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PRACTICES OF SOCIAL AND ENVIRONMENTAL RESPONSIBILITY ADOPTED BY FINANCIAL INSTITUTIONS

Evandro Bonetti,[1*] Antônio Zanin[1], Sady Mazzioni[1] and Paulo Afonso[2]

[1] Department of Social and Applied Sciences, Unochapecó, Brazil
[2] Department of Production and Systems, University of Minho, Portugal

* Corresponding author: ebonetti@unochapeco.edu.br, Unochapecó, Av. Senador Attílio Fontana 591, Chapecó-SC, Brazil

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ABSTRACT

Nowadays, there is a global pressure for agencies with responsibilities in public investment to evaluate their policies and impacts in terms of the economic, social and environmental dimensions, avoiding supporting projects that pose risks to these aspects, thereby making it possible to improve the quality of life of the populations and long-term economic stability. The objective of this study was to verify the guidelines that guide the socio-environmental responsibility policies (SERP) of Brazilian financial institutions. The research was based on the analysis of sustainability reports of development agencies and development banks. The socio-environmental policies of the institutions were also analyzed under the light of the resolution of the National Monetary Council that regulates these issues. It was possible to verify that most financial institutions have socio-environmental policies as a result of the regulation that determines the mandatory nature of such policies. Indeed, more than ¾ of the studied institutions published their SERP after such regulation. Thus, the institutionalization of these practices might be understood from a process of normative isomorphism.

INTRODUCTION

In the financial sector, sustainability concerns are focused on generating criteria for lending policies that seek to ensure that the available funding resources are not used to finance projects that have negative social or environmental impacts. This type of action is encouraged by the determinations of the “Equator Principles” being valid due to the neglected relevance of the socio-environmental impacts caused by financial activities.

In Brazil, socio-environmental concerns in financial institutions are not a new issue. There are recommendations published in the year 1997, but we can highlight Resolution 4327 of April 25, 2014, issued by the National Monetary Council (NMC), which established the guidelines to be observed by the institutions regulated by the Central Bank of Brazil (CENBA) in its Social and Environmental Responsibility Policies (SERP) as a definitive landmark for these issues. According to this resolution, financial institutions should maintain governance structures compatible with their size and with the products and services offered in order to ensure compliance with the guidelines established by their socio-environmental responsibility policy.

In order to guide the process of preparing sustainability reports, the Global Reporting Initiative (2014) created the GRI Guidelines for Sustainability Reporting based on the following principles: inclusion of stakeholders, context of sustainability, materiality and completeness; complemented by: balance, comparability, accuracy, timeliness, clarity and reliability.

Furthermore, the Equator Principles (EP) refer to a set of criteria required by the International Finance Corporation (IFC), which is a World Bank body used to regulate investments in socially responsible projects. According to the Equator Principles Association, the EP forms a framework adapted to be used by financial institutions that has been adopted by 80 organizations with activities in 35 countries. In addition, the purpose of these principles is to evaluate and manage socio-environmental risks in the projects developed by the institution, mainly being used as a decision support tool. The EP represent an attempt, at a global level, to standardize the accounting records of socio-environmental risks in the financial statements, which, in addition to allowing systemic management of these risks, also ensures an equal demand for all global financial system players regarding capital allocation to cover socio-environmental risks. In addition to their direct impacts, EP encourage institutions to apply other socio-environmental practices such as carbon credits (US), and climate principles (worldwide), seeking to link this sector with other organizations from different sectors in order to form a sustainable network.

The Brazilian Financial System is compounded by organizations such as banks, insurance companies, financial institutions, with public or private control, with strong state intervention through specific laws and regulations, and a regulatory body that is the Central Bank of Brazil (CENBA). All these organizations needed a high initial investment to enter in the sector. In Brazil, financial institutions develop commercial development projects to meet the financial needs of the public and private sectors in project financing, which allows the beneficiaries to improve their economic performance. One of the main agents of Brazilian development is the National Bank for Economic and Social Development (in Portuguese, abbreviated as BNDES). Currently, the most important role of the BNDES is to offer financial incentives to areas of intense innovation in the national industry.

Another form of stimulus to economic development is through development agencies that were created by governmental development programs to benefit the States where they are based. These agencies can finance a large range of projects from infrastructures to small business professionals. Another type of financial support is through the opening of credit lines aimed at financing projects of public and general interest of the State. These agencies emerged from a process of restructuring of the national financial segment as a result of incentive programs to reduce the presence of the public sector in the financial activity namely, through the Program to Encourage the Reduction of the State Public Sector in Banking Activity (PROES); which intended that all financial institutions under state control would be extinguished, privatized or transformed into institutions dedicated to the financing of fixed and working capital.

Nowadays, there is a global pressure for agencies that invest public money to evaluate their results and impacts in terms of the economic, social and environmental dimensions, avoiding supporting projects that pose risks to the environment, thereby making it possible to improve the quality of life of the populations and long-term economic stability. In addition to the perceived concerns in these financial institutions, it is possible to perceive in other financial agents a concern to nullify the social impacts caused by their way of acting based on the automation of service tasks and mergers and through the development and investment in socio-environmental projects. In this context, from this perspective, the support of financial institutions is generally directed to projects aiming at: protecting the environment, stimulating culture and education, promoting health, supporting children and adolescents, and encouraging volunteering.

The objective of this study was to verify the guidelines that guide the socio-environmental responsibility policies (SERP) of Brazilian financial institutions and to relate the creation of these policies to the disclosure of CENBA resolution 4327/2014. The research is defined as documentary, since it has been based on the analysis of sustainability reports of financial institutions. The study population are financial institutions operating in Brazil and the sample was limited to development agencies and development banks.

LITERATURE REVIEW

The practices that respect social and environmental dimensions have become part of organizations' daily lives, challenging them to create sustainable alternatives to remain competitive in the market (López-Ridaura et al., 2002). On the other hand, civil society has been showing a great interest in monitoring the way financial institutions manage their lending processes, forcing the development of self-regulation policies oriented mainly by the Equator Principles (PE) (Ong, 2010).

The Equator Principles represent an attempt at the global level to standardize the accounting records of socio-environmental risks in the financial statements, which, in addition to allowing systemic management of these risks, also ensures equal conditions for all institutions of the financial system regarding capital requirements to cover socio-environmental risks (Monzoni et al., 2014).

Apparently, the direct social and environmental impacts of services, especially financial services, are not so relevant when compared to those produced by other industries. However, given the importance of these institutions for the economy, the incorporation of social and environmental indicators into their business monitoring has great potential to influence changes in society. In addition, such practices lend credibility and reputation to the industry players (IFC, 2007).

Sustainability reports are important vehicles for disseminating social and environmental practices developed by organizations. Sustainability reports have received outstanding attention, emphasizing the need to create standards to guide the production of these reports. One of the most accepted references in the market today is the one published by the Global Reporting Initiative (GRI) (Toppinen and Korhonen-Kurki, 2013).

The GRI developed and disseminated a set of guidelines to guide companies in the process of preparing sustainability reports based on a set of principles that include: stakeholder inclusion, sustainability context, materiality, completeness, balance, comparability, accuracy, timeliness, clarity and reliability. The GRI guidelines are organized into three categories, considering the economic, environmental and social dimensions (GRI, 2013).

Some principles are fundamental to report transparently the practices related to sustainability and for this reason should be observed by all organizations. These principles can be divided into two groups: the first to guide the content of the report and the second to ensure the quality of reports (GRI, 2013).

In Brazil, in line with the Equator Principles, the Resolution 4327/2014 provides guidelines for financial institutions to implement Social and Environmental Responsibility Policies. According to this resolution, financial institutions and other institutions authorized to operate by the Central Bank of Brazil, must have their own standards of Social and Environmental Policy and Responsibility, the respective action plan and start executing the actions corresponding to the plan.

The Financial System in Brazil is compounded of different organizations, such as banks, insurance companies, credit cooperatives, financial institutions of public or private control with strong state intervention through specific norms and laws, regulated by the Central Bank of Brazil.

In this context, the Financial System seeks to implement social-economic policies that can bring benefits to the community, but such approach may also represent a risk disturbing the performance of Brazilian financial institutions with that of other organizations that do not have this concern. This risk diminishes with the inclusion of socio-environmental guidelines in the global discussions made to elaborate the Basel agreement, which may signal a coordinated effort among central banks to regulate these policies towards sustainability in the financial sector (Monzoni et al., 2014). Banks play a major role in the daily lives of communities, which highlights the importance of their actions in the pursuit of sustainable development and the encouragement of socially responsible business practices (Febraban, 2002). The development banks and development agencies investigated presented evidence that they are important in complying with the established guidelines for the disclosure of socio-environmental practices in their businesses, albeit partially.

METHODOLOGY

Methodologically, this research is characterized by being a documentary research. A documentary study differs from other types of academic studies by the way its data is collected, restricted to written or non-written documents, which constitute the so-called primary sources. The collection of this documentation can be done at the moment of the occurrence of the facts or through a later compilation made by the author. In order to make the analysis of the raw data, the content analysis technique was used, which allows for a more rigorous organization and provides a better understanding of the data and possible findings, indicating to the researcher a way to go deeper in the understanding of the meaning of the presented content.

The technique of content analysis is compounded of three distinct phases: (i) general readings of the material; (ii) selection of the units of analysis; and (iii) categorization and subcategorization.

In order to support the content analysis process, the "Atlas.Ti" software was used. The use of software allowed to perform the qualitative research in a computerized environment.

Due to the lack of documentation from some institutions the sample of this study was delimited to 13 institutions and it was compounded of 10 development agencies and 3 development banks.

In order to develop the study, the documents related to social and environmental practices were searched on the websites of the institutions chosen. The period of analysis was August to September 2016. From a total number of 20 institutions, 13 were studied (65%), covering 100% of the population in half of the regions of the country. The geographical distribution of the sample is presented in Table 1.

Table 1: Population and Sample Distribution by Region

Region	Population	Sample	%	Region	Population	Sample	%
Centro-Oeste	2	2	100%	Norte	4	1	25%
Nacional	1	1	100%	Sudeste	4	4	100%
Nordeste	5	3	60%	Sul	4	2	50%

In Brazil, the main development agents are public institutions which can be divided into two categories: development banks and development agencies. Development banks generally have a more national range and seek to contribute to the development of the national economy. The development agencies are local institutions whose main objective is to finance fixed and working capital for projects planned in development programs of each specific State.

The objective of the study was to verify the social and environmental policies of Brazilian financial institutions, in order to verify the guidelines that guide the practices of these institutions and to seek a link between the disclosure of these policies and the publication that determines their obligatoriness.

The main source of data used in this study was the Social and Environmental Responsibility Policies of financial institutions. These policies demonstrate the principles that guide social and environmental actions.

Additional data from other documents and the financial and market performance of the studied institutions were used to triangulate the results and to establish a maturity and comparative model that was useful to organize the sample and to project a general framework for the entire set of similar financial institutions.

RESULTS AND DISCUSSION

The average number of guidelines found per institution is 9 ranging from a minimum of 3 and a maximum of 15. Taking into account the standard deviation and the coefficient of variation, it was possible to recognize that the data of the sample is relatively dispersed. Since the resolution that regulates this subject for financial institutions in Brazil does not determine the guidelines that should be verified by each institution, we have very different cases reflecting the individual concerns of each institution. Creating a standard or reference to be observed by all institutions would reduce this discrepancy and ensure that important aspects will be addressed.

In this section we analyze the socio-environmental guidelines found in several documents of the 13 organizations and which were collected on the websites of the studied institutions. Of these documents, 10 belonged to development agencies and 3 to development banks. As to the type of documents found, 2 institutions reported the information in the form of articles, 2 other published specific resolutions to address these issues and 9 investigated institutions have current

socio-environmental policies, with an available version on their websites.
In order to identify the most used terms in the analysed documents, the procedures of Zipf's law were applied, which according to Araújo (2006) verifies the regularity of the use of words in a given context. The analysis verified the frequency of use of each word using a Word Cruncher tool. In a universe of 2,509 distinct words that were used 10,312 times, Table 2 shows the ones most frequently used.

Table 2: Frequency of Words

Word	Frequency	%	Cumulated	Word	Frequency	%	Cumulated
Socio-environmental (singular)	262	2,54%	2,54%	Risk	108	1,05%	7,53%
Responsibility	152	1,47%	4,01%	Environmental	93	0,90%	8,44%
Policy	134	1,30%	5,31%	SERP	81	0,79%	9,22%
Socio-environmental (plural)	121	1,17%	6,49%	Operations	71	0,69%	9,91%

The frequency of use shown in Table 2 indicates the words that represent approximately 10% of occurrences. The other terms are mainly related to social policies. The number of guidelines found in the documentation of the institutions, by region, are those presented in Table 3.

Table 3: Guidelines by Institution in each Region

Region	Total	Maximum	Minimum	Average	Standar Deviation	Coefficient of Variation
South	24	12	12	12	0	0
North	14	14	14	14	0	0
Northeast	21	11	3	7	4	57%
Midwest	19	15	4	9,5	7,78	82%
Southeast	32	15	4	8	4,97	62%
National	10	10	10	10	0	0%
Total	120	15	3	9,23	4,34	47%

Table 3 shows the dispersion of the number of guidelines that were found in the sample analysis. The average number of guidelines found per institution was 9.23 with a minimum value of 3 and a maximum of 15. Taking into account the standard deviation and the coefficient of variation, it can be determined that the data are dispersed, with no homogeneity in the number of guidelines by institution.
It was possible to observe a predisposition for social related guidelines, since of the total of 120 guidelines identified, 87 (58%) were classified in this category. This fact can be justified by the low direct environmental impact of operations of this type of institutions. At the other extreme we have the case of economic guidelines, with only 6 observations (4%), corroborating the results of other studies that verified that this type of institutions do not disclose economic indicators in their socio-environmental reports (Nogueira and de Faria, 2012). The frequency of the main social, environmental and economic guidelines is presented in Table 4.

Table 4: Frequency of main guidelines

Social	N	%	Environmental	N	%	Economic	N	%
Training and Education	18	16%	Products and Services	26	39%	Indirect Economic Impacts	3	50%
Products and Services Labeling	13	12%	Compliance	11	17%	Presence in the Market	2	33%
Local Communities	12	11%	Geral Environmental	7	11%	Purchase Practices	1	17%
Compliance	11	10%						
Public Policies	10	9%	Evaluation of Suppliers	5	8%			
Child Labor	8	7%						
Forced or Analogous to Slave Labor	7	6%						
Marketing Communications	6	5%						

Table 4 shows the importance given by financial development institutions to assess the social impacts of their products (i.e. project financing) because they represent the greatest point of externalities. In addition to the impact of them, it can be verified that these institutions value training activities and integration with the community as a way to mitigate the social impacts of their activities and the liabilities generated. Regarding environmental guidelines, the highest incidence involves the products and services made available by the institution, representing 39% of those found in the sample. This is an evidence of the low environmental impact caused by the operational activities of this industry and the possibility of

generating environmental impact through the financing of environmentally irresponsible projects.
The low incidence of economic category guidelines can be also verified from the analysis of the reports. The result corroborates the study of Nogueira and Faria (2012), which verified the socio-environmental practices of the major financial intuitions that operate in the Brazilian market and found that economic indicators have a lower presence in the analyzed reports, due to the existence of other reports for the financial situation of the institutions. It is possible to emphasize that 50% of the practices of the economic category are related to the indirect economic impacts of the organization's performance. As evidenced by Nogueira and Faria (2012), there is no concern about the disclosure of economic performance indicators in the social-environmental reports of financial institutions.
Regarding the adequacy of social practices in the reports of Brazilian financial institutions, Nogueira and Faria (2012) highlight the existence of a high degree of compliance found in social and environmental reports in relation to GRI recommended practices. For the authors this indicates that this type of indicator is being well monitored by the Brazilian institutions, either by the interest of the institution, or by the pressure of the society or of the unions that do not tolerate practices socially unacceptable.
Regarding the period of publication of the information analyzed, it was verified that 3 institutions published their documents the date of publication of the resolution 4327/2014. The other 9 institutions published their reports in the period between 04/25/2014 and 07/31/2015 (the deadline established by the resolution) and one institution published after the deadline of 2015.
It is worth mentioning that the socio-environmental policy of one of the institutions had its first version elaborated in 1997, demonstrating the vanguard of this institution in terms of socio-environmental responsability.
The documentary analysis also allowed to verify the financial result of the institutions surveyed, in the period that preceded and followed the creation of the regulation that determines the obligation of the Brazilian financial institutions to elaborate and to divulge their SERP.
Of the 13 institutions, nine presented increasing nominal results, and in three of them there was a change of losses (12/2013) to profits (06/2016). In the other four institutions, the reverse occurred, that is, from profits (12/2013) to losses (06/2016). However, it was not possible to establish a relationship with these policies. This behavior can be justified by the low direct socio-environmental impact of the activities of this type of institution or by the characteristics of this type of actions to present results in the short term (Tachizawa, 2005).

CONCLUSIONS AND FURTHER RESEARCH

The main reason for the search for sustainability in the financial industry is the achievement of a balance between financial and socio-environmental issues making it possible to achieve economic prosperity coupled with socio-environmental quality. Nevertheless, there are many methodologies that aim to guide the production of reports for measurement and control of sustainability indicators and each of them can use different performance indicators, making the comparison between them a complicated task.
In this study, they were analyzed the guidelines that support the socio-environmental policies of Brazilian development agencies and development banks according to the GRI. The socio-environmental policies of the institutions were also analyzed under the light of the resolution of the National Monetary Council that regulates these issues in Brazil. It was possible to verify the assumption found in the literature that financial institutions seek through their socio-environmental policies to mitigate the effects of their way of acting and also that the socio-environmental policies of this type of organization do not have guidelines related to the economic dimension since there are other publications focused on this aspect. Furthermore, it was possible to verify that most financial institutions have SERP and that these policies, in most cases, are the result of the regulation that determines the mandatory nature of this type of policy.
Possibilities for future studies, include the analysis of the contribution of SERP to general performance of financial institutions. This would allow to correlate the practice of socio-environmental activities and organizational performance, and eventual relationship with management structure, job satisfaction, customer loyalty, internationalization, among others aspects.
It can be also proposed the use of GRI categories to make comparisons and generating a mapping of the socio-environmental aspects. This research will allow the creation of models of evaluation of socio-environmental policies in line with what is suggested in the literature (e.g. Krajnc and Glavič, 2005).

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