ACADÉMIE DE LA BEI DÉDIÉE AUX BANQUES DE PME ET À LA MICROFINANCE EN AFRIQUE DE L'OUEST ET DU CENTRE 2021

THE EIB WEST AND CENTRAL AFRICA SME BANKING AND MICROFINANCE ACADEMY 2021

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Building Environmental, Social and Governance (ESG) frameworks for your Financial Institution – The journey to ESG reporting and rating

AfriKairos

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Overview

This learning session discsusses the importance of building ESG frameworks for FIs by:

•Talking about rules, regulations and best practices around ESG.

•Analyzing the growing importance of ESG criteria for investors.

•Analyzing the processes and tools necessary to be ESG compliant.

Expected outcomes

Participants should gain valuable insights on the following:

•How and why do financial institutions choose to implement ESG standards beyond regulations?

•How do investors, with their growing interest for ESG, influence FIs to shift strategy, and why it is important for FIs to be able to anticipate?

•Concrete example of what Financial Institutions have been able to put in place in order to standardize their approach, improve the traceability of their operations and improve the quality of their ESG framework.

What	How long	About
Introduction	5 min	Setting the scene; Intro to session; presentation of the speakers' background and domain of expertise
Presentation	55 min	A brief history of ESG; definition; rules and regulations; processes to implement; how reports and ratings work; best practices and concrete examples from Financial Institutions. Impact of well managed ESG framework on business operations.
Final Q&A	30 min	Questions posed by the audience / discussion

Which of these challenges most concern you…?

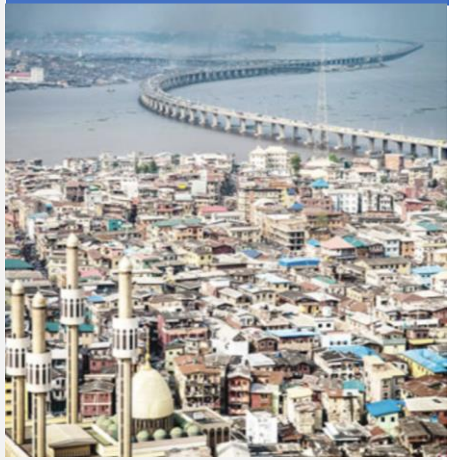
1. Climate Change & Resource Scarcity

Climate change **increases the risk of hunger and poverty (SDG 1 & 2)** across much of Africa over the next 60 years. Businesses, Financiers, DFIs & governments must rethink innovation and investment in response to this risk.

2. Demography: work or consumption?

In Sub-Saharan Africa, where the **population is projected to double** by 2050, the population of **working-age people is growing** fast, offering opportunities for sustainable economic growth, or unsustainable consumption…?

3. Urbanization: opportunity or risk?

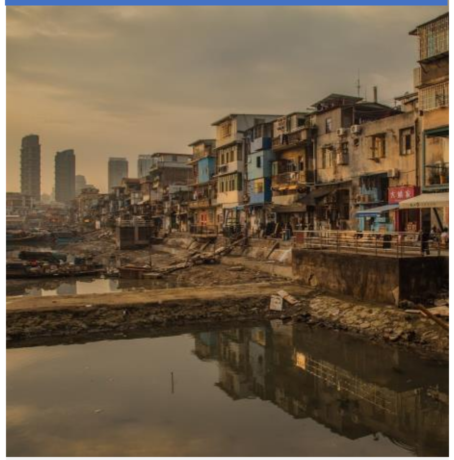


Africa is projected to have **the fastest urban growth rate in the world**: by 2050, Africa's cities will be home to an additional 950 million people. This offers great opportunities, but also significant ESG risks, which need to be addressed.

4. Technology: new chance or domination?

Africa's industrialization is rapidly progressing. The number of tech hubs across Africa grew by 40%. Innovation and shared knowledge applied offer leapfrog opportunities which opens new doors to more sustainable investments.

5. Inequity: opportunity or disaster-in-view?



The **gap between rich and poor is greatest in Africa than any other region.** It is critical that businesses governments and financiers choose a path of equitable growth. ESG criteria enable new investment opportunities. Who leads this?

Source: *Report of the UN Economist Network - Shaping the Trends of Our Time, 2020*

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Can we build new partnerships between businesses and their financiers?

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Is it possible to imagine…

*…a world in which sustainability thinking and finance converge empowering people, through **businesses and their financiers,** to bring positive social, economic and environmental innovation and impacts into every day living?*

Yes we can?

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Does the leadership for better ESG frameworks sit with financiers, regulators or businesses?

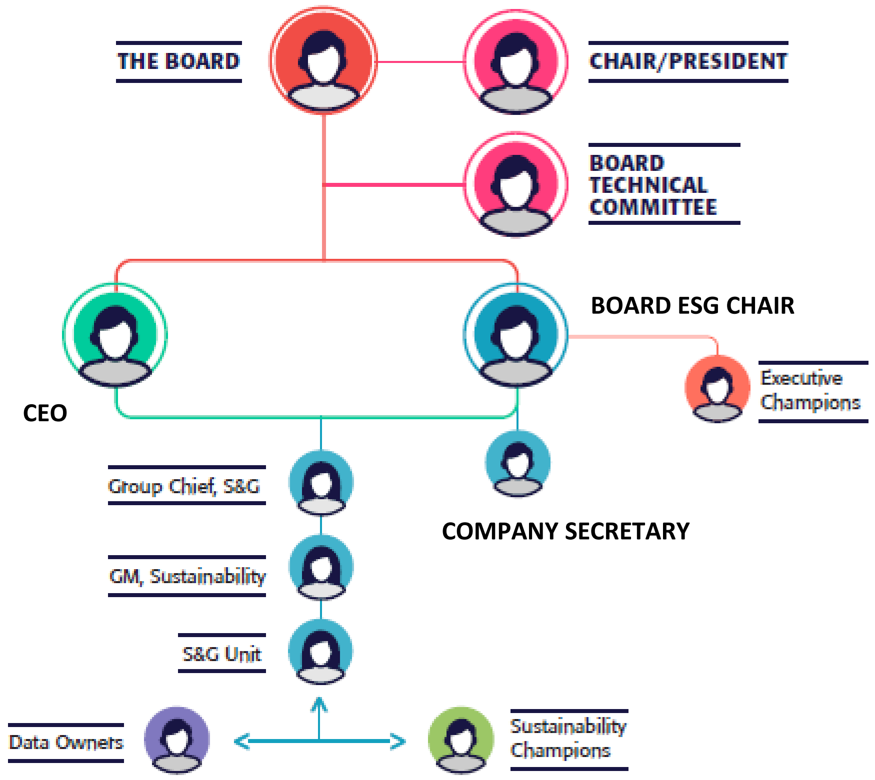
Is it possible to imagine…

… a rethink of investment and impact assessment criteria,
reconsidering how and why businesses are eligible to access finance;
Is it reasonable that financiers consider, alongside profitability and operational efficiency,
ESG risks and impact criteria like job creation, respect for culture, social impact, supply chain growth (MSMEs), minimal natural resource use, regenerative systems and reducing our global environmental footprint?

ESG – Does the G (Governance) really matter?

A successful Sustainability Approach requires ACCOUNTABILITY for material ESG impacts, reaching to the highest levels of governance…

…Sustainability must be overseen by the highest levels of governance and permeate all other functions



1. The Board receives quarterly Sustainability Reports through a Board Sustainability Committee, to whom the Sustainability Team is held accountable.

2. The board oversees the setting and development of sustainability strategy and enforces its adoption, holding the CEO accountable.

3. The CEO a team of sustainability professionals who liaise with sustainability champions across the business.

Will ESG be a one-size fit for all companies financed?

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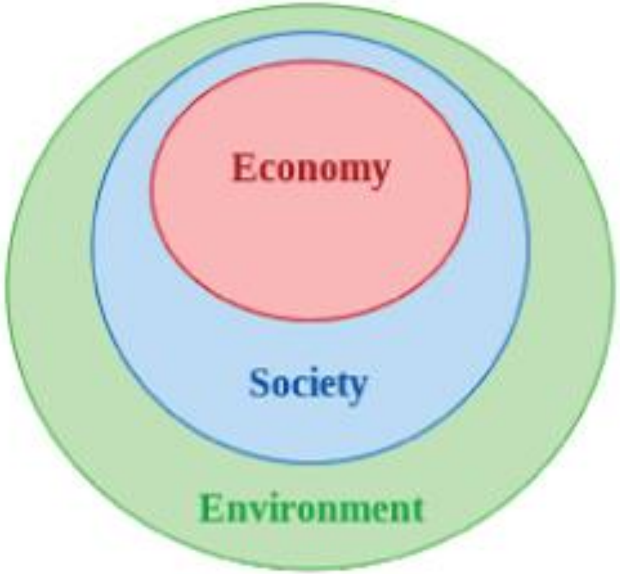
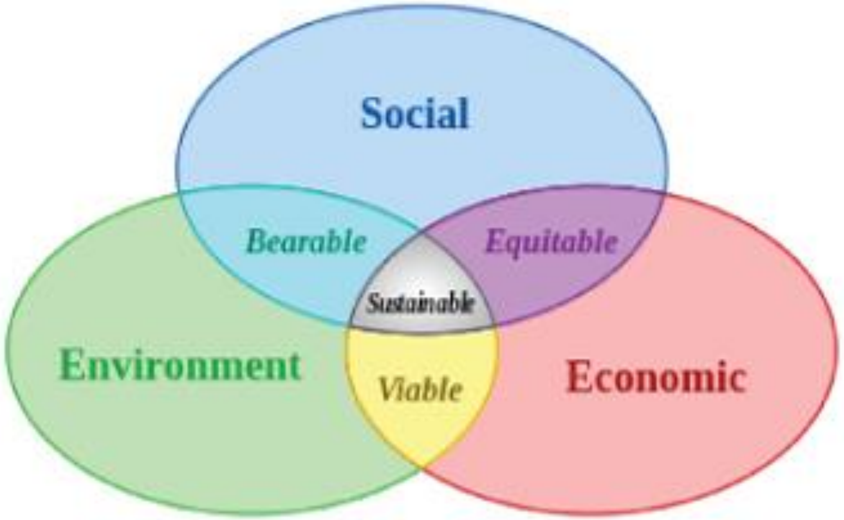
How do we see sustainability?

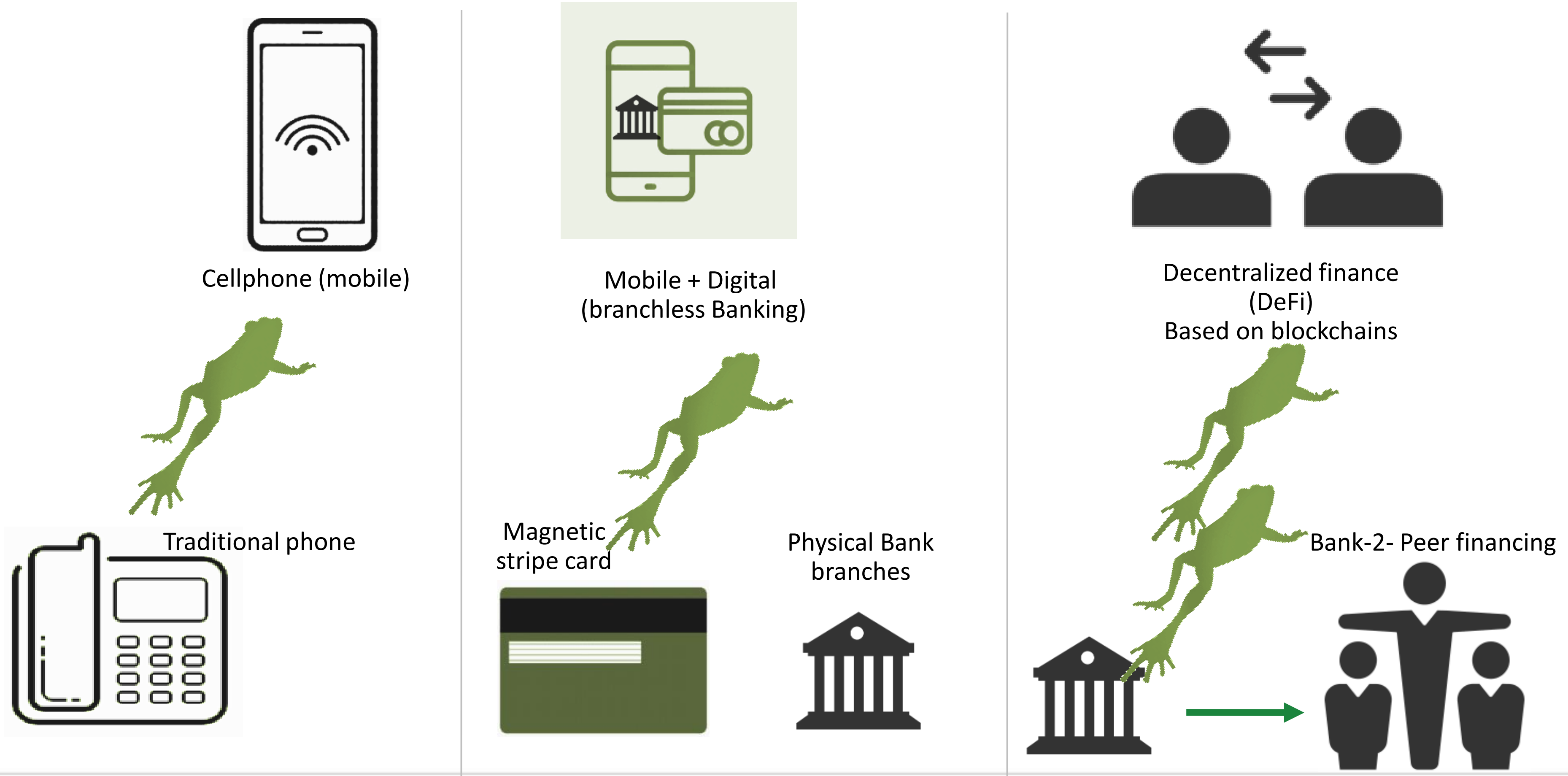


A diagram indicating the relationship between the "three pillars of sustainability", in which both economy and society are constrained by environmental limits.



Venn diagram of sustainable development: at the confluence of three constituent parts.

Are we in a leapfrog moment for finance and ESG?



Source:

TòròNet Chain

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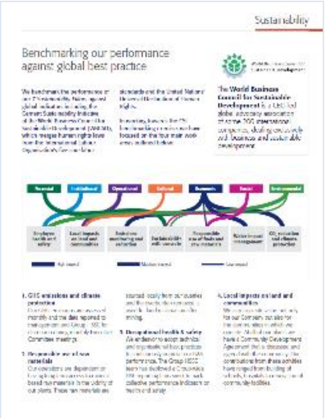
ESG: Compliance with global standards…

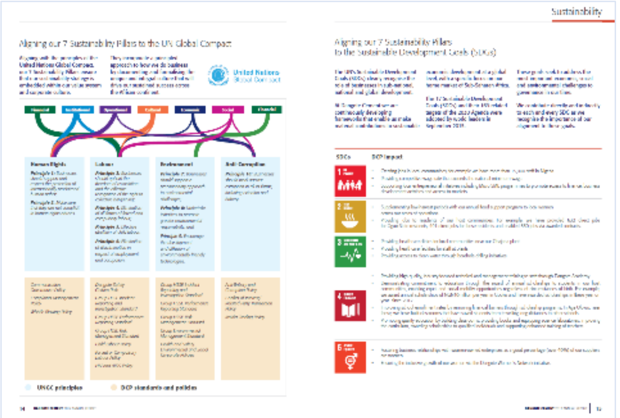
GRI Empowering Sustainable Decisions

World Business Council for Sustainable Development

UN Global Compact

UN Sustainable Development Goals





ESG: beyond regulations…

Stage 1

Objectives and general approach definition

- Conduct initial benchmarks and analysis
- Establish the reporting background

Stage 2

ESG Impact scope determination

Engage stakeholders for:

- Identification of material topics and indicators
- Prioritization based on materiality
- Validation by stakeholders

Stage 3

Data gathering Process

- Create templates
- Collect and collate data
- Conduct Quality Assurance (QA)
- Obtain sign-off from data owners

Stage 4

Assurance

- Analyze data
- Report using quantitative and qualitative data
- Ensure data integrity

Stage 5

Corporate Culture & Governance

- Verify the Walk matches the talk
- Data Integrity
- ESG Risk Management

Stage 6

ESG/Integrated Reporting:

Publication of Sustainability & Integrated Reporting

Stage 7

ESG Ratings

Improve business resilience and access to capital via better ESG Ratings

Stage 8

Corrective Action:

improvement of data gathering system, implementation of new sustainability processes

Sustainability Culture and Governance are key factors often ignored. This is what the **SevenPillars** Approach addresses

ESG Assessments – the Journey

Journey towards
Sustainability (& ESG) Reporting


Global Reporting Initiative
Statement
GRI Application Level Check

Year One: Culture

- Identify and adopt a robust data gathering framework for ESG across the business.
- Facilitate workshops and ESG stakeholder surveys which will inform Material Indicators, Policy, Processes, Systems & Culture.

Year Two: Governance

- Introduce ESG at the highest levels of governance
- Engage stakeholders (internal and external for validation of material indicators).
- Embed Sustainability Thinking & Doing at all levels of Governance, Operations & Corporate Culture.
- Ensure a culture of compliance with key regulations and laws

Year Three: Reporting (data)

- Embed mandatory systems-driven, institutionalized, group-wide Reporting by 1st January 2019.
- Incorporate sustainability KPIs as part of the Performance Management metrics.
- Monitor ESG performance at the board level and prepare quarterly ESG reports
- Initiate external Sustainability Reporting

Year Four: Assurance

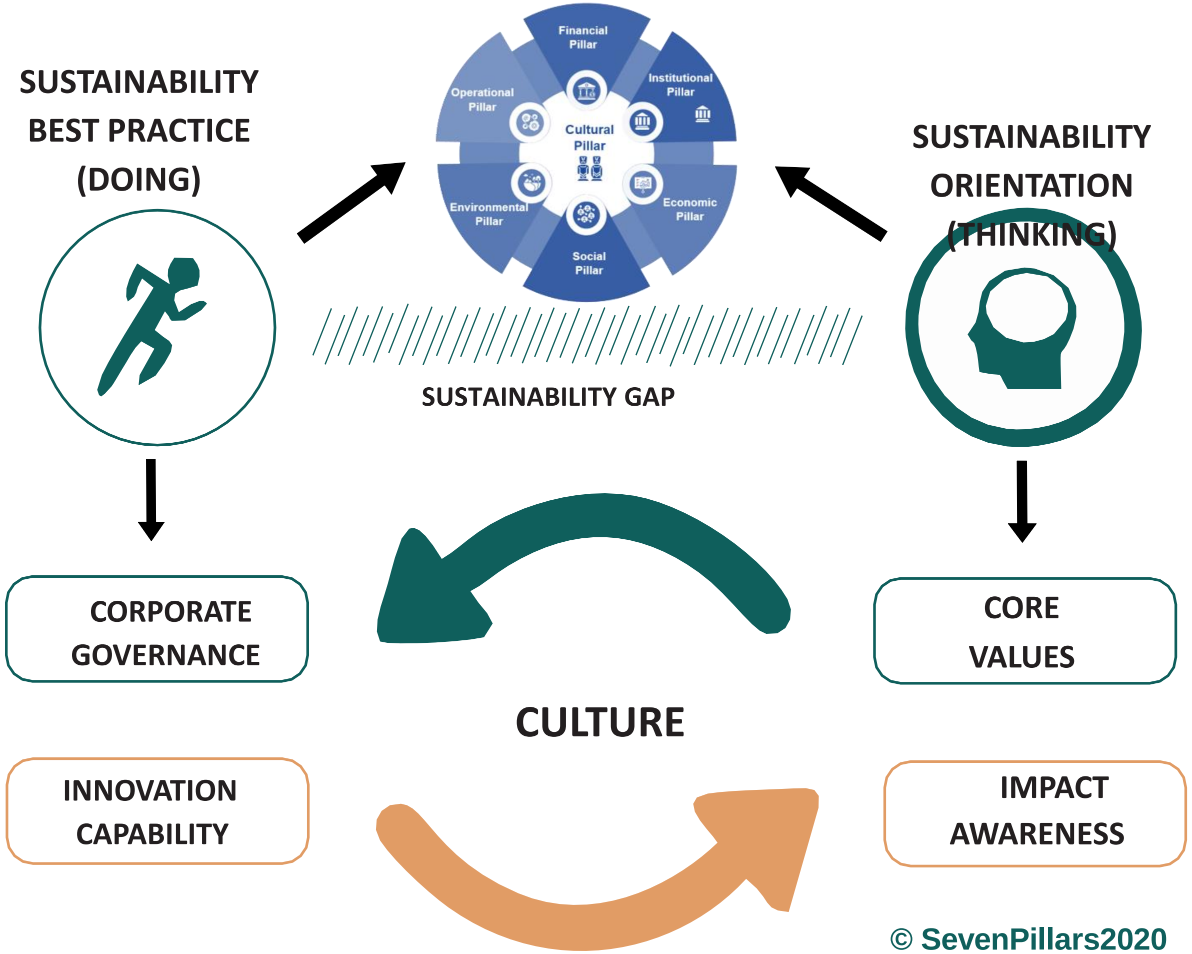
- Perform third-party assurance of Sustainability Report.
- Initiate due diligence measures for global standards and ESG Ratings
- Establish synergies between stronger ESG and EBITDA, as well as social license to operate and access to capital.
- Initiate Integrated Reporting

Case Study: the SevenPillars Approach

The SevenPillars Approach to Sustainability advocates for the inclusion of all business functions in assessing ESG, and that the development of a sustainability culture that makes everyone an accountable stakeholder on the shared and/or corporate sustainability journey is critical…

It is important to establish the existence of a sustainability consciousness at the highest level of governance, manifest in policies, remuneration incentives, and impact tracking (with verified data) in order to proactively managing ESG RISKs at every level of business operations and also consider evolving regulations and laws.

1. The SevenPillars Approach: is designed to close the sustainability gap



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Aligning sustainability with action

It is our shared responsibility to **address the present conflict between people, planet and profit**. That means we need to shift from ticking boxes for reports to responsible and conscious decision-making in the realm of finance, production and consumption. For instance, circular economy initiatives should not just tick the box for recycled e-waste streams but rather finance business strategies that eliminate negative environmental impact, and create new job opportunities and lifestyles.

Investments in social, economic and environmental projects, requires us to confirm materiality among stakeholders, evaluate ESG risks, prioritize our actions, and set clear targets and timelines investors and donors can monitor.

2. Close the ESG-Rating/Sustainability gap

ESG Corporate Rating

ISS ESG

Company Information

Country
South Africa

ISIN
ZAE000042164

Industry
Telecommunications

Key Results

Rating **D+**	Decile Rank **6**
Transparency Level **High**	Performance score **29.66**
Status **Not Prime**	Prime Threshold **C+**

Absolute Rating

D-	D	D+	C-	C	C+	B-	B	B+	A-	A	A+

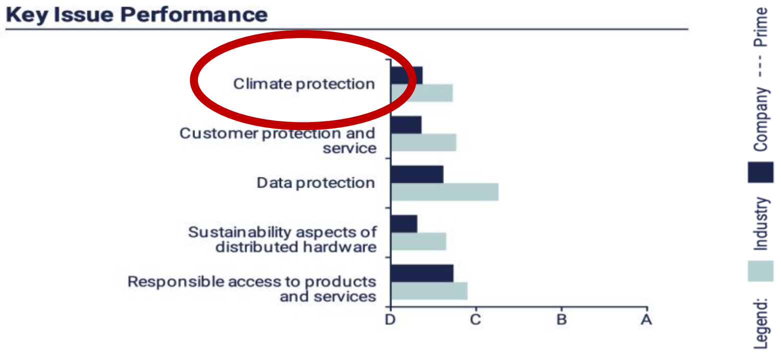
The assessment of a company's sustainability performance is based on approximately 100 criteria, selected specifically for each industry. A company's failure to disclose, or lack of transparency, regarding these matters will impact a company's rating negatively.

Corporate ESG Performance
Prime
RATED BY ISS ESG

Example of Climate Protection Rating in African firms

- ESG Rating criteria do not always properly assess the organizational impact and risks eg in African companies
- We need to acknowledge actual impact on climate change
- Estimate/Measure scope 3 emissions
- Disclose all methodologies
- Make this information externally verified with reasonable assurance and more than 80% scope
- Define a science based target
- Evaluate the action plan to achieve reduction targets

Key Issue Performance



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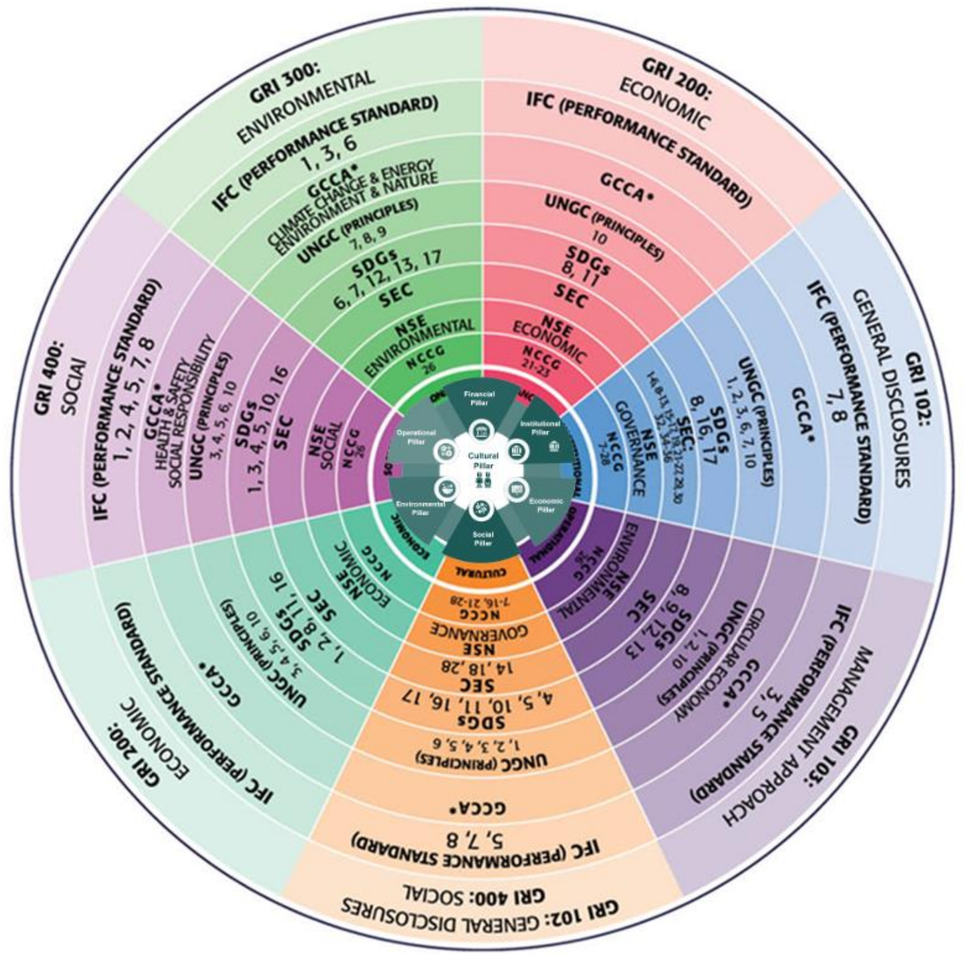
3. Close the ESG regulatory gap, local & global

The private sector and public sector working collaboratively is required to help economies back on the growth trajectory. This requires evidence-based decision-making and partnerships on
- Economic Growth, including the digital economy;
- Job Creation and Inclusive Growth
- Significant Social, Economic & Environmental Impacts

☑ **SEC -** Securities & Exchange Commission
☑ **GRI -** Global Reporting Initiative
☑ **IFC -** International Finance Corporation
☑ **UNGC -** United Nations Global Compact
☑ **SDG -** Sustainable Development Goals
☑ **NCCG -** Nigerian Code of Corporate Governance
☑ **NSE -** Nigerian Stock Exchange

Value Chain & Supply Chain actors are often MSMEs…
To enhance sustainability performance and impact, vendors and suppliers should be incorporate as stakeholders & encouraged to adhere to minimum standards of professionalism, code of conduct and sustainable practices, underscored by periodic due-diligence on their processes, thus further mitigating third party ESG risk.



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4. Close the material impacts gap

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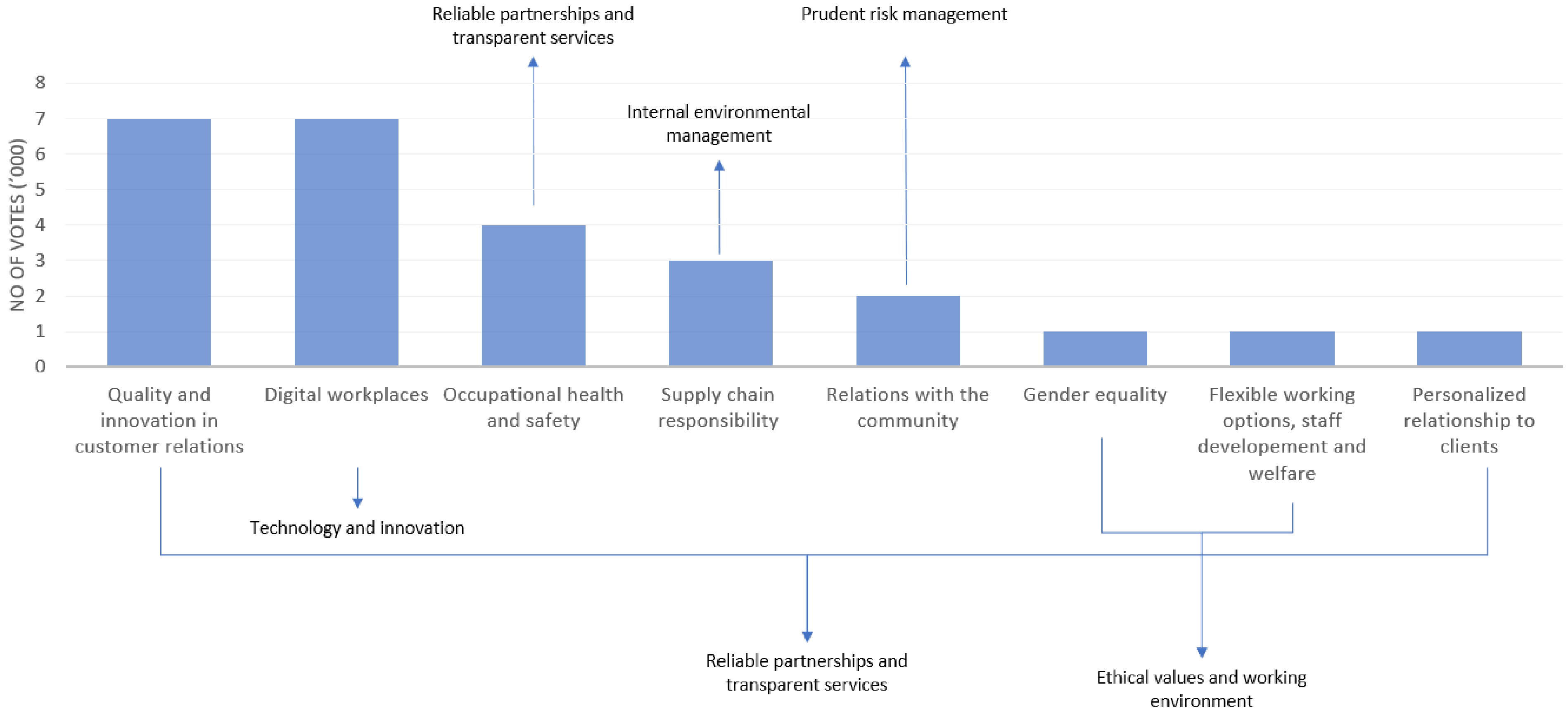
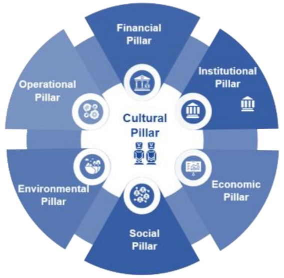
Engaging stakeholders is key to identify material topics, measure and rank them



5. Close the data integrity gap



The SevenPillars Approach

Helps companies to implement a tailored sustainability solution, owned by employees and the board, in order to:

- Mitigate risks (including ESG, data integrity and reputational risks)
- Enhance positive impacts (social, economic, environmental)
- Increase financial performance and guarantee sustainable development through improved ESG rating and investor validation

Sustainability strategy development

Applying a change management approach to develop the authentic MTN Sustainability culture

- What are the key characteristics of the sustainability context you operate in?
- Where is your impact? (negative as well as positive)
- What is your current sustainability approach?
- What is material to your company? What are your sustainability goals?

Data collection, analysis and disclosure (SevenPillars - Emex)

Disclosure according to global standards and benchmarks, backed by best in class systems deployed in devices and smartphones allowing effortless data entry/analysis

- Where are gaps in reporting according to ESG ratings?
- Which gaps can be fixed quickly? Where is need for improvement?
- Which data is currently collected? Which tools are used? What are staff capacities?

Sustainability driven innovation, positive impacts

Outlook and continuous improvements

- Increase impact by identifying new sustainable projects according to the strategic goals
- What impact and value do you want to bring in the future, including to EBITDA?
- What is the time frame for implementing your ESG impact and initiatives?

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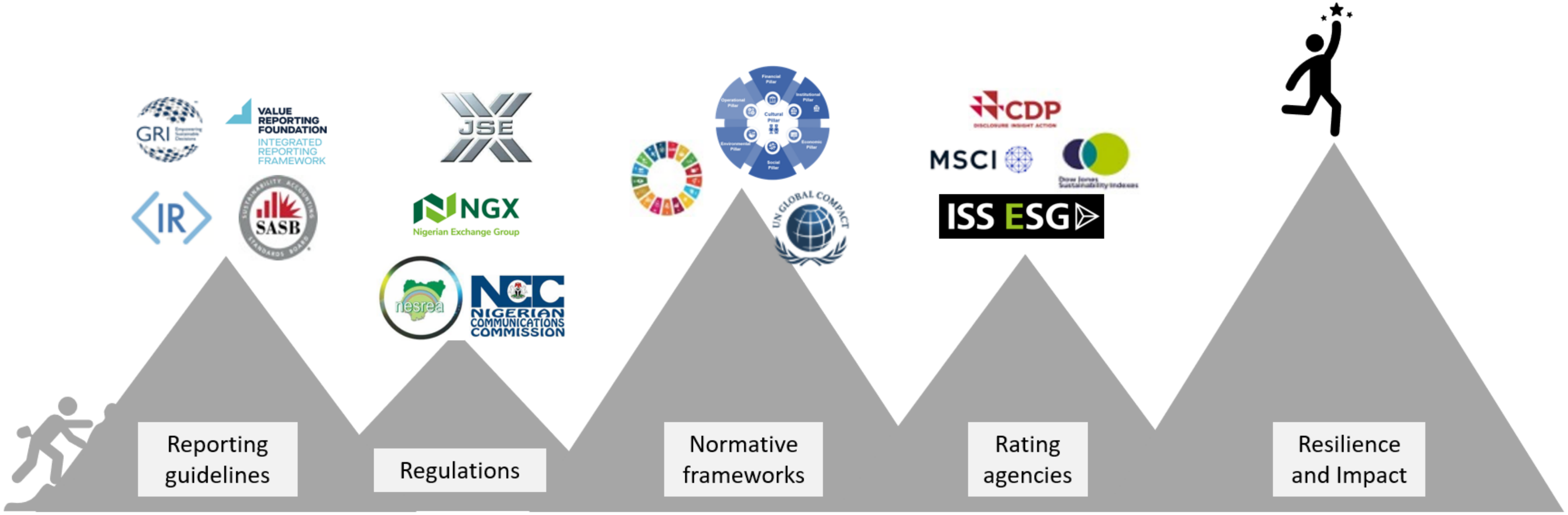
6. Close the stakeholder communications gap



Understand and meet your stakeholder expectations to choose your path

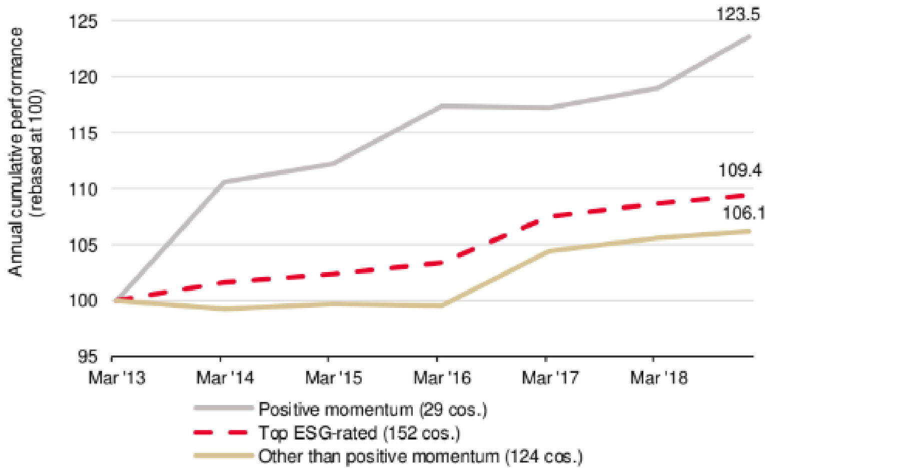
Build internal trust and achieve top performance based on capacity & a strong sustainability culture

Communicate your performance efficiently to get recognition and leverage insights to innovate and win!

7. Outperform the Market with ESG

Companies with strong ESG ratings outperform others!

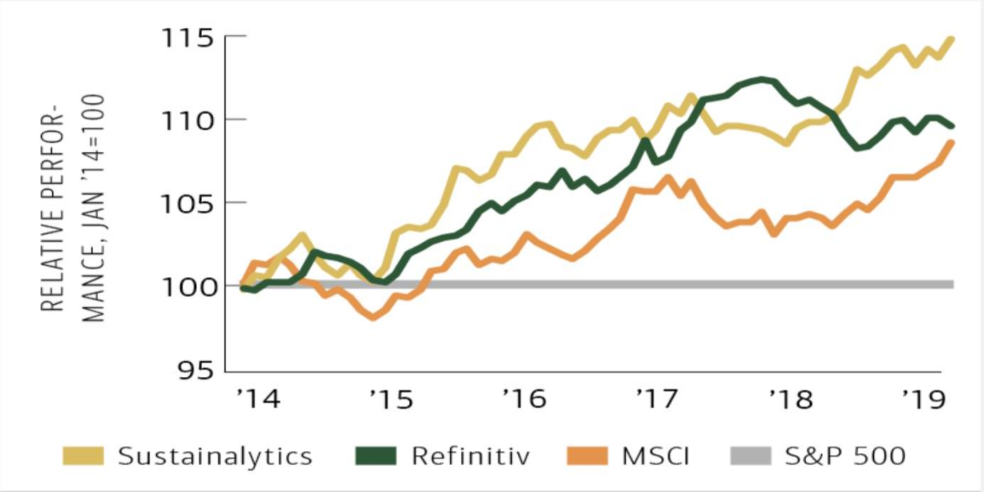
Stocks with improved ESG ratings (positive momentum) outperformed the top 30% ESG stocks



Source: SG Cross Asset Research/ESG (performance from March 15 '13 to Jan 15 '19 relative to STOXX 600)

Beating the benchmarks

Top ESG-ranked companies recorded better performance than the average S&P 500 company



Source: MSCI ESG Research LLC, Sustainalytics, Refinitiv, FactSet.

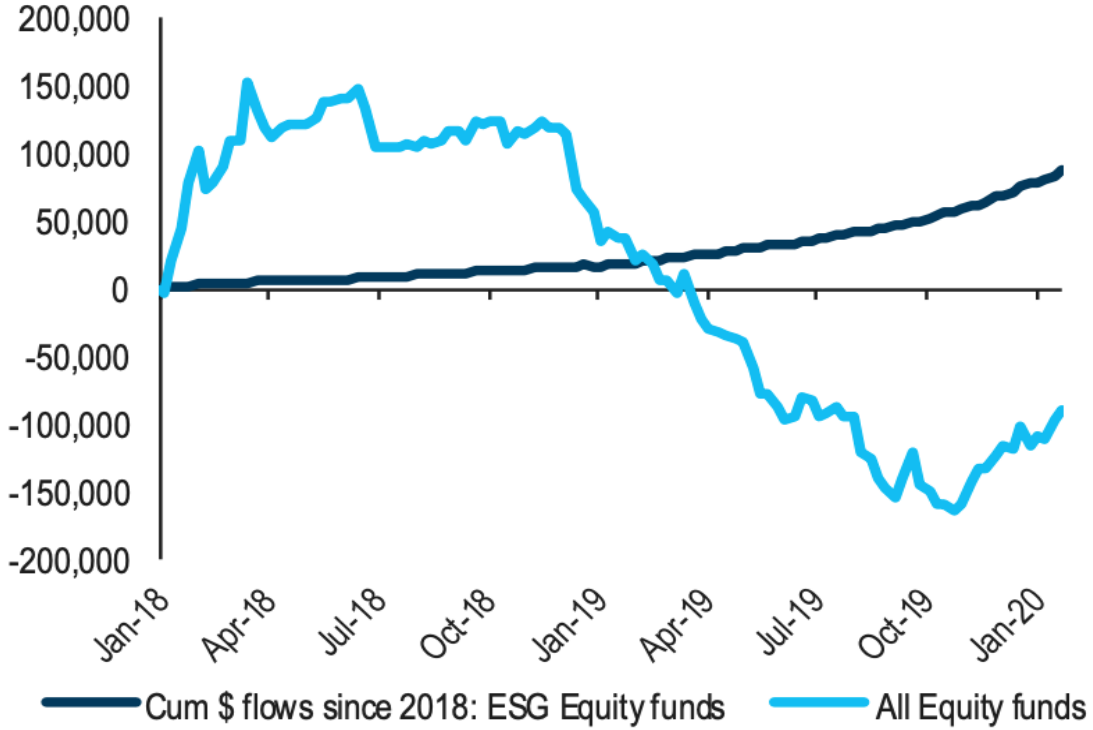
"Firms ignoring the climate crisis will go bankrupt"

Marck Carney, Governor UK Central Bank, The Guardian, 13 Oct 2019

8. Secure Business Resilience & Finance

Leveraging ESG to improve the risk return profile of investments

Steady inflows to ESG funds stand in stark contrast to the outflows from the wider equity markets



Source: EPFR, Barclays Research

Case Study: The SevenPillars-Emex Platform

- A People & values centered approach
- Data integrity and impact focus
- Embedded Sustainability Culture and Ownership
- Quality engagement with stakeholders
- Improve sustainability governance
- Achieve superior performance & resilience
- Opportunity to design culture-fit ESG solutions

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ESG Data Integrity & Assurance is key

Data validation, aggregation and real-time analysis (Afrikairos-Emex)

1 Data Input

Centralize data collection and corrective action.

2 Data Validation

Data validation process and audit trail is key

3 Data Integrity

Data integrity by ensuring user validation.

4 ESG Pillar Validation

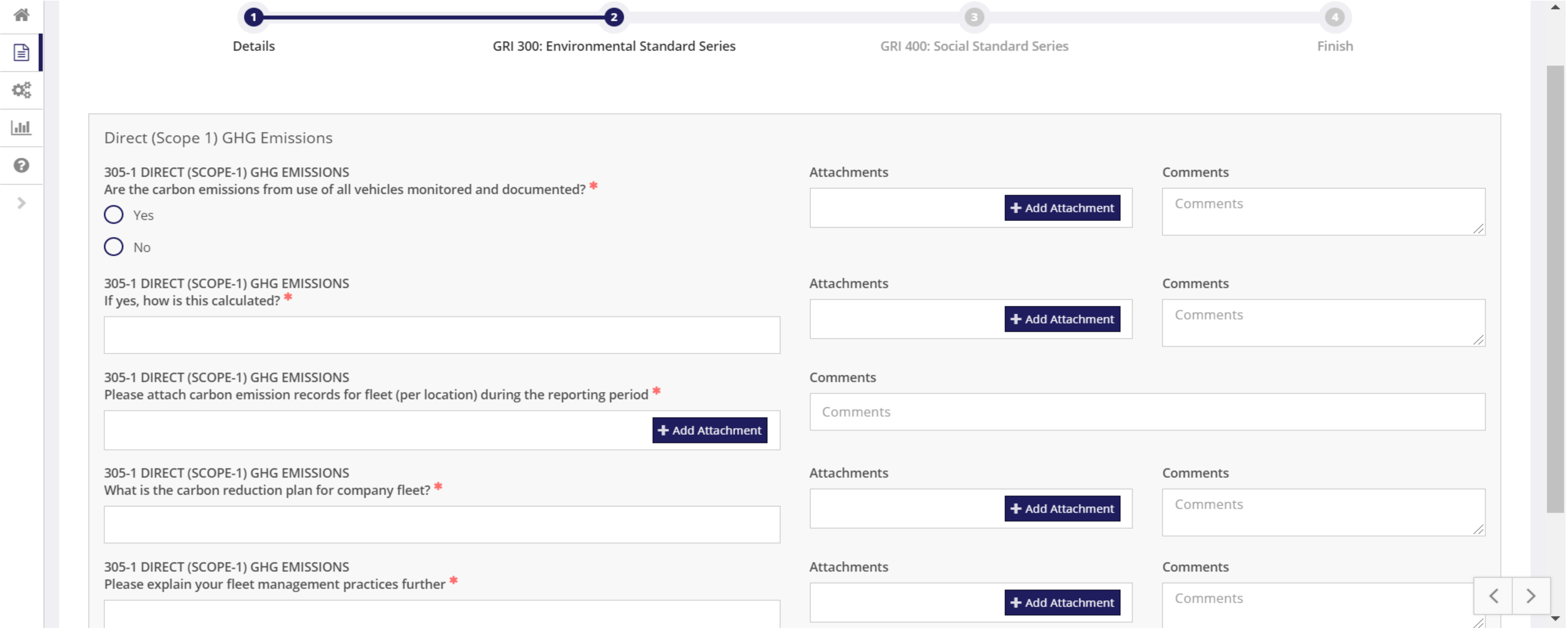
Validate ESG Pillar data by ESG champions & data owners

5 Impact Validation

Aggregate data & integrate dashboards/ analytics

Integrated process for improving data accuracy

Automated Data Entry: Afrikairos-Emex template



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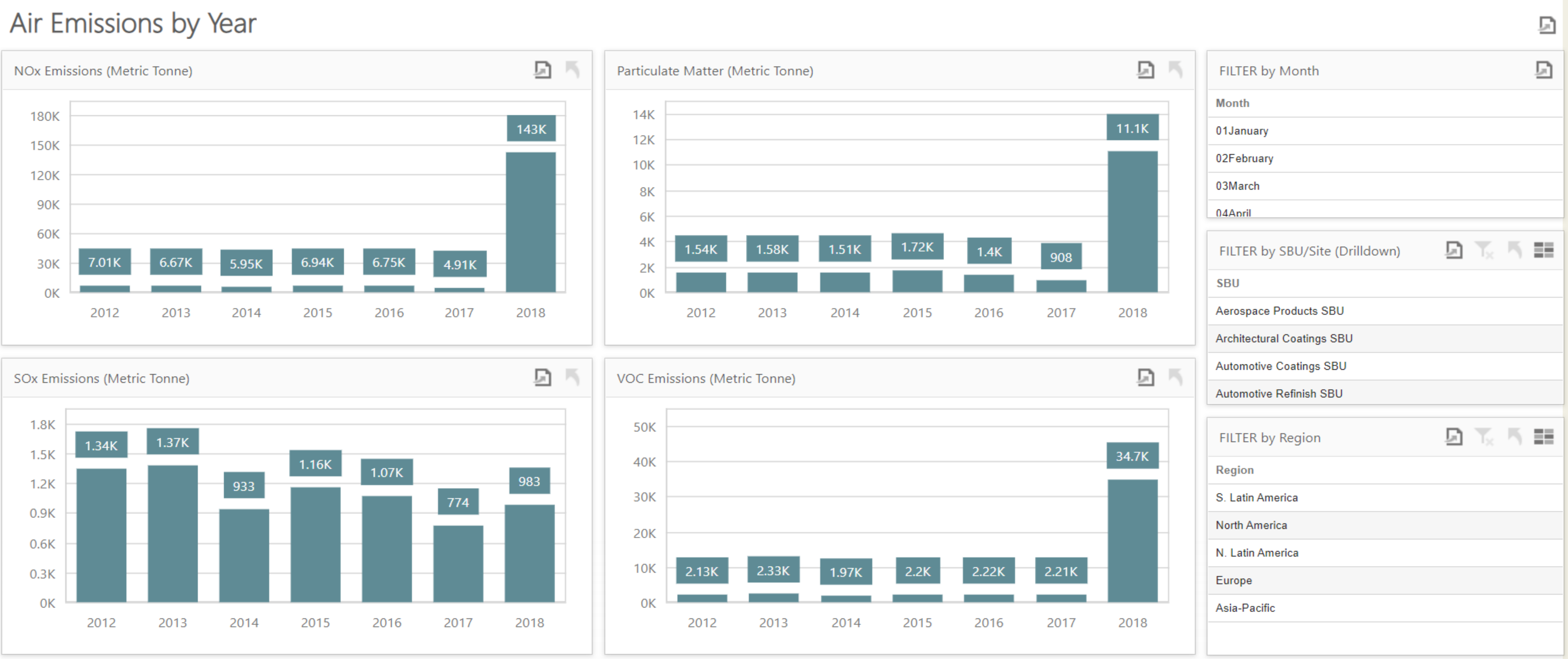
Analytics: Afrikairos-Emex template



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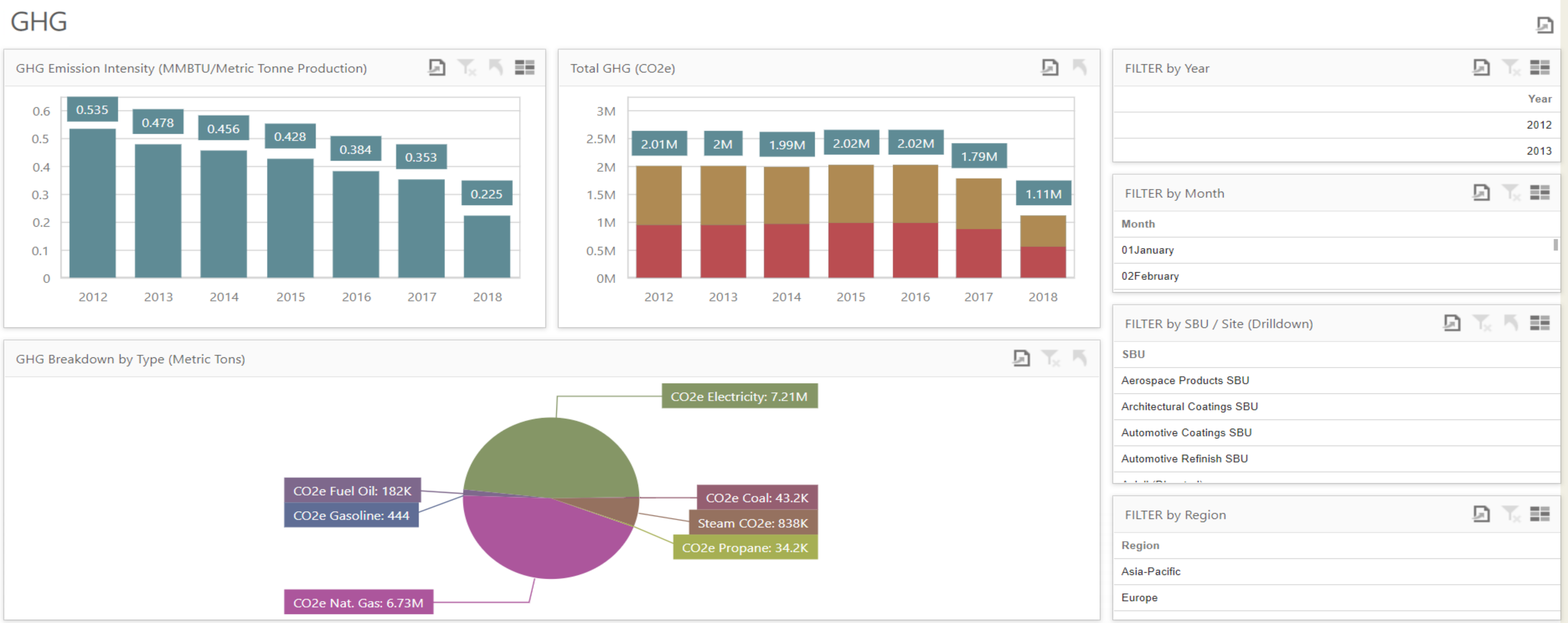
Dashboards: Afrikairos – Emex template



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ESG Reporting & Rating (business' view)

Strong sustainability systems create a competitive advantage and improve business value, risk management and resilience.

- Track impact & performance data
- Streamline data collection for material impacts
- Data Integrity & Assurance for compliance

Materiality Assessment is critical - and requires effective stakeholder engagement and communication - to ensure effective ESG risk management, sustainability/integrated reporting and ESG ratings.

ESG Reporting & Rating (financier's view)

A strong ESG score is crucial for investment viability in today's markets.

Shows the positive impact of business	Leverages ESG to improve business performance	Improves ESG and stakeholder risk management

Identifying the right systems, methodology and platform to qualify ESG performance and streamline data is important. Ideally businesses should combine Environmental, Social, and Governance metrics in one streamlined platform.

The business case for sustainability is strong...?

Investors are looking at the overall impact of their investments

89 percent of investment managers indicate their firms will devote more resources to sustainable investing area in the next two years.

Financial rating agencies are extending their scope into ESG performance

Major rating agencies (Moody's, ERM, S&P, ISS) acquired non-financial rating agencies in 2019. 2020 witnessed 17 ESG-related deals.

Governments (EU) are placing increased pressure on companies

By committing to SDG target 12.6, national governments have agreed "to encourage companies, to adopt sustainable practices and integrate sustainability information into their reporting cycle".

Multilateral agencies continue to increase the pressure around sustainability

The number of regulatory actions more than tripled between 2016 and 2020. New sustainability regulations are being put forward at national and international levels. For instance, the EU taxonomy and the EU Green Deal influences how European businesses will view investments in Africa.

ESG is a key consideration for business decision-making

More companies reconsider business relationships if they perceive companies are doing harm to the environment, society, economy and immediate host communities.

ESG is a key criteria for business investment decisions

An increasing number of companies consider ESG factors when considering whether or not to do business in Africa. This means there is an opportunity to partner between Europe and Africa.

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Question & Answer Session

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