Demystifying ESG and Sustainability

Why does ESG Matter to Your Business?

PKF

A. Introduction

In today's dynamic business landscape, organizations are increasingly being scrutinized for their impact beyond just financial performance. Environmental, Social, and Governance (ESG) considerations are rapidly becoming a core focus for investors, financiers, employees, consumers, communities and regulators alike.

These stakeholders are increasingly demanding transparency and accountability regarding the impact of operations by organizations on ESG-related issues.

The Kenya market has witnessed a rise in sustainability reporting regulations. The Nairobi Securities Exchange published guidelines for all listed companies to follow a standardized approach based on a Global Reporting Initiative Framework. The Capital Markets Authority also published a code on corporate governance and sustainable practices, while the Central Bank of Kenya issued guidance on climate-related risk management for financial institutions. While some industry groups have their own voluntary ESG guidelines, the lack of a common framework convolutes comparability.

To address the growing need for transparent and comparable sustainability reporting, Kenya—through the Institute of Certified Public Accountants of Kenya, is actively progressing toward adopting the International Sustainability Standards Board's International Financial Reporting Standards called S1 (General Requirements for Disclosure of Sustainability-related Financial Information) and S2 (Climate-related disclosures).

According to the ICPAK Sustainability Roadmap, a phased approach has been initiated, with Public Interest Entities mandated to adopt by 2027, Large Enterprises by 2028, and Small and Medium Enterprises by 2029. All organisations will undergo a readiness assessment before publishing their initial sustainability disclosures.

B. What is an ESG framework?

An ESG framework provides a basis for assessing an organization's commitment to managing non-financial risks and capturing opportunities that impact the entire landscape of a business. The breakdown of each pillar within ESG is as follows:

Environmental: This considers how an entity impacts the environment and how the environment impacts on its financial sustainability. Factors include; resources management, energy use, carbon footprint, waste management, and climate change mitigation strategies.

Social: This focuses on how an entity manages relationships with and creates value for stakeholders (employees, suppliers, customers, regulators and communities). It includes labour practices, diversity and inclusion, data protection, human rights, health and safety standards, product safety, modern slavery and child labour and community engagement.

Governance: This evaluates an entity's leadership and management practices, policies, risk management strategies and owner rights. It emphasizes transparency, ethical behaviour and accountability.

C. Why ESG?

The adoption and integration of ESG practices is driven by the increasing recognition that sustainability and ethical practices can lead to improved long-term financial performance. Key reasons include:

Risk mitigation	For environmental risks, ESG factors facilitate in identifying and mitigating environmental risks such as climate change, resource scarcity and pollution. This reduces regulatory risk and operational disruptions. In managing social risks, addressing issues like labor practices, human rights, and community relations can reduce the risk of reputational damage and legal issues.
Access to capital	Investors and financial institutions are increasingly looking at sustainability commitments as a criterion for investment and financing decisions. Entities with strong ESG practices are increasingly seen as having a lower risk and are therefore benefiting from easier access to capital, loans, and even discounted borrowing rates.
Regulatory compliance	Governments around the world are introducing regulations that require organizations to disclose their ESG performance. While these regulations primarily target large organizations, they are expected to extend to small and medium-sized enterprises, particularly those involved in larger supply chains, as these rules become more widespread.
Cost reduction and efficiency	By tracking resource use (energy, water, raw materials), businesses can identify opportunities to reduce waste and improve efficiency. For example, by investing in energy-efficient technologies, implementing recycling and reuse programs and developing sustainable product designs.
Long term value creation	While ESG initiatives may be costly in the short term, they are often associated with long term value creation. This includes resilient supply chains, higher customer loyalty, improved brand reputation, innovation, all of which translate into increased market share and higher returns.
Talent acquisition and retention	Strong ESG practices influence workplace conditions, employee satisfaction, and talent retention. This results to increased productivity, creativity, innovation and overall business performance.
Market opportunities and innovation	Companies with strong ESG practices are strategically placed to not only identify but also capitalize on emerging market trends. For instance, the growing demand for sustainable products and services can create new revenue streams.

D. Hurdles you may face

While ESG presents significant opportunities, there are challenges and concerns to be mindful of:

- Measurement and Reporting: While ESG measurement and reporting offer valuable insights, ensuring data accuracy and standardization requires a robust approach.
- Increased regulation and reporting requirements: Navigating the rapidly varying global regulations and staying compliant can be complex.
- Greenwashing: As consumer awareness on greenwashing rises, entities must ensure their ESG and sustainability claims efforts are accurate, transparent and verifiable.
- Increased pressure from larger organisations: Small and medium-sized entities are experiencing a rise in sustainability strategy requests, disclosure of emissions and other data from larger organizations, fuelled by the growing importance of supply chain sustainability.
- Lack of capacity and resources: There is need to develop cost-effective and scalable ESG solutions to overcome high implementation and transition costs.

E. How we can assist

Our team of ESG specialists can partner with you to navigate the world of ESG. Our comprehensive services include:

ESG health check: An assessment to evaluate your current ESG performance and identify areas for improvement.

Materiality assessment: We assist you analyse and prioritize the most significant ESG factors impacting your stakeholders and your business.

ESG strategy development: We work with you to create a long-term ESG plan that aligns with your goals and industry standards.

Stakeholder engagement: We guide you in effectively engaging with stakeholders on ESG issues, building trust, and fostering collaboration.

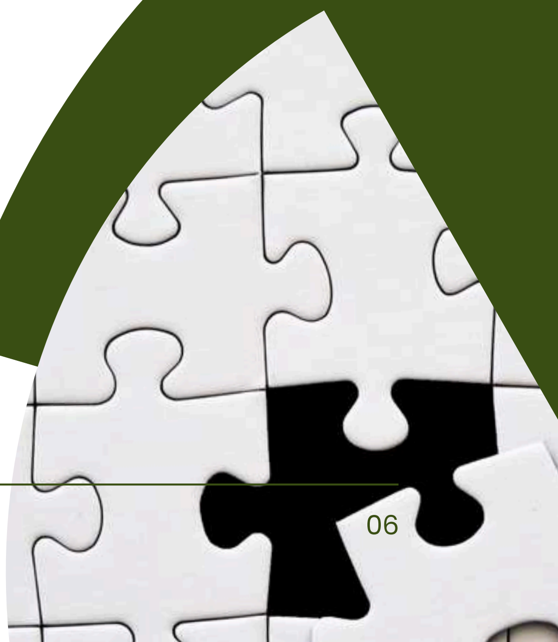
Risk and opportunity management: We assist you identify ESG risks and opportunities, mitigating potential threats and capitalizing on emerging trends.

ESG data management and reporting: We ensure accurate collection and disclosure of ESG metrics, enhancing transparency in your reporting.

Capacity building programmes: We offer training to facilitate your team learn the skills they need to put your ESG strategy into action.

ESG performance monitoring: We assist you track key indicators to assess progress, enabling continuous improvement and informed decision-making.

ESG assurance services: We perform independent verification to provide your stakeholders with confidence in your ESG disclosures and reporting standards.



You are welcome to discuss your ESG journey with our team by contacting either of our team members below

Gurmit Santokh

Managing Director
gsantokh@ke.pkfea.com

Mercy Maina

Assistant Manager - ESG and Sustainability Advisory
mmaina@ke.pkfea.com

Mark Ndaba

Associate - ESG and Sustainability Advisory
mndaba@ke.pkfea.com

Important Disclaimer

This document is written in general terms for guidance only and is not a substitute for professional advice. Whilst every care has been exercised in ensuring the accuracy of information contained herein, we will not accept any responsibility for errors or omissions or any action taken, or refraining from action without appropriate professional advice. This document is for the exclusive use by the clients of PKF and its associates and no part of it may be reproduced without our prior written consent.

PKF Consulting (K) Limited is a member of PKF Global, a network of member firms of PKF International Limited, each of which is a separate and independent legal entity and does not accept any responsibility or liability for the actions or inactions of any individual member or correspondent firms.

Kenya

Nairobi

Kalamu House, Grevillea
Grove Off Brookside Drive
P. O. Box 14077 - 00800
Nairobi
Tel: (+254 20) 4270000
Cell: (+254) 732 144000
E-mail: pkfnbi@ke.pkfea.com

Mombasa

1st Floor, Pereira Building
Pramukh Swami Maharaj Road
P. O. Box 90553 - 80100 Mombasa
Tel: (+254 41) 2226422/3 (+254 41) 2315846/97
Cell: (+254) 724 563668
E-mail: pkfmsa@ke.pkfea.com

Malindi

Malindi Complex Lamu Road
P. O. Box 5572 - 80200 Malindi
Tel: (+254 42) 2120701 (+254 42) 2130862
Cell: (+254) 722 209620
E-mail: pkfmld@ke.pkfea.com

Nakuru

Fourth floor, Office Block
Westside Mall, Junction of
Kenyatta Avenue and West
Road P. O. Box 1236 - 20100
Nakuru Tel: (+254 51) 2211906
Cell: (+254) 796 015656 E-mail:
pkfnku@ke.pkfea.com

Uganda

Kampala

Kampala Kalamu House Plot 1B Kira Road
P. O. Box 24544 Kampala
Tel: (+256 312) 305800
E-mail: pkfkam@ug.pkfea.com

Tanzania

Dar es Salaam

Dar es Salaam 1st Floor, Tower B Girl Guides Building, Plot No. 1088 Kibasila Street, Upanga
P. O. Box 7323 Dar es Salaam
Tel: (+255 22) 2152501/3/4
Cell: (+255) 784 520097
E-mail: info@tz.pkfea.com

Rwanda

Kigali

KG 5 Avenue 44, Kacyiru P. O. Box 341 Kigali
Tel: (+250) 255 104514
Cell: (+250) 788 454746 (+250) 788 386565 (+250) 738 386565
E-mail: pkfkgl@rw.pkfea.com

South Sudan

PKF South Sudan

C/O PKF Kenya LLP Kalamu House, Grevillea Grove, Westlands
P O. Box 14077, 00800 Nairobi, Kenya
Tel: (+254) 732 144000
Email: pkfnbi@ke.pkfea.com

PKF in Eastern Africa

PKF in Eastern Africa

www.pkfea.com