Comparative Analysis of BoG's Sustainable Banking Principles and GSE's ESG Disclosures Guidance manual

ESG Reporting

—

November 2024

Contents

Aligning for Impact: Unravelling Ghana's Sustainable Banking Frameworks

The demand for sustainable business practices has greatly intensified in recent times. All businesses are encouraged to incorporate sustainability principles and report on the environmental, social and governance aspects of their operations. Strides are being made in various sectors. The financial sector is particularly important for ESG advancements because of its pivotal influence on resources for every other industrial sector. Hence, a focus on the sector in the ESG conversation has moved regulatory bodies and financial institutions around the world to create well-defined frameworks and guidelines.

In Ghana today, several industry authorities are establishing frameworks, directives and actionable roadmaps to aid adoption and reporting in their jurisdiction. The Central Bank, Bank of Ghana introduced its Sustainable Banking Principles in 2019 to provide a framework for financial institutions to integrate sustainable practices into their operations. The Ghana Stock Exchange also developed the ESG Disclosures Guidance Manual in 2022 to guide listed companies in reporting on ESG initiatives and performance. The purpose of these adopted sustainability frameworks and guidelines is to increase accountability and confidence in these entities and improve transparency for investors and other stakeholders.

In this publication, we put both issuances under the lens and review them as enabling frameworks for ESG in the Ghanaian banking sector. We discuss the challenges and opportunities that listed banks will experience in their implementation of both guidelines, offering invaluable insights for them as they move towards being sustainable in their business practices.

> Sustainable banking, requires banks to assess economic, environmental, and social risks affecting the projects and businesses they finance
>
> **Mrs. Elsie Addo Awadzi,**
> **Second Deputy Governor, Bank of Ghana**

KPMG

> Sustainability reporting is no longer a niche practice, but a mainstream expectation for banks worldwide.

Banking as we know it is undergoing a significant shift. Post-Cop 26, more responsibility is being demanded from the industry making sustainability reporting an essential cog in managing operational transparency. Various regulatory directives like the EU's Corporate Sustainability Reporting Directive (CSRD), the US SEC's climate-related disclosures for investors and industry-specific standards like the United Nations Principles for Responsible Banking (PRB) and GRI sector standard for banking – are laying the foundation on which comprehensive ESG disclosures is fast becoming a mainstay.

This systemic shift is reflected in recent micro-level advancements globally. Leading finance institutions like Morgan Stanley, Allianz and Caisse des Dépôts are making bold commitments to achieve net-zero carbon emissions by 2050. Banks are innovating financial products that support sustainability, such as green bonds and sustainability-linked loans. Additionally, ESG considerations are increasingly being integrated into core business strategies. Technological advancements, including big data, artificial intelligence, and blockchain, are all aiding in improving data accuracy and streamlining reporting processes. Furthermore, banks are prioritising stakeholder engagement to build trust, align expectations and create shared value. These efforts collectively underscore a growing commitment to sustainability across the financial industry.

This global movement towards responsible banking has significant implications for Ghanaian banks. Sustainability reporting is not just of local concern, but rather best practice to operating within the broader financial landscape. Embracing this change is critical for Ghanaian banks to ensure they remain competitive and contribute to a more sustainable future.

Introduction

Sustainability Reporting Insight from Global Banking Sector

Alignment and divergence: BOG's SBP & GSE's ESG Disclosures

Implementation Challenges & Opportunities for Listed Banks

Conclusion

The **Bank of Ghana's Sustainable Banking Principles** and the **Ghana Stock Exchange's ESG Disclosures Manual** are two frameworks that aim to drive sustainable practices for Banks and listed entities respectively. These frameworks reflect a growing concern for banks and listed companies to be deliberate about redirecting their efforts and resources to sustainable development through transparent, accountable, and responsible operations. A brief highlight of both is given below:

Ghana Stock Exchange ESG Disclosure Manual

	Mandatory	Optional
General	▪ Corporate governance ▪ Corporate strategy ▪ Environmental and social risk management ▪ Stakeholder engagement ▪ Regulatory compliance ▪ Data privacy	▪ Supply chain screening ▪ Risk management and internal controls ▪ Ethics and integrity ▪ Shared value – Sustainable Development Goals
Economic	▪ Economic performance ▪ Taxes ▪ Anti-corruption	▪ Indirect economic impacts ▪ Market presence ▪ Local content
Social	▪ Human rights ▪ Labour and working conditions ▪ Occupational health and safety ▪ Training and education ▪ Diversity and equal opportunity	▪ Consumer protection ▪ Pay ratios (CEO, Gender)
Environmental	▪ Environmental oversight ▪ Environmental compliance ▪ Emissions	▪ Water and effluents management ▪ Waste Management ▪ Energy consumption (Usage, intensity, and mix) ▪ Climate risk mitigation

Bank of Ghana Sustainable Banking Principles

Sustainable Banking Principles

- Principle 1 - Identify and manage environmental, social and governance risks and opportunities in our business activities
- Principle 2 - Promote good environmental, social and governance practices in our internal business operations
- Principle 3 - Promote good corporate governance and ethical standards
- Principle 4 - Promote gender equality
- Principle 5 - Promote financial inclusion
- Principle 6 - Promote resource efficiency and sustainable consumption and production;
- Principle 7 Reporting.

Five Sectors

- Agriculture & Forestry
- Mining and Oil & Gas
- Construction & Real Estate
- Power & Energy
- Manufacturing

KPMG

In this section, we will explore the areas of alignment between the Bank of Ghana's Sustainable Banking Principles (SBP) and the Ghana Stock Exchange's ESG Disclosures Manual. The areas of alignment have been assessed on four key areas which are Environmental, Economic, Social & Governance:

Environmental

Carbon Emissions:

SBP: Principle 2 of the SBP promotes the effective management and reporting of the carbon footprint for banks, covering direct emissions (such as paper, water & electricity consumption per employee) and other indirect emissions.

GSE: Similarly, listed banks must provide detailed reports on their carbon emissions. They also need to outline their strategies for reducing emissions and shifting towards low-carbon operations.

Resource Efficiency:

SBP: Principle 6 emphasises the efficient use of energy, water, and other resources. Banks are encouraged to implement projects that promote sustainability, such as energy-efficient buildings and renewable energy sources.

GSE: Calls for comprehensive reporting on resource consumption. Listed banks should state detailed measures taken to enhance energy efficiency, water conservation, and sustainable resource management.

Waste Management:

SBP: Principle 2 also encourages banks to develop strategies for waste reduction, recycling, and proper disposal. The principle promotes the implementation of sustainable waste management practices.

GSE : The guidelines also stress the importance of waste management, requiring detailed disclosures on waste generation and reduction efforts, including recycling programs and disposal methods.

Financial Performance:

SBP : Banks are encouraged to provide detailed reports on their financial performance, covering areas like profitability, cost-efficiency, and the economic value they create. The SBP encourages integration of ESG factors into financial decision-making to promote sustainable growth.

GSE : Listed banks are required to provide detailed reports on their economic performance, including the direct economic value they generate and distribute, indirect impacts such as the financial impact of climate change, and their anti-corruption measures.

Risk Management:

SBP : The SBP requires banks to report on their risk management practices, including the identification, assessment, and mitigation of financial risks related to environmental and social factors. Principle 1 highlights the importance of incorporating ESG risks in business activities.

GSE : The guidelines also have similar requirements for detailed disclosures on risk management strategies, highlighting how banks address various financial, operational, and compliance risks associated with ESG issues.

Social

Employee Well-being:

SBP: The SBP encourages banks to report on their health and safety measures, diversity and inclusion efforts, and employee training programs. This includes their occupational health policies, strategies for promoting work-life balance, and initiatives to cultivate a diverse workforce.

GSE : Similar disclosures about employee rights, workplace safety, diversity policies, and professional development opportunities are required under the guidelines. The SRG places a strong emphasis on non-discrimination and equal opportunity in recruiting and promotions.

Community Engagement:

SBP: Principle 2 highlights the value of volunteerism, community investments, and the general effect that banking operations have on communities. Banks are expected to participate in community development initiatives and to disclose their social contributions.

GSE : The guidelines require listed banks to disclose information on their community involvement activities, including as donations to charitable groups, assistance for neighbourhood projects, and volunteer work. .
.

Gender Equality:

SBP: Principle 4 promotes gender equality initiatives, such as equitable hiring procedures, equal compensation, and professional development opportunities. The UN Women's Empowerment Principles serve as a foundation for this principle.

GSE : The guidelines require listed banks to report on gender equality initiatives, emphasising actions taken to guarantee equal treatment and representation of women in the workforce. The guidelines also encourage the adoption of policies that promote gender diversity and inclusion.

Corporate Governance:

SBP: Principle 3 promotes adherence to good governance practices emphasising the implementation of anti-corruption measures. Banks are required to have robust governance frameworks to ensure transparency and accountability. This principle aligns closely with international governance standards.

GSE : : In alignment with the SEC's (2020) Corporate Governance Code for listed companies, the SRG requires the disclosure of corporate governance practices for all listed banks.

Ethical Standards:

SBP: Principle 3 stresses ethical standards and transparency in operations, including the implementation of whistleblower policies and compliance with national and international regulations. Banks must ensure ethical conduct in all business activities

GSE :: The guidelines require banks to disclose their ethical policies and practices, including measures to prevent corruption and unethical behaviour. They encourage the adoption of international best practices in ethics and compliance

In this section, we will explore the areas of divergence between the Bank of Ghana's Sustainable Banking Principles (SBP) and the Ghana Stock Exchange's ESG Disclosure Manual: While the SBP and SRG are significantly aligned in their objectives and requirements, they differ in their respective approaches and focus areas that are relevant to banks

A Depth of Reporting

GSE SRG

GSE's ESG Disclosures Guidance manual

- **Detail and Breadth:** The GSE guidelines provide more detailed requirements for overall corporate sustainability reporting, encouraging extensive disclosures across all ESG dimensions. This broader framework ensures listed companies report on a wide range of sustainability issues, which can enhance transparency and comparability.
- **General Applicability:** The guidelines are applicable to listed companies in general and not specifically tailored to the risks, opportunities and operational context of banks.

BOG SBP

BOG's Sustainable Banking Principles

- **Focus on Risk Management**: The SBP focuses more on integrating ESG risks into lending and investment activities, with sector-specific guidance for high-risk areas such as agriculture, manufacturing, and energy. This makes the SBP particularly relevant for banks in managing sector-specific environmental and social risks.
- **Specific Guidance:** The SBP offers detailed guidance tailored to the banking sector's unique needs, ensuring banks address ESG risks directly related to their financial activities and client sectors.

	B Regulatory Alignment	C Implementation Requirements
GSE SRG	• **International Standards:** Adopts international standards like the GRI, promoting comparability with global peers. This helps banks meet international investor expectations and facilitates cross-border investments.	• Encourages a broader scope of sustainability reporting, including governance aspects and stakeholder engagement. This comprehensive approach ensures banks report on relevant ESG aspects but may require more extensive data collection and reporting efforts.
BOG SBP	• **National Compliance:** Emphasises compliance with national regulations and standards, tailoring the principles to align with Ghana's specific regulatory environment and development goals. This focus ensures banks meet local regulatory requirements while considering international best practices.	• Provides a more focused approach on environmental and social risk management, requiring banks to integrate these considerations into their credit assessments and decision-making processes. This focus on risk management ensures banks prioritise ESG risks directly related to their core activities, potentially simplifying implementation.

The successful implementation of sustainability reporting practices by banks in Ghana, guided by the Bank of Ghana's Sustainable Banking Principles (SBP) and the Ghana Stock Exchange's Sustainability Reporting Guidelines (SRG), present both opportunities and challenges to Banks. This section delves into the practical considerations for banks, touching on the key challenges they might face and the potential benefits of integrating these frameworks into their operations.

Challenges:

1 Data Collection & Management

Listed banks face challenges in gathering accurate and comprehensive data across various ESG metrics. This difficulty stems from the complexity of data collection and the need to integrate it with existing financial and operational systems.

2 Balancing ESG Expectations

The SBPs primarily focus on integrating environmental and social risk management into banking practices, while the GSE guidelines have a broader scope, encompassing environmental, social, and governance factors. Effectively managing the overlap and differences between these two sets of requirements can be complex.

3 Capacity Building

Listed banks need to invest in comprehensive tools, resources and training programs to enhance staff knowledge on ESG principles, data collection methodologies, and reporting standards.

Challenges Cont'd :

1 Resource Allocation

Implementing the SBP and SRG can be costly. Banks need to allocate significant financial resources to adopt new technologies, hire additional staff, and engage external consultants. This requires careful planning and possibly restructuring to ensure dedicated ESG teams.

2 Stakeholder Engagement

Engaging with stakeholders about ESG practices is vital yet challenging. Banks need effective communication strategies to inform and engage stakeholders.

Banks need to balance managing diverse stakeholder expectations regarding ESG performance and reporting.

3 Technological Integration

Banks may need to upgrade or implement new IT systems to track and report sustainability metrics effectively.

They need to ensure new systems work seamlessly with existing financial and operational systems.

Opportunities:

Data Collection and Analysis: Both sets of guidelines require robust data collection and analysis processes. By developing systems to track and analyze ESG data for regulatory compliance, banks can more easily adapt to the GSE's disclosure requirements.

Resource Optimisation : Both sets of guidelines emphasize the importance of Environmental, Social, and Governance (ESG) factors. This shared focus means that banks that are already implementing measures to comply with the BoG's principles will have a solid foundation for meeting the GSE's disclosure requirements.

Transparency and Accountability: Both sets of guidelines promote transparency and accountability. By implementing strong governance and reporting processes, banks can enhance their credibility and build trust with stakeholders.

Risk Management: Both sets of guidelines emphasize effective risk management, including identifying, assessing, and mitigating ESG risks. By implementing strong risk management practices to comply with the BoG's principles, banks can more effectively manage the risks associated with ESG factors, which is crucial for GSE disclosure.

Training and Capacity Building: The SBPs encourage banks to develop ESG-related expertise through training programs, which are critical for implementing effective disclosure practices. This training builds the capacity needed to understand and report on ESG factors, making it easier for banks to produce the detailed, accurate reports that the GSE guidelines require.

In conclusion

The Bank of Ghana's (BOG) Sustainability Banking Principles (currently mandatory) and the Ghana Stock Exchange's (GSE) ESG Disclosure Guidelines (currently voluntary) represent a significant step forward for Ghanaian banking. While both frameworks share the common goal of improved Environmental, Social, and Governance (ESG) performance, they take slightly different approaches. Taking into consideration our analysis of the alignments and divergences between these frameworks, listed banks can navigate the evolving regulatory landscape with greater ease.

Listed banks in Ghana have a unique opportunity to enhance their sustainability practices and overall ESG performance by embracing both BOG's Principles and the GSE's Guidelines. This combined approach ensures compliance with regulations, strengthens a bank's long-term viability, and allows it to make a positive societal impact.

How KPMG can help

KPMG is at the forefront of sustainability reporting, helping clients develop responsible and sustainable strategies, business models, operations and investments. We have experience supporting listed and private businesses across all sectors and at all levels of maturity.

By leveraging KPMG's expertise, banks can navigate the complex ESG Regulatory landscape and demonstrate their commitment to sustainability. We offer a comprehensive range of services to help clients:

- **Understand and manage ESG risks:** Identify, assess, and mitigate ESG-related risks to protect your organisation's reputation and financial performance.
- **Capitalise on ESG opportunities:** Develop strategies to harness ESG factors for competitive advantage and innovation.
- **Enhance stakeholder engagement:** Build trust and strengthen relationships with investors, customers, employees, and communities.
- **Improve ESG reporting:** Develop robust ESG reporting frameworks aligned with global standards and stakeholder expectations.
- **Ensure compliance:** Stay up-to-date with evolving ESG regulations and avoid potential penalties based on stakeholder expectations, with our guidance.

Through our tailored approach, KPMG's ESG Advisory professionals can empower you to achieve your sustainability goals while creating long-term value.

KPMG

Kwame S. Barnieh
Partner, Governance Risk and Compliance Services

Tel: +233 (302) 770454, 770618
Email: ksbarnieh@kpmg.com
www.kpmg.com

Joyceline Coleman
Partner, Accounting Advisory Services

Tel: +233 (302) 770454, 770618
Email: joycelinecoleman@kpmg.com
www.kpmg.com

Patience M. Dzikunoo
Senior Manager, Accounting Advisory Services

Tel: +233 (302) 770454, 770618
Email: pdzikunoo@kpmg.com
www.kpmg.com

Reindolf Annor
Partner, Accounting Advisory Services

Tel: +233 (302) 770454, 770618
Email: rannor@kpmg.com
www.kpmg.com

Nathaniel Adjin-Tettey
Senior Manager, Accounting Advisory Services

Tel: +233 (302) 770454, 770618
E-mail: nadjin-tettey@kpmg.com
www.kpmg.com

kpmg.com/socialmedia