR.