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Sustainability reporting in banking sector: Bangladesh's Perspective

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Abstract: Transparency and disclosure practices of business organizations are key aspects of corporate governance. Business organizations are faced with the need to report on sustainability performance in economic, environmental and social terms. Financial institutions constitute providers of capital to other sectors of an economy. Thus, their sustainability performance is an important aspect of transparency and disclosures that should not be ignored. This study investigated sustainability reporting of banks and financial institution. The planet and society need a sustainable global economy and an organization needs at first a long time strategy and success. How do it get started? The change to a sustainable economy requires organizational change. To drive change, the organization needs to set goals and measures how the organization will forward.
Keywords: Sustainability, Sustainability Reporting, Banks

Introduction

Sustainability reporting is a method of reporting in regards to economic, environmental and social performance of an organization. Sustainability reporting is the practice of measuring, disclosing, and being accountable to internal and external stakeholders for organizational performance towards the goal of sustainable development. It helps the organization to set goals, measure progress and manage sustainability within the organization. It provides a clear idea of its impact to the internal and external stakeholders and can increase the efficiency and improve the performance. It enables the organization to forward into successful sustainable future. It also helps to improve an organization's commitment to sustainable development.

As per definition of Global Reporting Initiative (GRI), "A sustainability report enables companies and organizations to report sustainability information in a way that is similar to financial reporting. Systematic sustainability reporting gives comparable date, with agreed disclosure and metrics."

The value of a company is influenced by the quality of its relationship with the internal and external stakeholders. Stakeholders are interested in understanding the performance of companies in managing the sustainability impacts of their activities. This has elevated the importance of sustainability reporting. In response to demands from stakeholders, many organizations are incorporating environmental and social information into their public reports for more information so that they may make better informed decisions about a company's performance in this area. Organizations of all sizes including commercial companies, NGOs, schools and small and medium enterprises are choosing to report on their sustainability strategies for several reasons. Reporting demonstrates how the company influences and is influenced by expectations about sustainable development. Stakeholders can compare performance within a company and between different companies over time. In addition, some regulatory bodies issued guidelines and encouraged organization to issue sustainability reports. An effective sustainability report cycle benefits all reporting organization.

Back ground of the study

Sustainability Reporting is a key tool to help the organization to set goals, measure progress and manage sustainability within the organization. Reporting on the organization's sustainability performance will give internal and external stakeholders a clear idea of its impact and can increase the efficiency and improve the performance. And reporting enables the organization to forward into successful sustainable future. In a word, a sustainability report is a report published by a company or organization about the economic, environmental and social impacts caused by its everyday activities. A sustainability report also presents the organization's values and governance model, and demonstrates the link between its strategy and its commitment to a sustainable global economy. Sustainability reporting may be called in different names such as, a nonfinancial reporting or triple bottom line reporting (i.e. People, Planet and Profit) or corporate social responsibility (CSR) reporting, and more.

Literature Review:

Nieminen and Niskanen, 2001; Russo and Fouts, 1997). In other words, the emphasis here is on the characteristics of the companies that report environmental information and the relationship between such

reporting and financial performance. 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 medium of reporting. Most of the studies under this stream look at theGordon, 1996;

Nieminen and Niskanen, 2001). In contrast to the past, where voluntary environmental reporting was mostly restricted to firms from high environmental impact industries in industrialized countries, the recent reporting practices show that environmental communication is becoming common in non-industrial sectors and different regions in the world (KPMG, 2002). However, environmental reporting still continues to be the highest in countries, such as U.S.A., Japan, Germany, and U.K. and in industries, such as chemicals, pharmaceuticals, electronics, and automotive (KPMG, 2002). Similarly, company size is also found to be a determinant of environmental disclosure

(Nieminen and Niskanen, 2001). In terms of what is being reported and how this has changed over the years, perhaps the best source is the various reports of KPMG, which has undertaken periodic surveys of the environmental and sustainability practices of multinational corporations since 1993. The KPMG International Surveys show that companies report the details of their environmental policies, future plans and targets, and features of their environmental management systems (EMS). The number of companies providing such information has increased steadily over the years (KPMG, 1999, 2002).

Kolk's (1999) meta-analytic review of environmental reports yields similar results in terms of the common denominators of corporate environmental reports. In its survey of 88 corporate environmental reports of Japanese companies, the Investor Research Responsibility Center (IRRC) found that approximately 90% of the companies provide information about environmental objectives, achievements, and costs (Metrick, 2001).

Business Today (Anonymous, 2001) conducted a comprehensive survey of the environmental practices of India's largest companies. They found that 42% of the companies had ISO 14001 certifications, 60% had separate environment departments, 94% had environmental targets in place, 70% had internal environmental audit systems, and 60% had facility level environmental reporting systems. In 40% of the companies, the senior environmental officers reported directly to the chief executive officers. Corporations have changed how they report environmental information. Although in the past, corporations used annual reports to impart such information

(Nieminen and Niskanen, 2001), nowincreasing numbers of companies are publishing separate environmental and sustainability reports. For example, only 15% of the companies in the 1993 KPMG survey had published separate environmental reports, whereas the 1996 survey found that 17% had environmental reports. This number had risen to 35% in the 1999 survey and 45% in the 2002 sustainability survey (KPMG, 1999, 2002). The popularity of the Internet and the World Wide Web has encouraged more and more companies to use them for environmental disclosures (Jones et al., 1998).

Awareness of banking sector on environment which leads to prepare sustainability reporting:

Banks usually provide services for profits but it is believed that profit should not be earned at the cost of environment. Therefore, banking sector is conscious about environment and which leads to prepare sustainability reporting. The role of banks toward sustainable development is potentially enormous because of their intermediary role in an economy. Banks transform money in terms of duration, scale, spatial location and risk and have an important impact on the economic development of nations. This influence is of not only quantitative, but also of a qualitative nature, because banks can influence the pace and direction of economic growth. However, the banking sector has responded slowly than other sectors to the new challenges of sustainability. Bankers generally consider themselves to be in a relatively environment friendly industry in terms of emissions and pollution. But they have been surprisingly slow to examine the environmental performance of their clients. A stated reason for this is still that such an examination would 'require interference' with a client's activities.

Economic Indicators in the Banking Sector

S/No.	Economic Indicators	Absent	%	Present	%
1.	Community Investments	2	2.9	68	97.1
2.	Climate change risks	44	62.9	26	37.1
3.	Climate change financial implications	45	64.3	25	35.7
4.	Defined benefit plan liabilities	4	5.7	66	94.3
5.	Mode of settlement of	8	11.4	62	88.6

	defined benefit plan obligations				

GRI promotes to prepare sustainability report, FSS reference:

The Global Reporting Initiative (GRI), founded in 1997, is a non-profit organization that helps businesses, governments and other organizations to understand and communicate their impacts on issues such as climate change, human rights and corruption. GRI produces one of the world's most widely used standards for sustainability reporting. Sustainability reports based on the GRI Reporting Framework disclose outcomes and results that occurred within the reporting period in the context of the organization's commitments, strategy, and management.

The financial Services Sector Disclosures document is based on the 'GRI (Global Reporting Initiatives) Financial Services Sector Supplement (FSS)'. This sector Supplement was issued in 2008 and developed based on G3 Guidelines (2006). After launching G4 Guidelines in May 2003, the complete Sector Supplement content has been modified and reorganized in a new format to facilitate its use in combination and to fit with the G4 Guidelines' content, structure and requirements.

The financial sector was segmented into four categories for the purpose of developing these Sector Disclosures, i.e. retail banking, commercial and corporate banking, asset management and insurance. The working definitions used for these categories in developing the Sector Disclosures are as follows:

- **Retail Banking:** This category refers to everyday high street banking including the provision of private and commercial banking services to individuals. It also includes banking for more affluent clients, including wealth management and portfolio management services. It may also include everyday transaction management, payroll management, small loans, foreign exchange, derivatives, etc. for individuals in their business activity.
- **Commercial and corporate banking:** This category includes all transactions with organizations/business counterparts of all sizes, including commercial and corporate banking project and structured finance, transaction with small and medium enterprise (SMEs) and the provision of financial services to government departments. It also includes corporate advisory services, mergers and acquisitions, equity/debt capital markets, and leveraged finance.
- **Asset Management:** This category refers to the management of pools of capital on behalf of third parties. The capital is invested in a wide range of asset classes, including equities, bonds, cash, property, international equities, international bonds, alternative assets. The definition also encompasses elements of investment banking including the trading in shares and share derivatives, as well as fixed income- trading bonds, debt instruments, trading loans and loan portfolio and credit derivatives.
- **Insurance:** This category refers to both pension and life insurance services provided directly or through independent financial advisors to the general public and employees of companies. It also covers the insurance of products or services for business and individuals and re-insurance services.

Sustainability reporting in banking sector, green banking etc. in Bangladesh perspective:

Banks hold a unique position in an economic system that can affect production, services, business and other activities through their financing activities and thus may contribute to removing polluted environment. Environmental impact of Banks is not physically related to their banking activities but with the activities of the customers. Banking sector is one of the major sources of investment for commercial projects, which is one of the most important economic activities for economic growth and encouraging environmentally responsible investments and prudent lending. The banks should go green and play a pro-active role to take environmental and ecological aspects as part of their lending and investment principle, which would direct industries to go for mandated investment for environmental management, use of appropriate technologies and management systems.

Bangladesh Bank (i.e. central bank), Bangladesh Bank issued a circular on 27th February, 2011 (BRPD Circular No.2) on Policy Guideline for Green Banking stating "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." As stated Bangladesh Bank, "Green Banking" generally refers to banking practices that foster environmentally responsible financing practices and environmentally sustainable internal processes minimizing GHG (Green House Gas) emissions.

Green Banking means eco-friendly or environment-friendly banking to stop environmental degradation to make this planet more habitable. Green Banking is regarded as sustainable banking, which has a role to safeguard the planet from environmental degradation, with the aim of ensuring economic growth which is sustainable. Green Banking is also a multi-stakeholders' endeavor where banks have to work closely with government, NGOs, International Financial Institutes (IFIs)/International Government Organizations (IGOs), Central Bank, consumers and business communities to reach the goal.

Green Banking involves two pronged approaches: firstly, Green Banking focuses on the green transformation of internal operations of all Banks/FIs. It means all the Banks/FIs should adopt appropriate ways of utilizing renewable energy, automation and other measures to minimize carbon footprint from banking activities. Secondly, all banks should adopt environmentally responsible financing; weighing up environmental risk of projects before making financing decisions and in particular supporting and fostering growth of upcoming green initiatives and projects. As per Bangladesh Bank's circular there are three phases of green banking activities and the banks have to prepare sustainability report in standard format with external verification under GRI method.

Conclusion:

According to Peter Druker, a writer, professor & management consultant, "What you can't measure, you can't manage. What you can't manage, you can't change". Therefore, sustainability reporting is a vital step for managing change towards a sustainable global economy that combines long-term profitability measuring social justice and environmental care. And a dedicated sustainability report is a reflection of the company's commitment to the issue of sustainability, which helps companies and their stakeholders to identify a comprehensive reference point for reporting, thereby aligning many of their CSR initiatives with goals that can be measured and monitored. In case of failure to manage environmental and social effects properly, it may give rise to reputational and/or financial risks in the banking sector. For this reason, firstly it is important to give consideration to environmental and social impact issues just as one does to financial, technical and economic matters in credit assessment process and secondly to make them subject to executive level decisions. Environmental and social risk management involves defining the environmental and social risks that arise in the conduct of banking sector's core business activities, analyzing them during assessment process, identifying the dimensions of potential effects and risk, determining the obligations and practices needed to minimize risk, and taking these last into account in the decision-making process.

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