

Sustainability Reporting by the Private Sector in Bangladesh

Expectations and Experience

Presentation by

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1. Why Sustainability Reporting?

- The **sustainability** concept is growing among the private sector around the world
- According to a global survey conducted by **Mckinsey** in 2017, 70% of the respondent companies had formal sustainability programmes; while a repeat survey conducted in 2020 concluded that “sustainability endeavors often make good business sense, promising to deliver revenue gains, cost savings, and other benefits that lift enterprise value”
- Beyond the Global 250, **more than 10,000** companies around the world issued **Global Reporting Initiative (GRI)** referenced sustainability reports, and the number is increasing every year (GRI, 2022)
- Sustainability reporting helps the private sector ensure that **short-term profits do not turn into long-term liabilities**
- Sustainability reporting is **relatively uncharted territory**, especially for developing countries such as Bangladesh

1. Why Sustainability Reporting?

Nexus with SDGs

- The 2030 Agenda has **17 global, universal, interrelated Goals**, with each goal having **implications for the private sector**
- SDGs actively involve the **private sector as a key stakeholder** during the development phase and invokes their participation and their innovativeness in solving global sustainability issues
- SDGs call for a positive impact from businesses through their core activities on issues including but not limited to **decent employment, climate change, water scarcity, food insecurity, waste and pollution, inequality, human rights and urbanisation**
- Consequently, SDGs emphasised the need for the **involvement of all stakeholders**, including government, civil society, communities, international development partners and the private sector

1. Why Sustainability Reporting

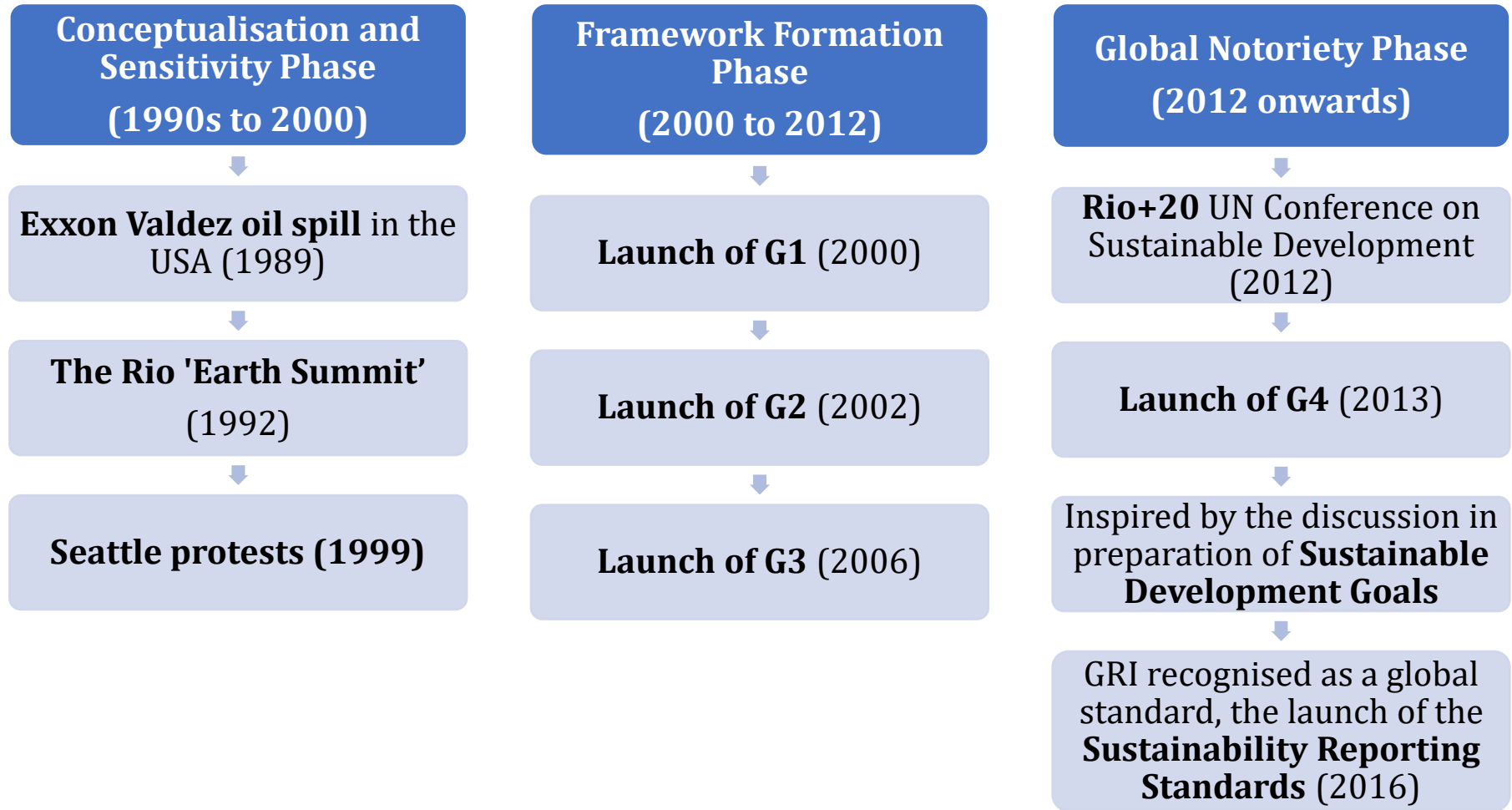
- Compliant private sector compliance on **economic, environmental, social and corporate governance** fronts is critical for Bangladesh as the country moves towards LDC graduation
- It is also often relevant for **market access for exports** from Bangladesh
- In this context, this presentation study seeks to emphasise the need for **mainstreaming and institutionalising sustainability reporting** with a view to contributing to the implementation of **SDGs** as well as smooth **LDC transition** by **strengthening the private sector** in Bangladesh
- To this end, we have reviewed literature, including sustainability reports from the private sector of Bangladesh and overseas

2. What is Sustainability Reporting

- Sustainability Reporting is a **standard**, either **voluntary** or sometimes **mandatory**, a business practice which publicly discloses a company or organisation's **economic, social, environmental and governance** practices to **internal** as well as **external stakeholders**
- **Environmental, social, and governance (ESG) metrics** are often used to analyse an organization's ethical impact and sustainability practices
- Over the years, the concept has evolved and is often driven by guidelines set by **sustainability standards**
- **Global Reporting Initiative (GRI)** is the most commonly used reporting framework globally

2. What is Sustainability Reporting

Evolution of Sustainability Reporting Concept



- **Global Reporting Initiative (GRI)** is the most commonly used reporting framework globally

2. What is Sustainability Reporting

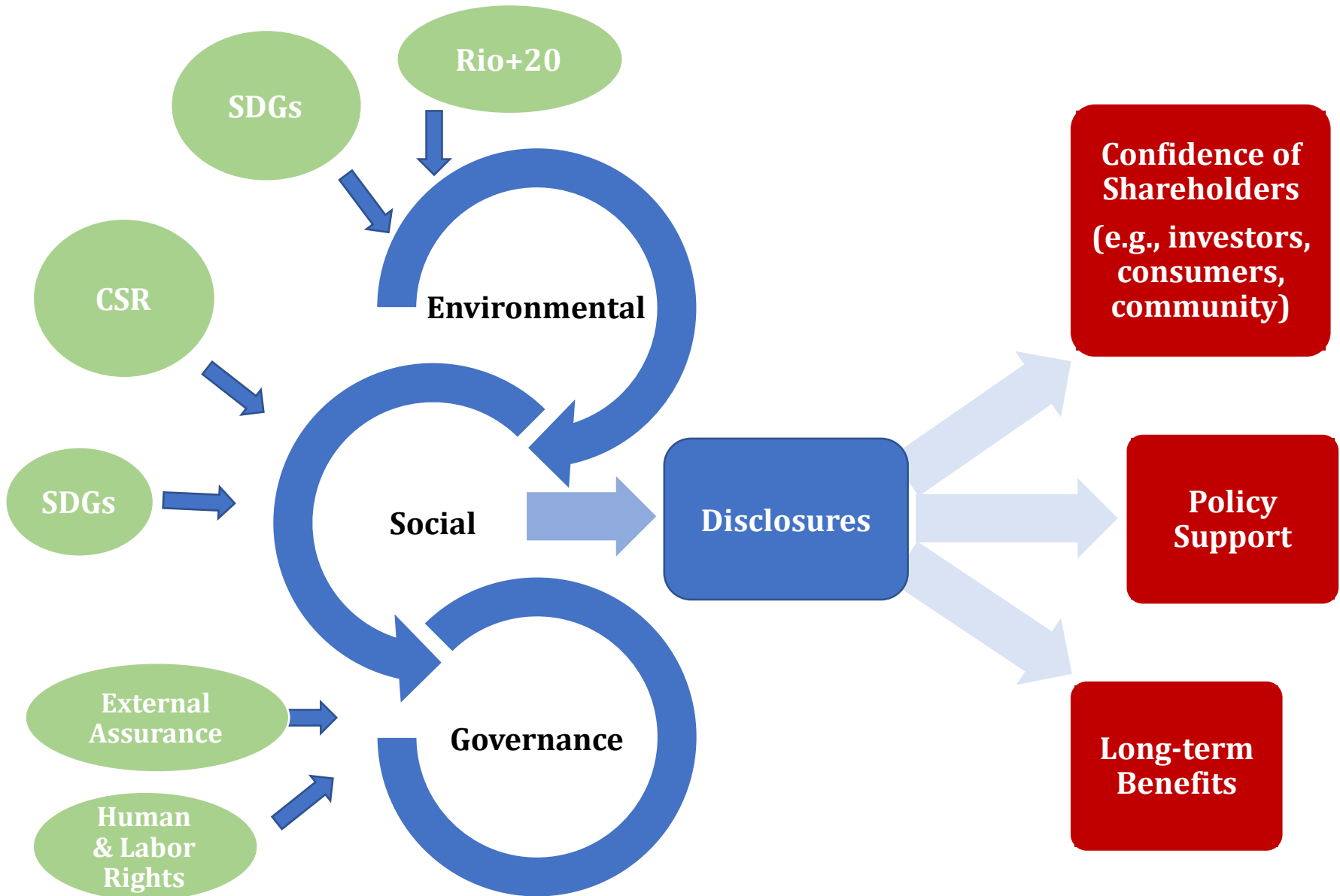


From profit seeking to socially responsible

From corporate social responsibility to corporate sustainability

From data blindness to evidence based decision-making

2. What is Sustainability Reporting



2. What is Sustainability Reporting

GRI Standards and Disclosures

List of aspects in the GRI Universal Standards and Disclosures

| GRI-4 | GRI-3/3.1 |
|--|---|
| Strategy and Analysis | Strategy and Analysis |
| Organisational Profile | Organisational Profile |
| Identified Material Aspects and Boundaries | Reports Parameters |
| Stakeholders Engagements | Governance, Commitments, and Parameters |
| Report Profile | |
| Governance | |
| Ethics and Integrity | |

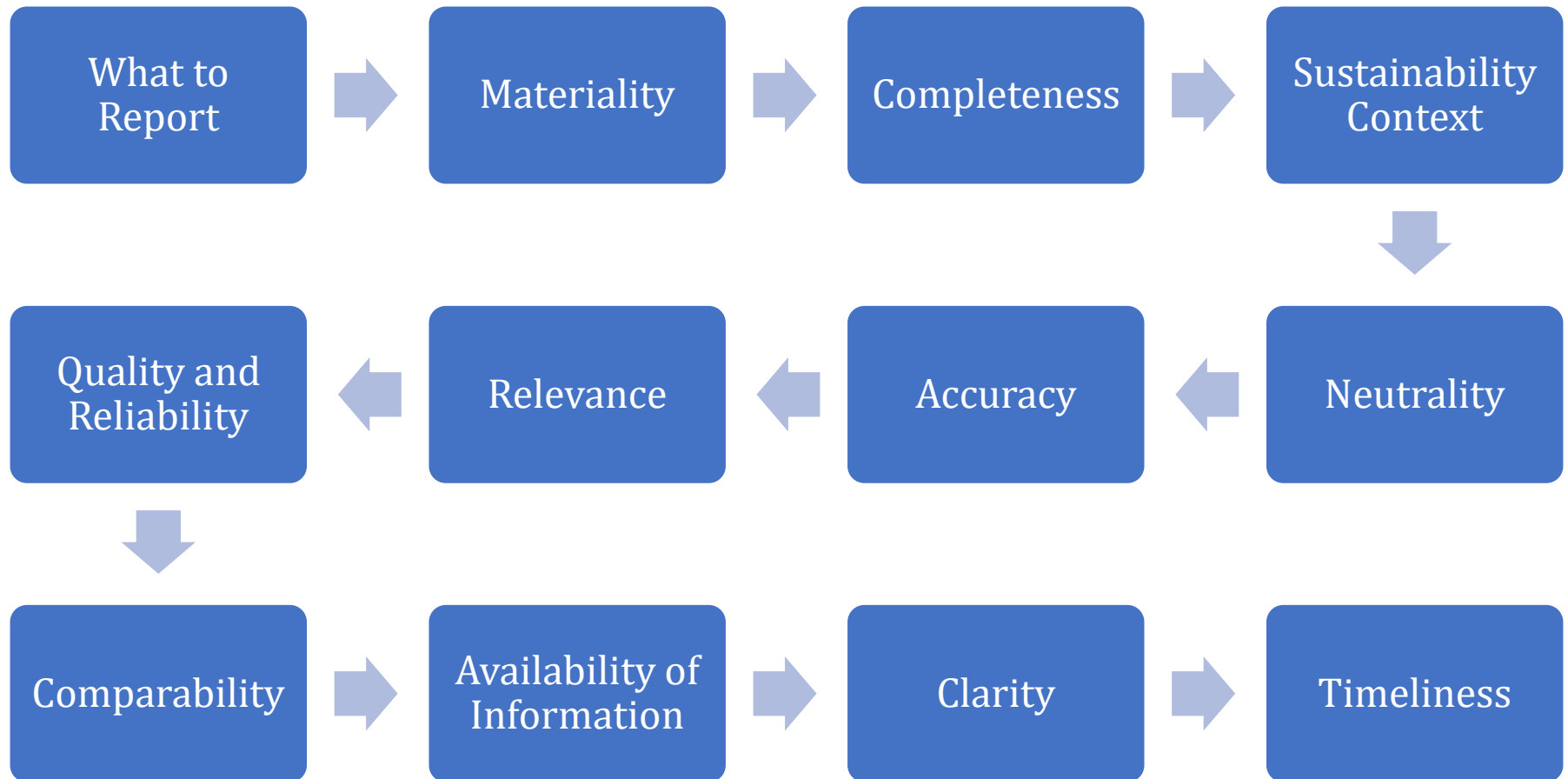
Additionally, there are **three GRI Sector Standards**, including, **Oil and Gas, Coal, and Agriculture, Aquaculture and Fishing** sectors.

List of themes under GRI Topic Standard disclosures

| Economic | Environmental | Social |
|---------------------------|-----------------------------------|---------------------------------|
| Economic Performance | Material | Labor Practices and Decent Work |
| Market Presence | Energy | Human Rights |
| Indirect Economic Impacts | Water | Society |
| Procurement Practices | Biodiversity | Products Responsibility |
| | Emissions | |
| | Effluents and Waters | |
| | Products and Services | |
| | Compliance | |
| | Transport | |
| | Overall | |
| | Suppliers Environment Assessment | |
| | Environmental Grievance Mechanism | |

2. What is Sustainability Reporting

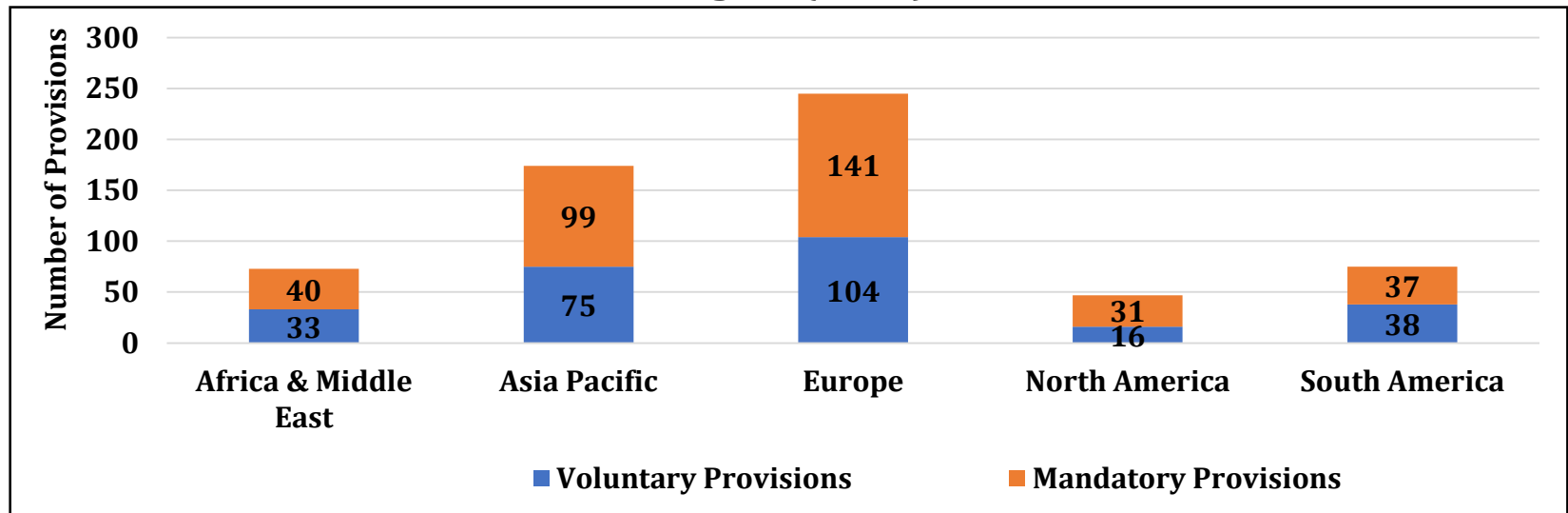
The GRI reporting principles can be illustrated with the following diagram



Source: ICMAB (2018)

3. Global Experience

Number of Voluntary vs Mandatory Provisions Regulating Sustainability Reporting by Region (2020)



Source: Carrots & Sticks (2020)

- **Europe** is the frontrunner, closely followed by **Asia and Pacific**; conversely, **North America** lags in GRI adoption
- **Eastern Asia** is the leading region within the continent. **China** and **Japan** lead GRI adoption and have influenced the rest of the region.
- **India** lags behind other countries in the region, which indicates the need for mechanisms to pressure companies to become more sustainable

3. Global Experience

- Major economies that mandates reporting: **EU, USA, India and China**
- The Ministry of Corporate Affairs issues voluntary guidelines of ESG reporting, while the Securities and Exchange Board (SEBI) mandates disclosures for the top 1000 listed companies in **India**
- The **European Corporate Sustainability Reporting Directive (CSRD)** has taken an initiative to make Sustainable Reporting mandatory for those companies with more than 250 employees and a turnover of more than USD 40 million
- GRI is also working with the stock exchange and regulators in **Sri Lanka**
- In **Indonesia**, the National Center for Sustainability Reporting (NCSR) promotes the practice of sustainability reporting among local firms

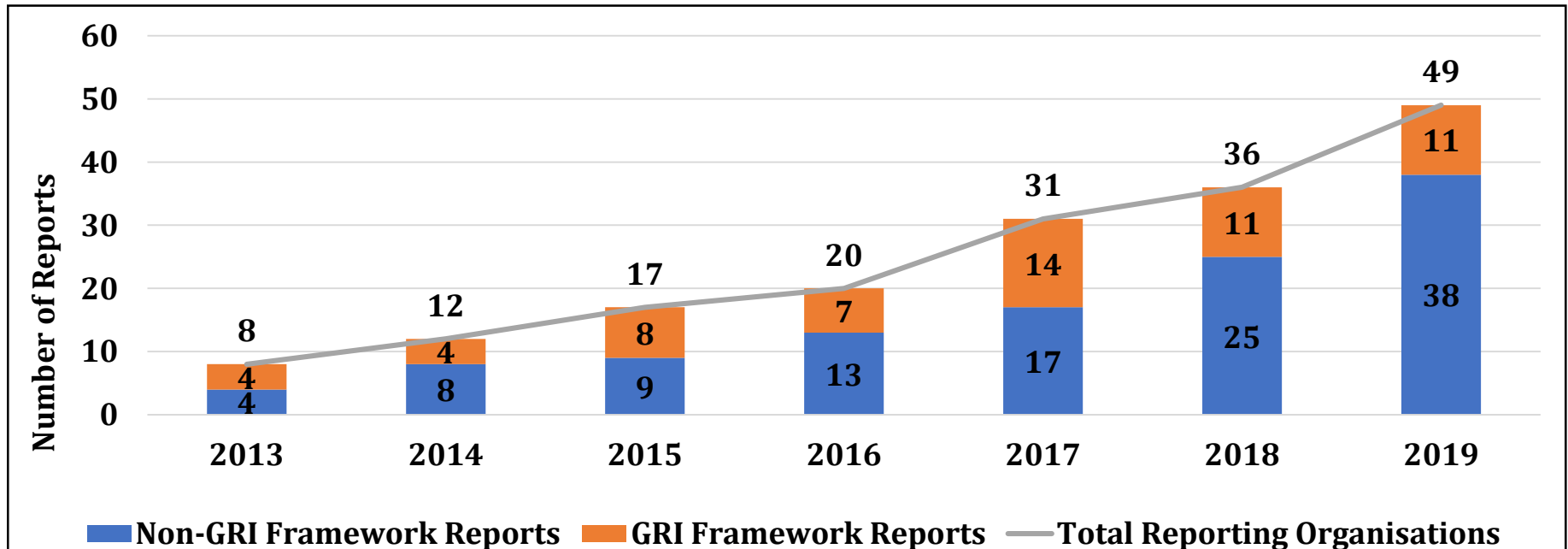
4. Experience of and Challenges for Bangladesh

- **Environmental Performance Index (EPI)** - Quantitative measurements for assessing a country's environmental (health and vitality) performance in several policy categories in comparison to explicitly established targets
- Bangladesh ranked **162** out of **180** countries, and **6th** in **South Asia in 2020**
- The **Private institutions sub-index** of the **Institutions pillar** of the **Global Competitiveness Report** includes, **Corporate Ethics** (Ethical behavior of firms) and **Accountability** (Strength of auditing and accounting standards, Efficacy of corporate boards, Protection of minority share holders' interests and Strength of investor protection)
- Bangladesh ranked **116th** out of **137** in the **Private institutions sub-index** in 2018, with a value of **3.6** (out of 7)

4. Experience of and Challenges for Bangladesh

- According to the GRI, **49 (DSE) companies in Bangladesh out of 320 (15%)** submitted sustainability reports in **2019**; however, only **11** of the reports followed the **GRI reporting framework (3%)**
- In 2021, DSE and GRI organised several **technical workshops** to promote GRI based Sustainability Reporting in Bangladesh
- Now, GRI's Sustainable Development Database lists **58 reports**

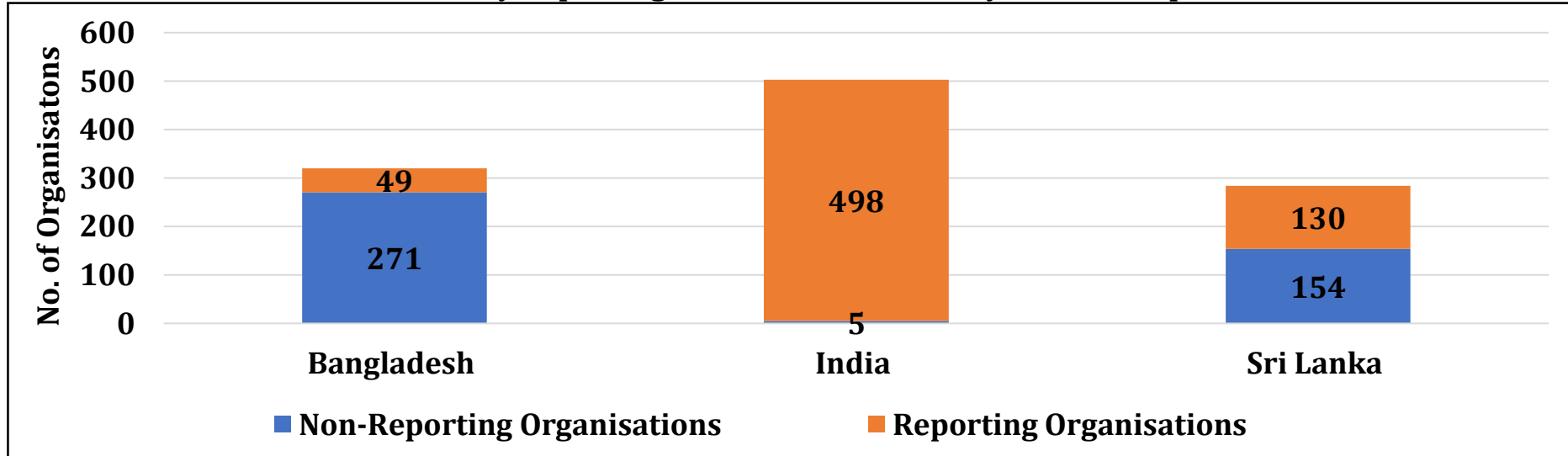
Distribution of GRI Reports by Year of Publicly Listed Companies in Bangladesh



Source: GRI (2021)

4. Experience of and Challenges for Bangladesh

Sustainability Reporting in South Asian Publicly Listed Companies

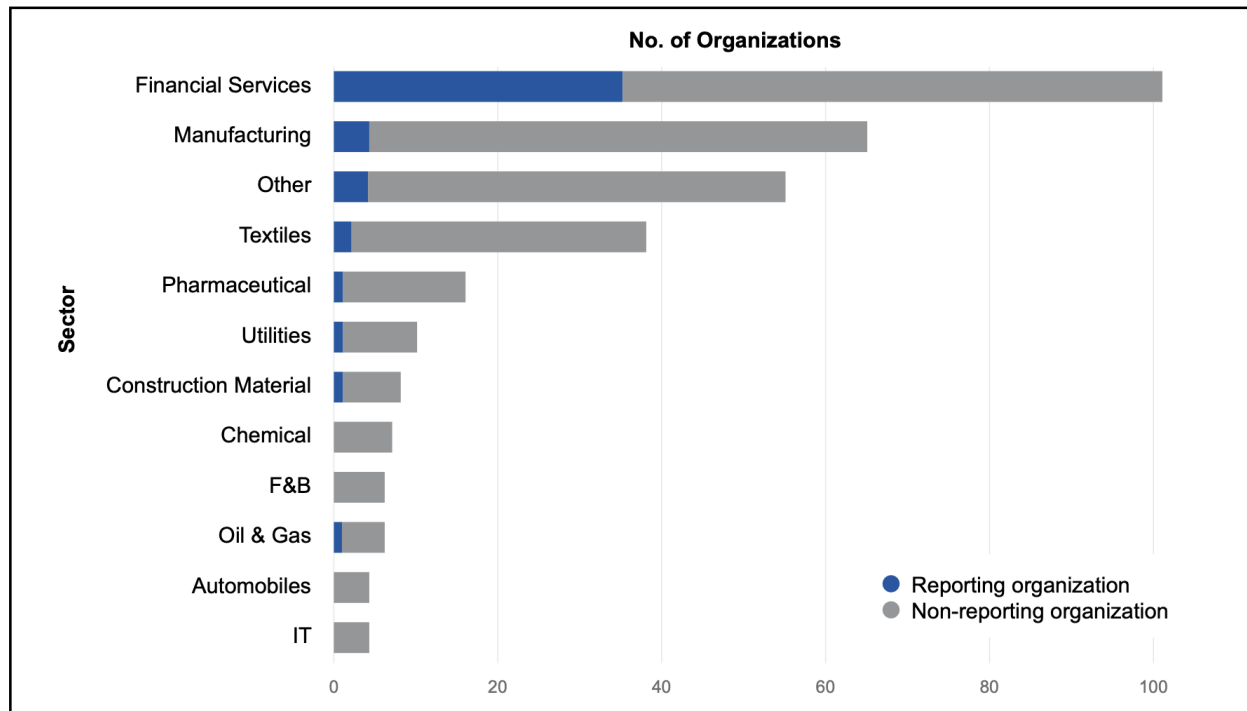


Source: GRI (2021)

- **Bangladesh** (DSE) has one of the lowest rates (15% and 3%)
- **India** (Bombay Stock Exchange) has one of the highest reporting rates, with **498** publicly listed organisations out of **503** producing sustainability reports in 2019 (**99%**); however, only **74** met the GRI reporting standards (**15%**)
- In **Sri Lanka** (Colombo Stock Exchange) **130** organisations produced sustainability reports out of **284** companies (**46%**), **83** of which were compatible with the GRI framework (**29%**)

4. Experience of and Challenges for Bangladesh

Disaggregation of Reporting Organisations by Sector



Source: GRI (2021)

- Out of the 49 reports in 2019, **35** of the reporting organisations were from **banks and financial institutions**, **4** from the **manufacturing sector** and **2** from **textiles**
- The worst performing were the IT, automobile, F&B and chemical sector organisations, with **no reports** published in 2019.

4. Experience of and Challenges for Bangladesh

- Based on a sample analysis by Haque & Khanam (2022), out of non-financial industries, the **cement industry** is the best performing, with the **highest disclosures** made
- It is followed by the **Pharmaceuticals, Engineering, Fuel and electricity** and **Telecommunications** industries
- The **least disclosures** were made by the **Tannery** industry, followed by **Textiles** and **Paper and printing**
- Moreover, **highly polluting** industries like these were also among the **lowest** in making **environmental sustainability** disclosures

4. Experience of and Challenges for Bangladesh

Broad observations

- The trend of sustainability in Bangladesh is positive as **awareness is spreading**
- **Regulators** such as Bangladesh Bank (CSR, green banking) and BSEC (corporate governance guideline), along with DSE have become **more sensitive** in sustainability reporting in recent years
- **Highly regulated sectors**, such as financial services, are **participating more**
- There are **varying capacities** among the companies, with multinationals being frontrunners
- Some private sector organisations report on sustainability but **do not follow the GRI Standards and Disclosures**
- **Highly environmentally sensitive industries**, such as Tanneries, **report very little** on their sustainability and make the lowest disclosure

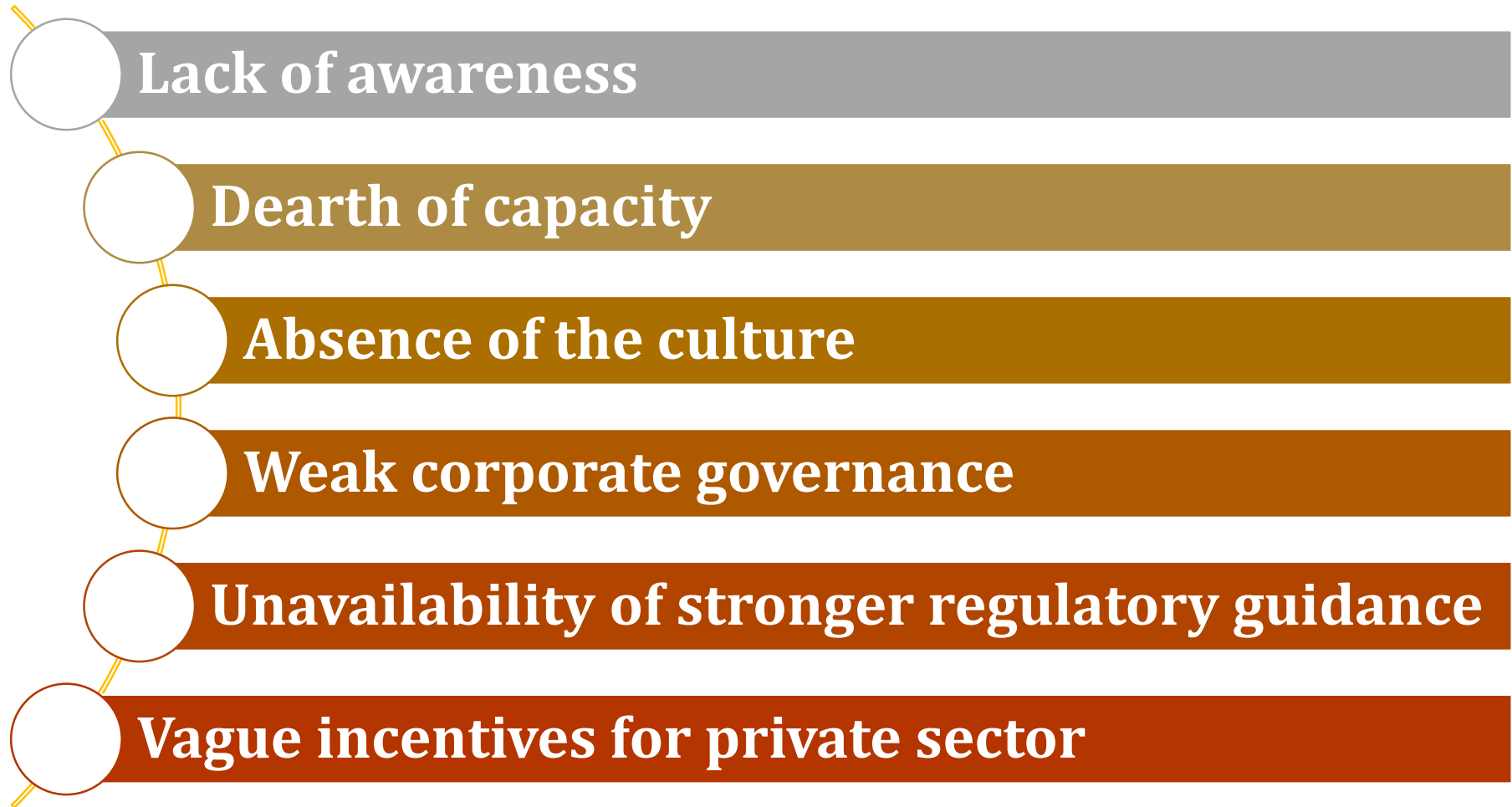
4. Experience of and Challenges for Bangladesh

Broad observations

- Issues concerning the **‘materiality’ pillar** are **not adequately covered**
- Many reporting private sector organisations **do not adequately pursue SDG-based reporting** – the linages are not properly articulated
- **Involvement of stakeholders**, particularly the customers and community, **often remains weak** in the preparation of sustainability reports
- In most cases, the **methodology** followed to prepare the reports remains **vague**
- Companies appear to be more interested **in disclosing favourable information rather than the problematic ones**

4. Experience of and Challenges for Bangladesh

Key challenges



5. Way Forward

- The future pathway for sustainability reporting requires:



5. Way Forward

From voluntary measures to mandatory disclosure

- A **step-by-step** process needs to be followed to achieve sustainability reporting at scale, transitioning from **voluntary measures** to **mandatory disclosure**
- A “**Comply or Explain**” approach can be introduced
- **Similar approaches were taken** by the disclosure guidelines of the Warsaw Stock Exchange, Poland and Ho Chi Minh Stock Exchange, Vietnam in 2016 and the 2018 versions of the UK and Singapore corporate governance codes
- **Similar approaches may be followed by DSE and CSE** in a time-bound manner
- In the context of Bangladesh, it is also critical to **go beyond the listed companies** – the **chambers and business associations** can play a big role in this context

5. Way Forward

Ensuring a harmonised framework

- It is critical that the companies follow a harmonised framework
- **GRI Standards and Disclosures** (and the guideline developed with DSE) may ensure **harmonisation, continuity and consistency** between reports within and across organisations
- **Alignment with international standards** will allow reports to have a common and comparable picture, benefitting **reporters, report users** and **policymakers** at large
- There should be an **interface between sustainability reporting** (ESG metrics) **and SDGs** (global and national targets and indicators)
- Potentially, a **sustainability reporting framework** may be used to measure the **involvement of the private sector in implementing SDGs**

5. Way Forward

Maintaining quality reporting

Quality sustainability reports should ensure the following aspects:

- **Sustainability Context** - Contextualise the performance of the business and compare performance to sustainability concepts
- **Materiality** – Consider all risks businesses face (strategic risk, compliance and regulatory risk, financial risk, operational risk), including other sources of risk (environmental risks, political and economic instability in any foreign markets being exported to, health and safety risks, commercial risks, including the failure of key suppliers or customers, workforce risks).
- **Accuracy** - Information should be accurate and complete enough to be able to judge how well the reporting organisation's performance
- **Balance** - Reports should include both favourable and problematic aspects involving economic, environmental, or social impacts and ensure transparency

5. Way Forward

Maintaining quality reporting

- **Clarity** - Information and reporting should be intelligible and accessible
- **Comparability** - Information should be comparable over time and with other organisations
- **Reliability** – The report should disclose data collection and analysis methodology
- **Stakeholder Inclusiveness** – All stakeholders, including primary (investors, employees, customers, and suppliers) and secondary stakeholders (communities, governments, and trade associations) should be involved
- **Timeliness** – Report should be released in a timely manner
- **Accessibility** – Reports should be user-friendly and accessible and widely disseminated through a website and a downloadable PDF while podcasts, or even a documentary may also be used

5. Way Forward

Incentivising private sector through policy interface

- **Use of sustainability reports** at the policy level should be ensured
- There should be a **central mechanism** to compare and analyse the reports, both at the sectoral stages as well as national policy level
- The reports can **inform the policymakers** as regards the state of the sectors and **contribute to developing** sectoral and national **policies** in the form of a formal and useful instrument as the country prepares itself for the **LDC transition**
- The **private policy entities** (e.g., DSE, chambers and associations) can also take **initiatives** to serve their policy preparedness
- Regular analysis of all reports can also **help SDG reporting** from the perspective of private sector
- More importantly, the government should consider **establishing an institutional framework for regular monitoring and analysis** of sustainability reporting in Bangladesh

Thank You

