# Sustainability reporting in financial institutions in line with GRI: *Bangladesh Perspective and International Experience*

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## Abstract

Sustainability is both an environmental issue and a multifaceted factor that considers socio-economic performance and issues include human rights, labor practices, society, governance, products and services, community, and corruption. A sustainable world economy should not be deemed a luxury. The absence of a sustainable model for business causes environmental and social factors to continue bearing a justifiable impact on the economy and compromising our future demands. Not only the planet but also the society requires a sustainable economy of the world. Similarly, organizations require long-time strategies for success in the first place. How should it begin to occur? The adaptability to a sustainable economic setup needs to see organizational changes that require the setting of specific goals and appropriate steps as to its movement ahead. The study contributes to the social disclosure literature; in particular, developing countries financial sector context seeing as it disseminates evidence of the standing on social disclosures practices at the level of GRI Bangladesh perspective and international experience.

**Keywords:** Sustainability Reporting, Global Reporting Initiative, Bangladesh, International Experience.

## Introduction

A variety of frameworks or models such as the GRI, the 2000 WRI (World Resources Institute), and the ISO 14001 (Internationally Standards Organization) for reporting corporate social responsibility (CSR) are recognized as the reporting tools for a corporation's social responsibility performance (Reynolds and Yuthas, 2007). Despite, the GRI framework is still considered as the most inclusive framework (Willis, 2003) that follows widespread uses as an underlying framework to dictate the coding rules critical to the content analysis of annual reports for countries, including both the developing and developed. GRI guidelines within financial institutions focus on promoting the financial sector's key responsibility of enhancing sustainable development.The triple bottom line is the foundation of the GRI (Elkington, 1997) which introduces a reporting and social accounting framework offering a detailed sustainability reporting system using a global, multi-stakeholder process.

## Background of the Study

The 21st century is on the eve of a prototypical shift in the existing reporting standards. Social awareness and global environment are changing significantly and giving challenges to organizations which are to take care of more than just financial performance to facilitate their business. Entrepreneurs are now realizing the need for integrating environmental and social affairs within their business strategies (Kumar and Devi 2015). With the growing concerns about the environment and social issues worldwide, multinational banks, corporations, and financial institutions consider sustainability reporting as a mainstream activity.

## Literature review

The literature review chapter opens with a discussion on research that explains the theoretical underpinnings of the sustainable banking approach and its practical applications. This is followed by a discussion on the interpretation and implementation as well as Summary of Relevant Articles of sustainable banking in the context of Bangladesh and world.

Throughout the past decade, the number of organizations that provide environmental information is on the increase (Deegan and Gordon, 1996; Kolk, 2003; KPMG, 1999, 2002; Peck and Sinding, 2003).

Nieminen and Niskanen, (2001; Russo and Fouts, 1997). Otherwise spoken, there has been an emphasis on the characteristics of the companies reporting environmental information and the correlation between financial performance and such reporting. The next stream of research is about the content of the reporting, or what is actually being reported (e.g., Guthrie and Parker, 1990;

Niskala and Pretes, (1995). The third stream, which is relatively new, deals with the "how" or the reporting medium. Most of the studies under this stream look (Gordon, 1996) next phase of reporting.

Business Today (Anonymous, 2001) conducted a comprehensive survey of the environmental practices of India's largest companies. Approximately, 42% of those companies procured ISO 14001 certifications, 60% maintained environment departments separately, 94% had environmental objectives in place, 70% maintained internal environmental audit systems, and 60% had facilities for environmental reporting systems. The senior environmental officers submitted their reports directly to the CEOs in around 40% of the companies. Corporations have changed the way they report environmental information. Although in the past, corporations used annual reports to impart such information.

(Branco, 2006). IFC (2007) found that: (a) individual banks were required to devise their individual business case for maintaining sustainable banking, (b) many banks integrated sustainability primarily due to reputation and branding ambitions (c) the benefits outweighed the costs and social and environmental risk management improved the quality of a bank's portfolio and lowered insurance liabilities and compensation claims. Douglas (2008) found four key findings: (a) banks are increasingly discussing climate change business opportunities in their annual reports, (b) twenty-eight of the forty banks have calculated and disclosed their greenhouse gas emissions from operations, (c) growing demand for climate-friendly financial products and services is leading banks into new markets, and (d) investment banks have taken a leading role in supporting emissions trading mechanisms and introducing new risk management products. Other findings indicated that the Equator Principles contribute to long-term sustainable investment.

(Evangelinos, 2009). They have low compliance level with the Global Reporting Initiative (GRI) and the Deloitte Touché Tohmatsu (DTT) guidelines, scoring less than 50% by each scoring system (Evangelinos, 2009).

## Sustainability

Sustainability involves the economic, environmental, and social policies and subsystems within the global setup, in which the existing needs are satisfied without having to affect the future generations' ability to satisfy their requirements. Two distinct words, such as 'Sustain' and 'Ability,' make the word 'Sustainability'. The meaning of the word, in the fundamental and original sense of the term, is: "the ability/capacity to sustain."

## Sustainability Reporting

An organization can accept Sustainability Reporting as a pivotal tool to set its goals, track progress and handle sustainability. Sustainability Performance Reporting of an organization may provide both internal and external stakeholders an understandable idea of the impacts while increasing the expertise and improving their performance. Such reporting lets the organization step towards a prosperous, sustainable future. The daily activities of organizations cause different effects pertaining to the social, economic, and environmental areas. A sustainability report is, in a word, the record of these impacts. Such a report also presents the values and governance model of the organization and illustrates the correlation between its policies and commitment to a sustainable global economy. Different names can be given to sustainability reporting, such as triple bottom line reporting, non-financial reporting, CSR reporting, and more.

## Why sustainability reporting

As per the definition of GRI, "a sustainability report enables companies or organizations to report their sustainability information in a method that is almost identical to the one used for financial reporting. Sustainability reporting, if it is systematic, provides comparable data along with relevant metrics and agreed disclosure."

Many organizations are found to include their social and environmental information in public reports to address the stakeholders' demands for additional information in order that well-informed decisions can be made on an organization's performance. Organizations (commercial institutions, schools, NGOs, and SMEs) are opting to report their sustainability approaches for multiple reasons. A useful sustainability reporting cycle should help all reporting organizations.

## What is GRI

The GRI is an organization with the top priority when it comes to sustainability. GRI suggests organizations to adopt sustainability reporting as a way to become more sustainable and contribute to sustainable development. A sustainable global economy should combine long-term profitability with ethical behavior, social justice, and environmental care. It means that when companies and organizations consider sustainability – and integrate it into how they operate – they must consider four key areas of their performance and impacts: economic, environmental, social and governance.

## Structure of GRI

The Global Reporting Initiative (GRI) is a global nonprofit organization incorporating a networked structure and a Collaboration Centre of the United Nations Environment Program (UNEP). GRI's Board of Directors is to take the ultimate responsibility for the GRI.

## Scope of the work of GRI

GRI operates within an open global network comprising all people and organizations with enthusiasm in sustainability reporting. This synergetic network includes representations from different corporations, governments, consultancies, business associations, accountancy organizations, rating agencies, research institutes, universities, and other non-governmental organizations. They contribute to the ongoing progression of the Sustainability Reporting Framework of GRI.

## Sustainability Report: who will prepare

Companies, organizations, and institutes of all sectors, sizes and types based in any corner of the world, may create sustainability reports. All companies or organizations can use GRI's guidance that can contribute majorly to building the future of organizational reporting. Thousands of companies and organizations in all segments have managed to publish reports that contain the disclosures explained in the GRI Sustainability Reporting Framework and Guidelines. At present, public authorities along with non-profits are also remarkable reporters.

## Sustainability Reporting with GRI Bangladesh Perspective

Now, sustainability reporting has become a mainstream activity among the financial institutions globally, but most of the banks in Bangladesh are not practicing the reporting system known as Independent Sustainable Reporting (ISR). Sustainability reporting is a method of reporting as regards to an organization's social, economic, and environmental performance. Each bank has to publish the reporting following the international standard of Global Reporting Initiative (GRI), but none except a few are abiding by the rules.

A recent survey of Bangladesh Institute of Bank Management (BIBM) disclosed the information at a seminar on "Sustainability Reporting Practice in Bangladeshi Banks" and "Fund Transfer Pricing in Commercial Banks in Bangladesh." Among 59 scheduled banks, only three –Prime Bank, Bank Asia and Mutual Trust Bank – published the sustainability report independently following the guidelines of GRI. Bangladesh Bank released a circular focusing on green banking in February 2011 that directed all banking organizations to build sustainability reporting system in accordance with the global standard by December 2013. Only seven followed the central bank's instruction of which three completed the sustainability reporting independently in 2015. The GRI guidelines on sustainability reporting bank's performance on 16 issues including employment, health and safety, management relationship, education and training, equal opportunities and diversity, remuneration regardless of gender, and grievance according to GRI direction. Here 96 percent inter-branch transactions are managed through manual transfer processing while only 4 per cent transactions are happened through online calculator, 58 percent inter-branch transactions are dealt without following any guidelines. Sustainability reporting target would not be achieved without skill development of the bankers. The banks should follow GRI guideline in annual reporting and should present it at AGM for review. In Bangladesh, the banking sector is believed to be established in an industry that is relatively environmentally friendly (with regards to carbon emissions and contamination). Nevertheless, environmental impact from banks is related to customers' activities rather than the activities of themselves. Banking sector has been one of the vital sources for investment for most commercial projects that are some of the most critical economic activities to bring in economic prosperity and encourage investment and appropriate loans which are environmentally responsible.

Bangladesh Bank published a circular on Green Banking Policy Guideline on 27 February, 2011 (BRPD Circular No.2) suggesting, *"to adopt a comprehensive Green Banking Policy in a formal and structured manner in line with the global norms so as to protect environment degradation and ensure sustainable banking practices."*

Green Banking involves two branched initiatives: Green banking emphasizes the green adoption of the internal activities of banks/FIs, and all banks/FIs are to use automation, renewable energy, and other steps wisely and thoughtfully to minimize* carbon footprint (**an estimate of the impact of climate change due to activities, such as leading a lifestyle, running a company, or making a product*) from banking activities. Secondly, all banking organizations should adopt financing methods that are environmentally responsible; measuring environmental factors and risks of projects before any financing decision, and in particular support for the development of ensuing 'green' projects and initiatives. As in BB's circular, green banking comprises three phases, and banks ought to create sustainability report based on the standard format with a solid external verification under the GRI guidance.

## First sustainability report in banking sector under GRI G4 in Bangladesh

Prime Bank Limited has become the pioneer with foresight in public announcing its pledge to sustainability by releasing the maiden G4 Sustainability Report in Bangladeshi banking sector in March 2015. Prime Bank has accomplished the 'Materiality Disclosure Service' and received permission to adopt 'Materiality Disclosure Service Icon' from the GRI, the Netherlands, and the first time in Bangladesh.

## Sustainability Reporting and Bangladesh

In Bangladesh, no study on the effects is conducted although some companies and banks have already attempted to make their sustainability report and receive outstanding global recognition by now. To assist, develop, measure and report the implementation of CS, Bangladesh has the need for an organization that is independent with the vision and pledge to implement and develop sustainable development by dint of sustainability reporting process.

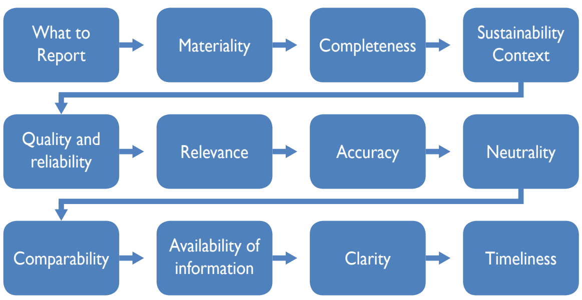
## Sustainability Reporting in Bangladesh: Legal Status

In the last several decades, environmental pollution has emerged as a common issue in Bangladesh. The country's major rivers are located in vulnerable conditions, and in the capital Dhaka; the Buriganga River, the only river within the capital city, is highly contaminated. The city suffers air pollution that leads to an alarming situation. In 1989, the Ministry of Environment and Forests was established, and Bangladesh Government is having a strong focus on the environment mainly due to the ongoing pressure from stakeholders, including both regional and global bodies. In 1995, UNDP started offering its support to a National Environmental Management Action Plan; in that year, Bangladesh Environmental Conversion Act, 1995 was formally declared. New industries have been established by the Act. These industries have to collect clearance from the Environment Department. The companies are required to disclose relevant information when asked.

## GRI Reporting Principles

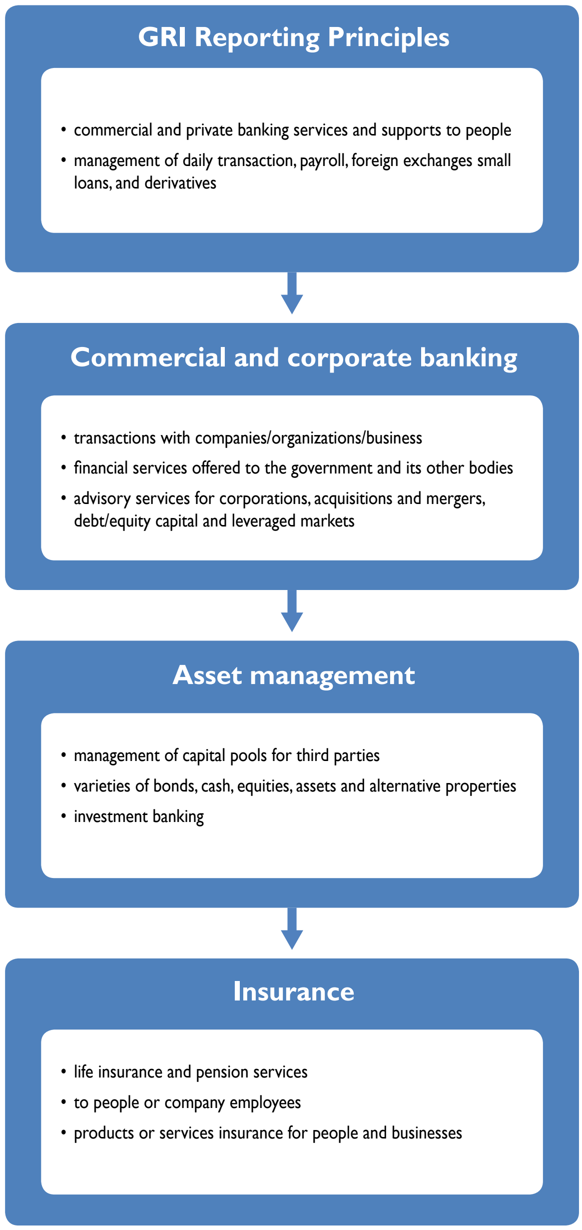
The GRI reporting principles are supposed to guaranteeing that the reports would provide an authentic presentation of the reporting organization's economic, environmental and social status. The principles are further expected to accelerate timed comparability between several organizations. The reporting principles identified by the GRI are considered critical to the production of a balanced and credible account of the economic, environmental, and social performance of an organization. According to the GRI Guidelines, stakeholders are entities/individuals that are expected to be affected significantly and reasonably by the activities and products or services of the organization.

***The GRI reporting principles can be illustrated with the following diagram***




The Financial Services Sector Supplement (FSSS) has been developed covering G3 Guidelines with three additional groups of information. The first group includes sector-specific commentary on the current G3 Guidelines. The second group covers commentary on the performance indicators of the existing G3 directions. The third one presents an entirely new collection of sector-specific disclosure on performance indicators and management approach. The introductory section is the principal element of the first information group. To create the FSSS, the financial sector has been categorized into four parts, such as commercial and corporate banking, retail banking, insurance and asset management.

***The outline of each category's role and definition has been given in the following diagram.***



## Sustainability Reporting with GRI: World Perspective

The financial sector is necessarily the set/combination of organizations, tools, and the regulatory framework which allows transactions through incurs and settlement of debts by expanding credit. The financial system facilitates the separation of the wealth ownership from the grasp of the physical capital. FIs maintain the financial sector that has a crucial role to play in promoting sustainability reporting. A wide variety of organizations that manage the finances are encompassed by financial services that have a pivotal part in shaping the overall environmental activities of different other industries. If the need for sustainability reporting is recognized by financial services, the agenda of global sustainability will be hindered rather than advanced.

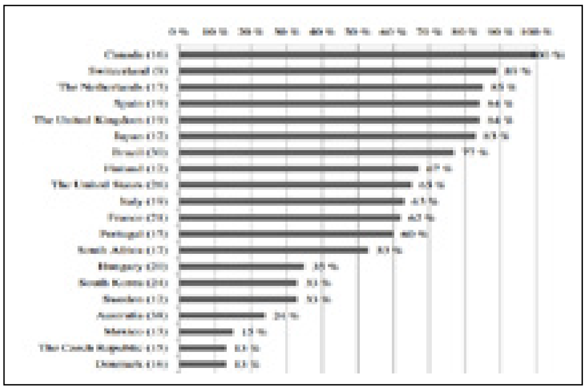
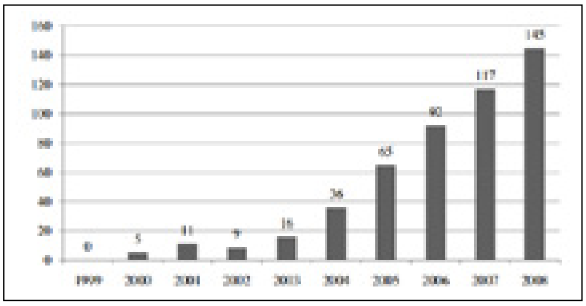


*Figure- Financial services sustainability reporting by country*

The majority of financial services in Canada and Switzerland report sustainability issues. In 2008, all of Canada's 16 services published sustainability reports. Spain and the UK are also among the top countries from Europe. But, the presence of Brazil and Japan among the top ten countries is a surprise to consider. The percentage of sustainability reporting in financial services is quite low in Sweden and Denmark.

## Financial Services and GRI

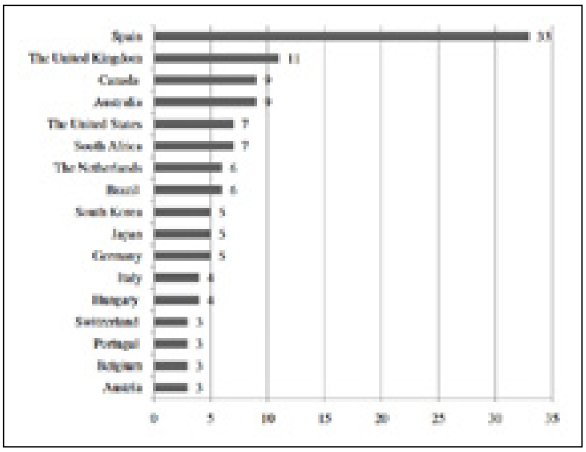
Since 1999, Global Reporting Initiative has been listing all GRI sustainability reports to follow the sustainability reporting spectrum today. The list is maintained and updated weekly considering the reporting organizations, general processes of searches and application level checked reports. Although GRI aims at providing correct information in its reports list, it disavows its responsibility for the completeness and accuracy of the information put in the list. However, GRI happens to correct any errors if detected or brought to the attention. A time-related context can be used to compare the use of GRI in the financial services. The diagram below presents the number of GRI sustainability reports released by financial services from 1999 to 2008:



*Number of GRI based reports by financial services in 1999–2008*

Although GRI reporting has a slow start in the beginning of the 21st century, the adoption of the reporting within the financial services has experienced a significant raise in recent years. It is clearly evident that the second guidelines set in 2002 (G2) was the catalyst and major contributor of the increase in the GRI reports number released by the financial services. A steady growth has been noticed after 2002. While the data collection process from 2009 is still in use, an increased 150 financial services will report their sustainability issues following the GRI Guidelines.

GRI reporting in 2008 from financial services can be viewed closely by first considering the geographical expansion. Financial services representing 35 countries report their sustainability issues adopting GRI. The diagram below presents the number of reports released by countries.



*Country wise comparison of GRI reports by FIs in 2015*

Although the graph represents every continent of the world, European countries are dominant when it comes to the GRI based reporting of the financial services. The number of reports released by Spain is quite remarkable. One of the primary reasons is the number of banks operating in only a communal area or city. Still, there has been a considerable amount of interest in GRI based sustainability reporting among the Spanish financial services. Some minor banks have been reporting quite extensively.

## Implementation of Sustainability Reporting: The Challenges

**Awareness:** Many accountants do not regard sustainability as a relevant part of their job. Therefore, the first step should involve the development of awareness about the professionals' crucial role and supply of further resources and provision for training at all levels so that they can incorporate these matters into works.

**Quantifying the Qualitative:** Many difficulties are involved in the estimation of the costs of different environmental and social matters across the complete lifecycle of a particular product or process. Banks and other financial organizations sometimes face more difficulties in this regard.

**Transition from costs to revenues:** Environmental values and initiatives need to be viewed differently and should not be viewed as just costs to be reduced or suffered whenever possible. Companies have to determine the benefits, and practically profits, that ultimately correspond to the expenditure that need to be incurred for better social and environmental performance.

**Consumers:** Responsible companies are to work alongside competitors that often set the prices of their products below the production costs, discounting the environmental and social costs. Sometimes, companies that set the price of their products/ services determining social and environmental costs are likely to suffer unless consumers take this into their purchasing considerations.

**Traditional accounting systems:** Traditional accounting system does not allow environmental data, such as waste management, compliance with insurance or laws to be separately evaluated or identified. More reliable data, information collection system and methodologies are required to integrate these factors into the final decision.

**Assets vs. Costs:** In accordance with traditional accounting systems, end-of-pipe technologies used for reducing environmental impacts have been accounted for assets, while efforts to diminish pollution sources seem to be costs. Similarly, investments made for development and training are accounted for costs, while the collective experiences and knowledge are not considered and recorded as an asset.

**Short-term vs. long-term:** Accounting practices and mentality need to be shifted to concentrate more on the long-term effects. This is quite the opposite to the likely short-term consequence of decisions. The major challenge is to incorporate less tangible and longer-term social and environmental costs into balance sheets instead of measuring short-term merits with tangibility.

**Information not tracked adequately or not available:** Oftentimes, the available information is not precise or detailed enough to be in use for decision-making. The information is not always collected but stored in the different divisions of the company without the accountants' knowledge.

**Comparability of data:** Disclosures on sustainability matters are often difficult and inconsistent. So, the disclosures cannot be compared across a single industry. All sectors are familiar with several sustainability threads that should be consistently reported throughout industries.

## Sustainability Reporting: The Future

Governments in different countries have already followed remarkable measures to set sustainability reporting a legitimate and standard practice to achieve sustainable development. Several thousands of organizations across the world are currently preparing reports of their performance in socio-economic and environmental areas, indicating that sustainability reporting is helpful and adds value.

Bangladesh Government needs to encourage all businesses and other organizations making them believe that they will gain access to the vital information that their executives need to manage risks and find sustainable opportunities if they consistently report their complete performance on sustainability. Government has to develop and introduce a uniform reporting practice for organizations to prepare their sustainability reports for making a level playing field, ensuring transparency, bringing innovation, maintaining flexibility, applying better regulation and making progress towards sustainability.

## Recommendations for the way forward

**Raising Awareness:** Proper initiatives need to be taken to build awareness among stakeholder communities, both at the firm and sector levels. This would result in increased stakeholder engagement and positive strategic commitment of the higher management, mandating sustainability and ensuring transparent and credible disclosures.

**Industry commitment:** Industry ought to demonstrate operational and strategic commitments to sustainable business practices for a long term. Realization of the potential benefits is essential for them as they redesign business processes and parameters for success and performance measurement.

**Capacity Building:** In-house capabilities need to be developed for the assessment of the impact of operations objectively, and the measurement and monitoring of such capabilities, as strategies of mitigation are implemented. Institutions for education and training are now required to refine their programs including sustainability as an independent discipline. As a country, Bangladesh needs to focus on the linkages between the industries and universities to build an institutionalized knowledge base.

**Synchronization of Reporting Guideline with Local Organizations:** Within Bangladesh's existing local corporate structure, there is little flexibility to explain materiality disclosure with the company's other indicators as per the GRI guidelines. In the country's context, a synchronization of GRI framework is required in all sectors, especially in the small and medium enterprises.

**Government's Initiative:** The country's government can perform a catalytic role by ensuring faster sustainability taking policy initiatives to pave the right way immediately for sustainable development and a sustainable society.

**Civil Society:** Individuals residing within the civil society are always regarded as the think tanks of development, and sustainability is a very interesting topic to most of them. Therefore, their expertise, remarks, recommendations, and efforts can be utilized to foster the adoption of the globally acclaimed sustainability reporting practice.

## Conclusion

The issues associated with product responsibility and human rights remain unaddressed in the sustainability aspects of banks. Similarly, banks adopted a small number of GRI G3 in practice, but their inclination to abide by FSS based GRI guidelines is very low. However, some practical inferences of sustainable reporting with GRI have been explored in this study. In global perspective and Bangladesh context, it has a very limited scope that, however, ultimately could call for upcoming research.

In the 21st century, sustainability reporting is emerging as a common practice for businesses. Sustainability disclosure has become the best practice followed by companies across the world today although it once used to be practice of a handful of community-oriented or unusually green companies. With a focus on sustainability, organizations can manage their environmental and social impacts while improving natural resource stewardship and operational efficiency and letting it remain a critical component of employee, shareholders and the relation with them.

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