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Sustainable Finance and ESG

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Faculty

Brief Bio

- CEO at Rubicola Consulting – a green finance advisory firm, former Big4 Director and now Doctoral Researcher
- trained over 500 companies and Facilitated Board immersion programs for over 200 governance boards on IFRS, Sustainability and financial disclosures
- elected global president and chairman of the board of ACCA in 2022
- UN top 100 Most Influential People of Africa Descent (MIPAD)
- Executive programmes at The Wharton School, University of Pennsylvania and Harvard Business School.
- Rubicola is the first firm in Africa to be approved by the Climate Bond Initiative, as Verifier for green bond issuances.

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Agenda

- Introductions to ESG
- Materiality and Value Chain information
- Regulatory landscape
- IFRS S1 & S2
- Sustainability reporting in Public Sector
- Assurance
- Green Revolution & Finance
- Strategic Opportunities and Risks

Overview of ESG

- Relevance of ESG
- Historical and Political Context
- New International Standards: ISSB and ESRS

Governance criteria refers to a company's leadership & management philosophy, practices, policies, internal controls, and shareholder rights

Environmental criteria analyses the company's operations on environmental impact.

Social Criteria analyses how the company manages its relationships with and create value for stakeholders.

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ESG

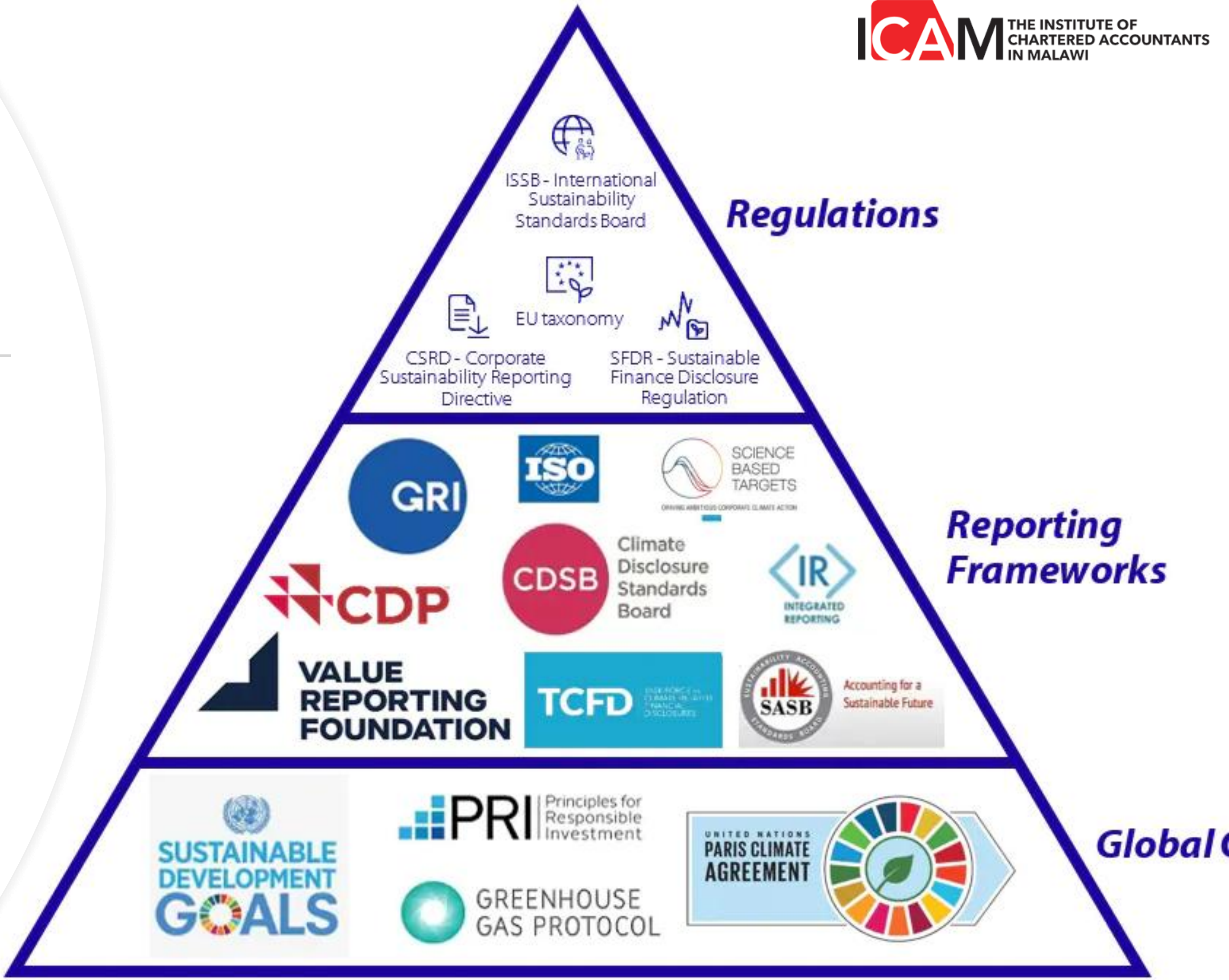
ESG

- Approach to integrate environmental, social and governance issues
- Framework for risk and opportunities management
- Assess ability to create & sustain long term value

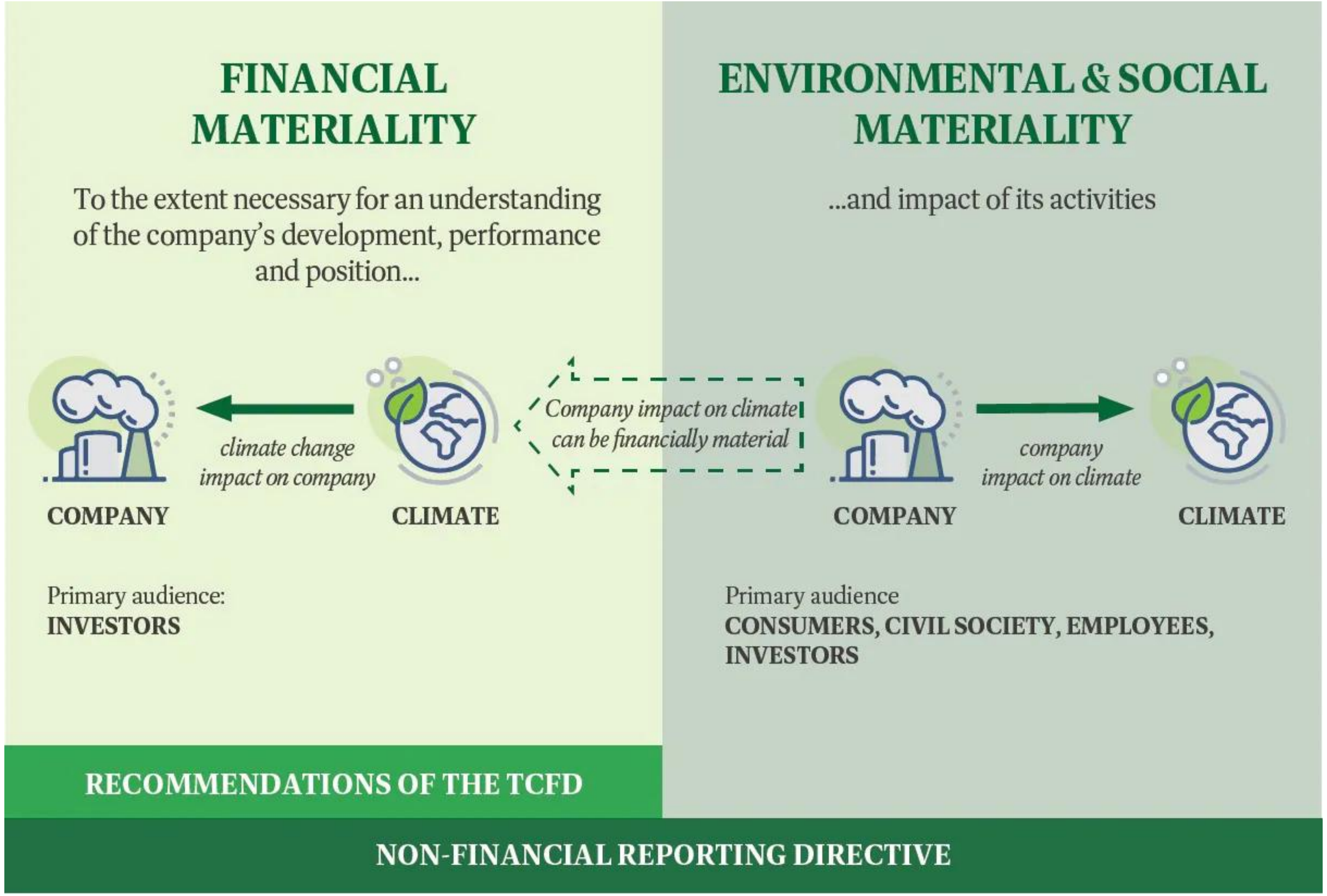
Sustainability

Long term value creation

- Historical context
- Embedding sustainability into organizational strategy
- Unlocking corporate and public value
- Convergence towards comparability – over 1700 different metrics
- Greenwashing, Blue-washing and other risks



Double materiality



Materiality assessment – illustrative steps

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Four pillars and alignment with TCFD

TCFD structure

Processes, controls and procedures

Governance

Strategy

Company’s strategy for managing risks and opportunities

Identify
Assess
Prioritise
Monitor

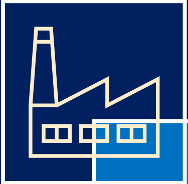
Risk management

Metrics and targets

Corporate performance

Climate Change: GHG emissions

- Gross Scope 1-3 GHG emissions to be disclosed



A

Scope 1

- Direct emissions

B

Scope 2

- Indirect emissions from the generation of purchased energy consumed by the company

C

Scope 3

- All other indirect emissions that occur in the company's value chain

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Climate Change: Scope 3 GHG - categories

Investments	Franchises	Business travel	Waste generated in operations	Capital goods
Upstream leased assets	Downstream transportation and distribution	Purchased goods and services	Fuel and energy related activities	Processing of sold products
Use of sold products	End-of-life treatment of sold products	Employee commuting	Upstream transportation and distribution	Downstream leased assets

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Climate Change: Mitigation

- Reducing the flow of heat-trapping GHG into the atmosphere
- Reducing the concentration of carbon dioxide by enhancing sinks (e.g. increasing forests)
- Cyclone Gita caused damages equivalent to 38% of GDP in Tonga. Whilst 2022 floods in Pakistan cost the economy about USD30bn

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50 Years of Accounting Standards

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1973 – IASC formed by several countries

IFRS adopted for EU

140 jurisdictions now use IFRS in the past 20 years

IOSCO - International Organization of Securities Commission endorsement in 2000s

National standard setters also support IASB goal of single set of high-quality standards

US-GAAP and IFRS convergence

IFRS S1 –Sustainability-related Financial Information

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Enable companies to communicate to investors globally comparable, comprehensive info about sustainability related risks and opportunities in a cost-effective manner

Developing globally comparable sustainability-related disclosures - that are assurable to meet the info needs of investors.

IFRS S1 –Sustainability-related Financial Information

- Material information about sustainability related risks and opportunities with the financial statements
- TCFD architecture : gov, strategy, risk mgt, metrics and targets.
- Industry specific disclosures
- All sustainability related information (except climate)
- SASB disclosures can be applied, CDSB, GRI, ESRS

IFRS S2: Climate related financial disclosures

- Emphasis is on **investors information** needs (re: Financial materiality)
- TCFD recommendations completely captured
- IFRS S2 must be used in accordance with **IFRS S1**
- **SASB Standards** provides guidance for required **industry-specific disclosures**
- **Material information** as relates to climate risk and opportunities (physical and transition risks) must be disclosed

IFRS S2

Physical risks: Risk of flooding

Transition risk:

Change to business model, pursue climate related opportunities

Importance of Material information to investors

01

Effect of risks and opportunities on performance and prospects of an enterprise

02

Response to (strategy for) managing the risks and opportunities. Also understand the transition plan.

03

How does company adapt its planning, operations and business model to the said risks and opportunities

04

Examine these in the entity's value chain

Why use S1 if only reporting on climate?

- Reporting entity, sustainability, materiality etc are defined in S1
- Changes in estimates and errors, disclosures about key judgments and quality of info (relevant & faithful representation) and assertion using ISSB standards
- Value chain concepts
- Interactions with laws and regulation
- Connections with financial statements and other information
- Relief from disclosing commercially sensitive opportunities

Core contents areas aligned with TCFD structure

Governance

Strategy

Risk management

Metrics and targets

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Sustainability in public sector

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Challenges in implementing comparable frameworks

Complex governance structure for sustainability reporting

Commitments derived from international treaties & national plans

Sustainability in public sector: tools

- Performance based budgeting
- Strategic budget initiatives e.g. green budget, about 2/3rds of OECD countries have adopted this
- Introduction of new reporting standards, similar to private sector, being considered
- Debate on whether such standards will add value or create redundancies and reporting burdens

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Sustainability in public sector: history lessons

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- Additional reporting does not automatically translate to enhanced transparency
- May result in parallel reporting streams – previous reforms usually created unco-ordinated systems, leading to inefficiencies and confusion
- Information overload – multiple reports have sometimes overwhelmed users, diminishing accessibility for non-specialist audiences.
- Misalignment with stakeholder needs – governments frequently struggle to balance comprehensiveness versus timeliness or detail versus clarity.

Sustainability in public sector: history lessons II

Additional information does not ensure effective use in decision-making. Due to:

- Informational obstacles – lack of consistency, alignment, trustworthiness and risk of manipulation.
- Organisational obstacles – difficulties in aligning managerial processes and addressing capacity limitations with implementation costs often underestimated
- Cultural obstacles – challenges in fostering leadership commitment and a culture that values learning over compliance.

Way forward

Rationalise public disclosures

Public sector organisations should integrate sustainability information using consistent concepts and presentations

Avoid producing disconnected reports using different methodologies

Utilised a ‘layered’ reporting approach

Make information accessible to general audiences through concise reports and specialist groups through supplementary documents

Way forward

SOVEREIGNS SHOULD ESTABLISH PREREQUISITES FOR SUSTAINABILITY REPORTING WITHIN THEIR BROADER INFORMATION MANAGEMENT CYCLES.

IMPLEMENT A FRAMEWORK THAT WOULD TRACE SUSTAINABILITY INFORMATION FROM PRODUCTION THROUGH INTERPRETATION TO ITS USE IN DECISION-MAKING

RECOGNIZE THAT SUSTAINABILITY DATA MUST INTEGRATE WITH EXISTING GOVERNMENT PROCESSES RATHER THAN EXIST SEPARATELY,

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Way forward

DIALOGUE – ONGOING DIALOGUE WITH USERS

IDENTIFY WHICH INFORMATION DRIVES DECISIONS

PREVENT INFORMATION OVERLOAD THROUGH MATERIALITY ANALYSIS

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Assurance/oversight

- Involve internal operations & external policies
- Leverage auditors for advocacy, advisory & assurance roles
- Overcome barriers by building trust in reported information

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Independent Assurance

- Verification
- Limited assurance
- Reasonable assurance
- Quality procedures:
  - Conflict
  - Independence
  - Skill and due diligence

Green Revolution

- Drivers of change:
- Shifting consumer preferences
- Gen Z and Alpha Gen
- Innovation

Opportunities and Risks

- FDI inflows for Africa
- Poverty alleviation
- Innovation
- Debt burden
- Green washing and Blue washing

Green Finance

Several instruments:

✓Green Bonds
✓Green (climate) Fund
✓Blue Bonds
✓Orange Bonds
✓Sustainability-linked loans

Green Finance

Finance investments flowing into sustainable development projects

Public green policies

USD 400-600 bn per year required to avert climate crisis

Mitigation and Adaptation

The Green Bond Principles

A summary of the requirements of the principles are set out below. The full requirements can be found on the Green Bonds website: www.icmagroup.org/greenbonds.

Ref.	Criteria
Principle 1: Use of proceeds	
1a	The bond must fall in one of the following categories, as defined by the Green Bond Principles: • Green Use of Proceeds Bond • Green Use of Proceeds Revenue Bond • Green Project Bond • Green Securitized Bond
1b	The cornerstone of a Green Bond is the utilization of the proceeds of the bond which should be appropriately described in the legal documentation for the security
1c	All designated Green Project categories should provide clear environmentally sustainable benefits, which, where feasible, will be quantified or assessed by the issuer. There are several categories and sets of criteria defining eligible Green Projects already in existence in the market that can be used as a guide. Issuers and other stakeholders can refer to examples through links listed in the GBP webpages at www.icmagroup.org/greenbonds.
1d	In the event that a proportion of the proceeds may be used for refinancing, it is recommended that issuers provide an estimate of the share of financing vs. re-financing, and where appropriate, also clarify which investments or project portfolios may be refinanced.
Principle 2: Process for Project Evaluation and Selection	
2a	The issuer of a Green Bond should outline the decision-making process it follows to determine the eligibility of projects using Green Bond proceeds. This includes, without limitation: • A process to determine how the projects fit within the eligible Green Projects categories identified in the Green Bond Principles; • The criteria making the projects eligible for using the Green Bond proceeds; and • The environmental sustainability objectives
2b	In addition to information disclosed by an issuer on its Green Bond process, criteria and assurances, Green Bond investors may also take into consideration the quality of the issuer's overall framework and performance regarding environmental sustainability.
Principle 3: Management of Proceeds	
3a	The net proceeds of Green Bonds should be credited to a sub-account, moved to a sub- portfolio or otherwise tracked by the issuer in an appropriate manner and attested to by a formal internal process that will be linked to the issuer's lending and investment operations for Green Projects.
3b	So long as the Green Bonds are outstanding, the balance of the tracked proceeds should be periodically reduced by amounts matching eligible green investments or loan disbursements made during that period.
3c	Pending such investments or disbursements to eligible Green Projects, the issuer should make known to investors the intended types of temporary investment instruments for the balance of unallocated proceeds.
Principle 4: Reporting	
4 a	In addition to reporting on the use of proceeds and the temporary investment of unallocated proceeds, issuers should provide at least annually a list of projects to which Green Bond proceeds have been allocated including - when possible with regards to confidentiality and/or competitive considerations - a brief description of the projects and the amounts disbursed, as well as the expected environmentally sustainable impact.

CBI Certification process

Figure 1: Climate Bonds Certification process for prospective issuers

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THANK YOU

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