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Institute of Chartered Accountants in Malawi (ICAM)

Preparing now, for the future

Sustainability Best Practices and ESG Strategy

September 2024

MAKING AN IMPACT THAT MATTERS since 1845

Overview

Sustainability refers to the three **key factors** when measuring the **economic, social and environmental impact** of an institution. The sustainability factors are economic, social and environmental matters that may have a **positive or negative impact** on the financial performance or solvency of an entity, sovereign or individual.

Environmental

Issues relating to the quality of functioning of the natural environment and natural systems.

- Climate change
- Greenhouse gas (GHG) emissions
- Recourse depletion, including water
- Waste and pollution
- Deforestation

Social

Issues relating to the rights, well-being and interests of people and communities.

- Working conditions
- Local communities
- Conflict regions
- Health and safety
- Employee relations and diversity

Economic

Deals with the economic value created by the organization after deducting the cost of all inputs, including the cost of the capital tied up.

- Economic value generated
- **Governance**
- Executive pay
- Bribery and corruption
- Political lobbying and donations
- Board diversity and structure
- Tax strategy

Overview

What is ESG?

Environmental, Social, and Governance (ESG) encompasses topics related to performance management and the impacts and dependencies of the business on society and the environment, as depicted below. Climate change represents multiple dimensions under the broader ESG umbrella.

Environment

- Greenhouse gas (GHG) emissions.
- Air quality.
- Energy management.
- Water and waste management.
- Waste and hazardous materials management.
- Ecological impacts.

Social capital

- Human rights and community relations.
- Customer privacy.
- Data security.
- Access and affordability.
- Product quality and safety.
- Customer welfare.
- Selling practices and product labelling.

Human capital

- Labor practices.
- Employee health and safety.
- Employee engagement, diversity, and inclusion.

Business model and innovation

- Product design and lifecycle management.
- Business model resilience.
- Materials sourcing and efficiency.
- Supply chain management.
- Physical impacts of climate change.

Leadership and governance

- Business ethics.
- Competitive behavior.
- Management of the legal and regulatory environment.
- Critical incident risk management.
- Systemic risk management.

Adapted from: SASB Materiality Map

Rapid acceleration towards comprehensive corporate reporting

Standard-setters have begun to act on the increased and widespread demand for comprehensive corporate reporting on ESG by working together to create a cohesive set of **standards related to Sustainability-related Financial Information and the expectation of future thematic standards being climate the first one.**

Regulators are increasing their focus on ESG and climate disclosures in response to investor and market expectations.

Investors are becoming increasingly aware of the potential significant financial impacts from ESG and climate-related risks and have stressed **concerns about the lack of transparency of these financial impacts**, particularly in financial reporting.

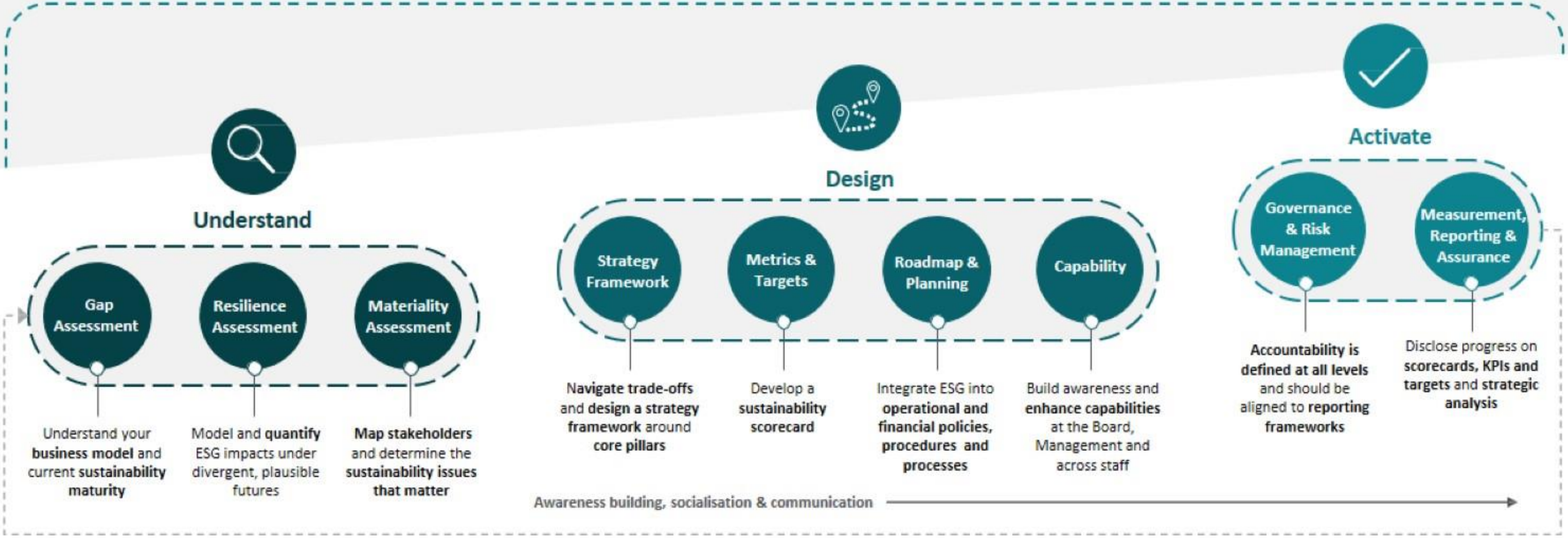
Entities are making **commitments** (e.g., to achieve net zero carbon emissions by a targeted date) and are becoming more intentional about their ESG and climate disclosures.

How do you steer your sustainability journey?

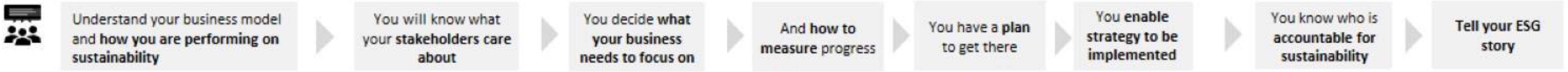
Strategy to Reporting

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE

End-to-end Journey



How you benefits from each step:



Phase I

Understand

Understand the business model, how corporate strategy drives ESG values, impacts, where conflicts and trade-offs are made, and how this understanding informs the ESG vision.

Why should we be thinking about ESG and Sustainability?

Sustainability is becoming increasingly integral to core business

New growth opportunities

- Access to **new markets, investors and customers**
- Attracts **quality talent**
- Strengthens **social license**
- Encourages **innovation** and **collaboration**

Cost savings

- Lowers **cost of capital**
- Improves **staff productivity & retention**
- Increases **operational and resource efficiency**
- Reduces **supply chain complexity and waste**

Risk management

- Reduces **reputational, regulatory** & **operational risk**
- Future proofs against **stricter regulatory & legal** requirements
- Enhances **governance**
- Forecasts & mitigates **emerging threats to the business model**

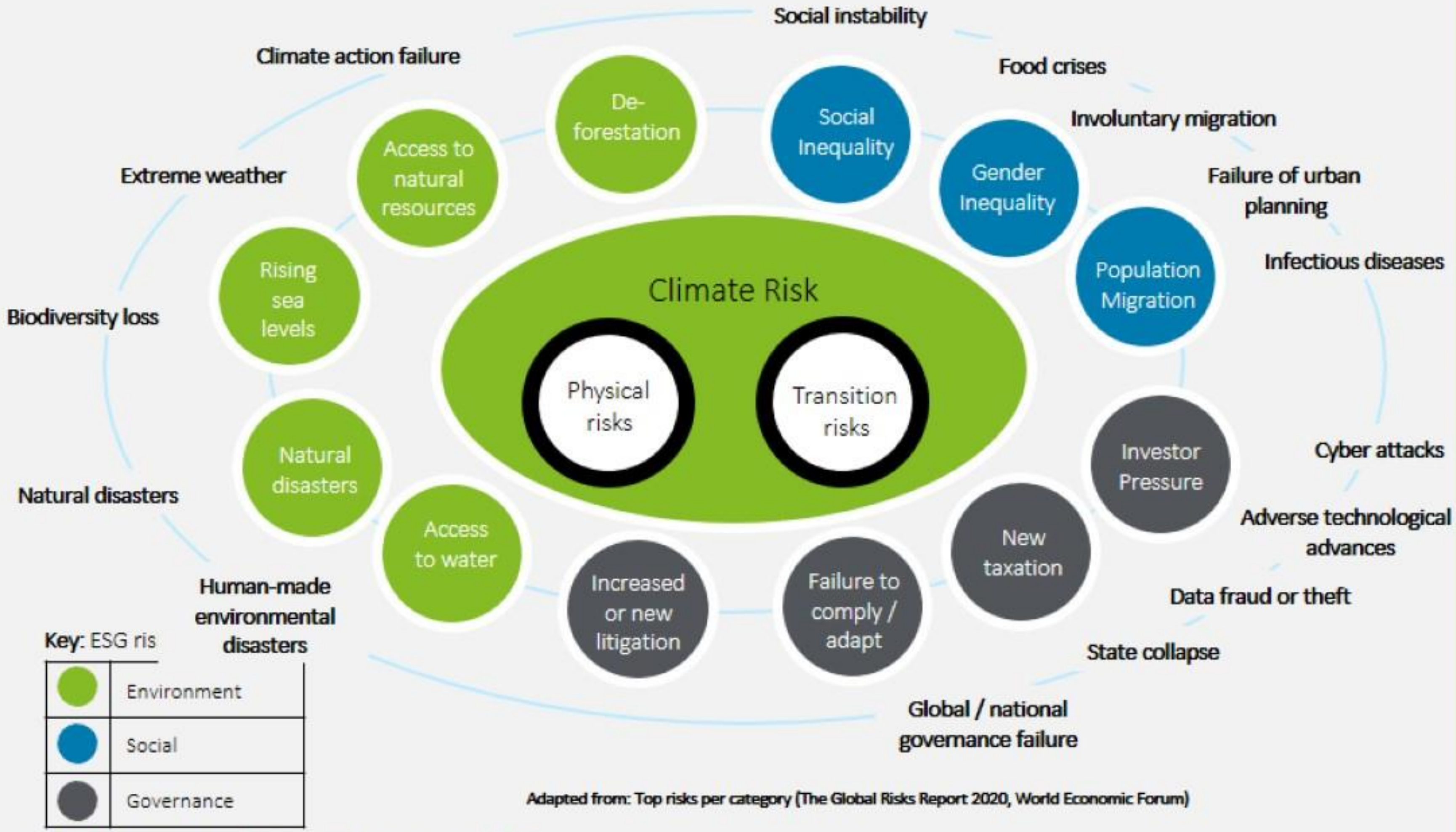
Contribution to Society

A strong sustainability agenda helps organisations meet their stakeholders' needs and expectations, including **fostering social value** and **regenerating our environment.**

Resilience Assessment

Recognizing Emerging Risks

ESG-related matters may create risks or opportunities for an entity that could lead to potential impacts on an entity's financial statements.



Adapted from: Top risks per category (The Global Risks Report 2020, World Economic Forum)

Climate-related matters that may create risks or opportunities for an entity are considered a part of ESG. ESG-related matters could lead to potential impacts on an entity's financial statements from physical or transition risks or opportunities.

Examples of areas of the financial statements that may be impacted if ESG affects the entity*:

- Inventory (IAS 2)
- Goodwill, Intangibles
- Property, Plant, Equipment (IAS 39 & 36)
- Loss and Gain Contingencies
- Climate change commitments
- Income Taxes (IAS 12)
- Going Concern (IAS 1)
- Financial Instruments (IFRS 9)
- Risk and Uncertainty Disclosures

For additional information, see the IASB educational material Effects of climate-related matters on financial statements *and Deloitte's Closer Look* Investor demand for corporate reporting in line with the Paris Agreement on Climate Change.

Materiality Assessment Approach

Double Materiality
With the double materiality approach, organizations are expected to not only include impact materiality (inside-out view), but also how topics impact company's performance (outside-in view) perspectives.

Financial materiality

Financial materiality would require disclosure of sustainability matters that (may) trigger material **financial effects on a company's development**, e.g. cash flows, financial position or financial performance in the **short- medium- or long-term**.

This assessment would not be limited to matters within the company's control.

Materiality would be assessed based on **likelihood and (potential) size of the financial effect**.

INWARDS MATERIALITY

- Transitional risks:

Policy, Legal, Market,

- Physical risks:

Acute (events), Chronic (long time)

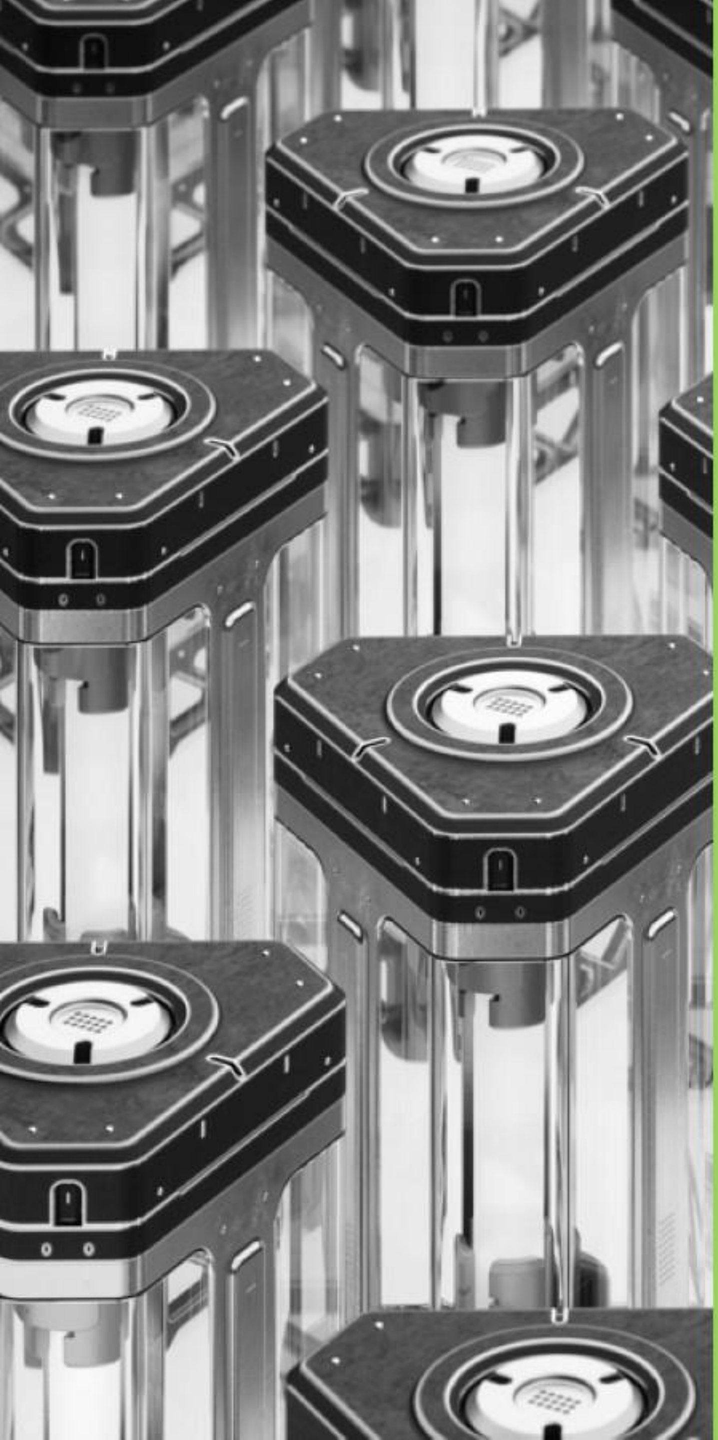
- Impact on the environment
- Impact on the society

Impact materiality

Impact materiality would require disclosure of sustainability matters that relate to a company's material actual or potential, positive or negative, **impacts on people, or the environment** over the **short-, medium-, or long-term**.

This assessment includes impacts in a company's **upstream and downstream value chain**.

Materiality would be assessed based on **severity and likelihood of the impact**.



Phase II

Design

Integrate materiality, resilience and strategy outputs into policies and procedures for: financial planning, valuations and reporting.

ESG Strategy

We believe embedding sustainability into your business strategy is simply defining an ESG strategy that serves as an enabler of your business strategy while achieving maximum value for all stakeholders

Sustainability strategy should not be developed on its own, but needs to **integrate** into the **core business strategy**

Business strategy and sustainability strategy **are complementary but separate.** This may suit organisations which are early in their sustainability journey or those where core business activities are seen as separate from their social or environmental risks and opportunities.

Business strategy and sustainability are **aligned.** Sustainability strategy reinforces and supports the business strategy. There is growing crossover between sustainability and business priorities. Governance mechanisms, resources and investment are shared across these various initiatives.

Business strategy and sustainability strategy are **integrated.** The business model – products and services – is geared towards generating economic, social and environmental value. Trade-offs are minimised, and core business functions and resources are focused on the same strategic priorities.

ESG Strategy

Sustainability strategy articulates how organisations can generate social, environmental and economic value for their stakeholders through their products and services and their operations.

Sustainability strategy offers a blueprint for **social, environmental and economic value creation**

Key components of sustainability strategies

- **Ambition & Vision**
- **Strategic Pillars**
- **Metrics & Targets**
- **Roadmap & Planning**
- **Governance & Disclosure**
- **Strategic Enablers**

Phase III

Activate

Reconcile the Board and Management scorecards, KPIs and targets to materiality, resilience and strategy outputs; Disclose strategic analysis with changes to financial valuations.

Governance

ESG integration – a cross-functional imperative

Chief Executive Officer

Focus on **defining** and **leading** an **ESG agenda**, translating the value it delivers for stakeholders and the systems, processes, and incentives needed to consistently deliver

Chief Strategy Officer

Integrate ESG factors to drive innovative and brand-enhancing **strategies**, including **strategic choices across the value chain**

Chief Risk Officer

Incorporate ESG risk management into the Enterprise Risk Management (ERM) framework and ensure **market transparency** on company **ESG risk** management practices

Chief Human Resources Officer

Invest in leading practices around **employee health** and **safety**, **DEI**, and development to **attract**, **retain**, and **incentivize talent** to innovate and deliver on the business strategy

Chief Communications Officer

Optimize **strategic communications** to stakeholders to navigate changing expectations and credibly **demonstrate** prioritization and **management of ESG risk** and **opportunities**

Chief Financial Officer

Measure the **financial return** associated with **ESG investments** and ensure reliable and accurate **ESG disclosures** to inform assessments

Chief Operations Officer

Prioritize and measure opportunities for **cost savings, risk mitigation**, and reputation enhancement and implement solutions to **reduce resource inputs** and **wasteful outputs**

Chief Procurement Officer

Ensure **supply chain continuity** and manage **fair trade suppliers** and innovative **sustainable** solutions for **products** and **packaging**

Chief Sustainability Officer

Design and **activate strategies** to deliver on the corporate strategy and **ESG objectives** to drive performance

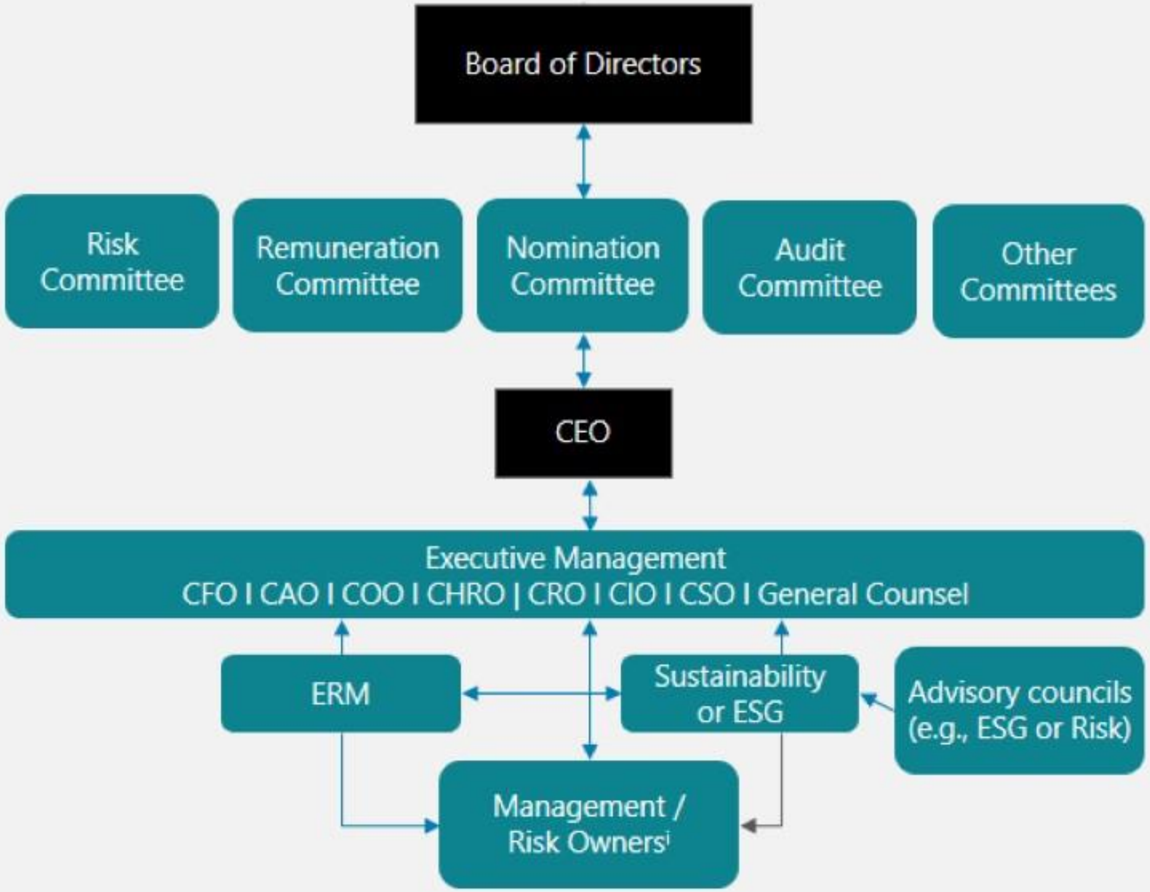
Government Leaders & Program Managers

Lead **government agencies** and programs towards a more **ESG based agenda** through increased **DEI** and **sustainable benchmarks**

Governance

Role of the Board of Directors

Establish a board structure that provides oversight of the company's strategy and carries out governance responsibilities to support management in achieving its strategy and business objectives, also related to ESG



Examples of ESG responsibilities

a. **The Board** is responsible for overseeing ESG-related risk ownership as well as ensuring there is a program in place to identify, assess, manage and monitor ESG-related risks (and opportunities) effectively.

b. **The Risk Committee** establishes the direct oversight of enterprise risk management. The focus of the risk committee is entity-wide in non-financial areas that go beyond the authority of the audit committee.

c. **The Audit Committee** assists the Board in fulfilling its corporate governance and over-seeing responsibilities in relation to an entity's financial reporting, internal control and risk management, including ESG reporting.

d. Some companies have **additional Board Committees**, such as a sustainability committee, separate from the risk committee and the audit committee, cross-functional representatives to identify, monitor and review ESG-related risks (including also ESG metrics and targets in executive remuneration).

e. Connections to **strategic planning and operations personnel** are also critical to support timely assessment of new and emerging ESG-related risks so that the organisation is better prepared to identify risks and related opportunities.

f. The **ERM function** is responsible for coordinating and consolidating ERM activities and lead the process for managing enterprise-wide risks in an integrated, systematic manner.

g. The **sustainability director** provides support in coordinating ESG-related activities. This includes monitoring megatrends as well as identifying, assessing and monitoring risks.

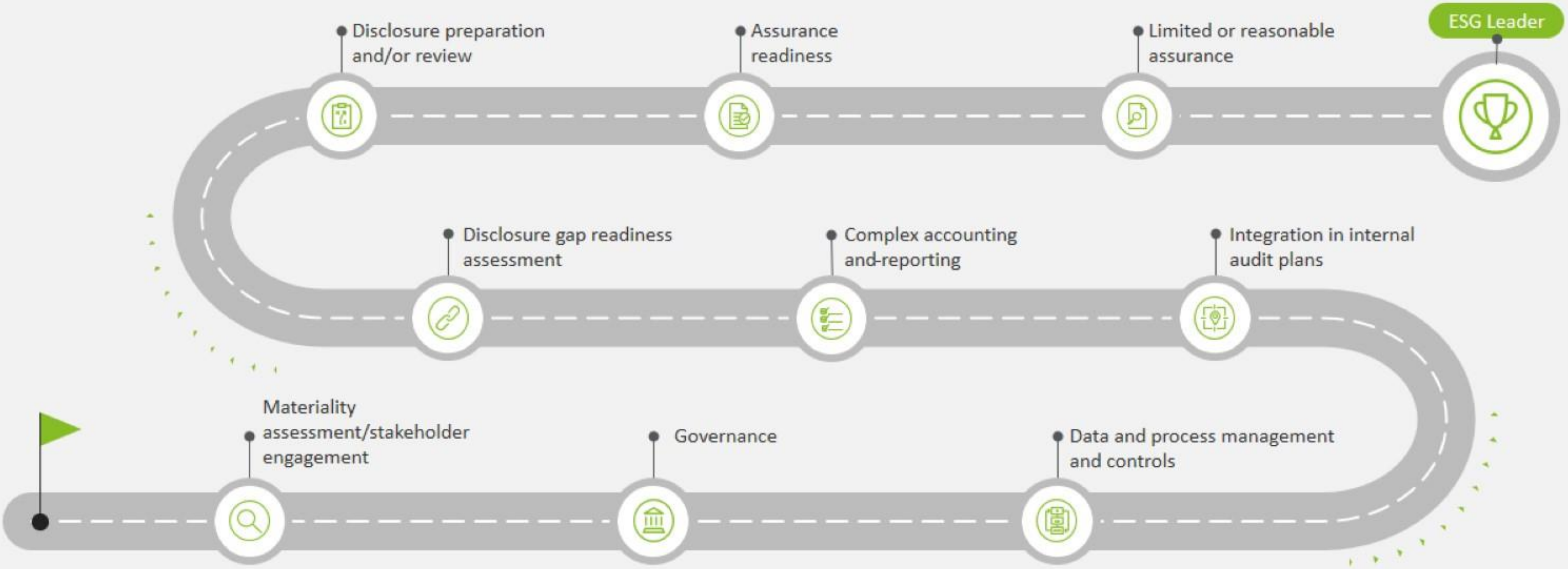
h. **Cross-functional or multi-stakeholder advisory councils** (either internal or external) can provide perspective on particular aspects of ESG issues or other risks.

i. Although management collectively 'owns' the entity risks, a **'risk owner'** can be the point person with accountability for ensuring specific risks are appropriately managed.

ESG Reporting Journey

ESG Reporting Journey

Measuring and reporting ESG indicators in an integrated manner allows an organization to determine its current position and map future goals. This supports the integration of ESG into the strategy and daily operations, which is increasingly valued by customers, employees, and other stakeholders. The organization's journey to integrating ESG into the business shown below includes embedding considerations of planet, people, and prosperity into an organization's governance, strategy, risk management, and metrics and targets.



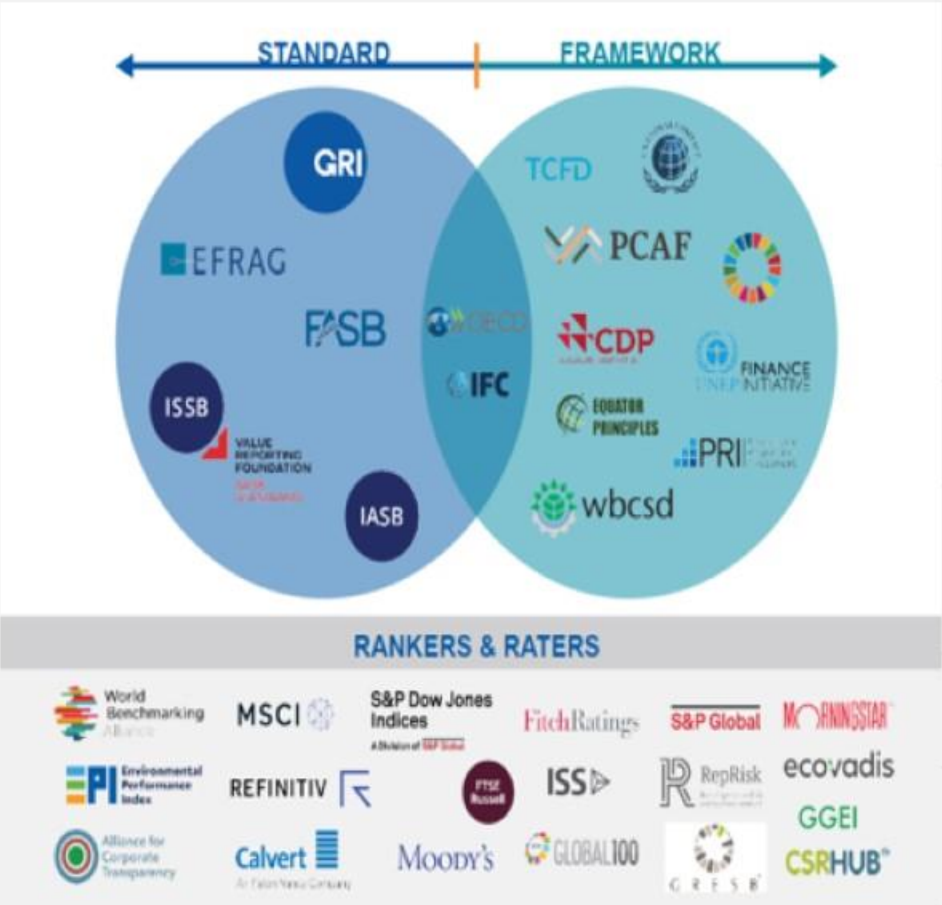
ESG Reporting Standards & Frameworks

ESG REPORTING STANDARDS & FRAMEWORKS

Overview of Sustainability Reporting Frameworks

The ESG reporting landscape is complex, with reporting standards, frameworks and ratings having evolved and proliferated over time. However, recently there has been a trend towards standardization and legal mandating of key standards.

SUSTAINABILITY STANDARDS, FRAMEWORKS & REGULATIONS



	GRI	TCFD	ISSB IFRS
Regulations	Standard	Framework	IFRS S1 & IFRS S2
	Voluntary	Voluntary; Mandatory in some jurisdictions (UK)	Voluntary; expected to be mandatory when adopted by jurisdictions
Coverage	Sustainability (Cross-sector, environment, social, governance) Industry-specific	Climate Supplemental industry-specific guidance	Sustainability Initially IFRS S1 and IFRS S2 S1 – General disclosures for sustainability reporting S2 - Climate disclosures Industry-specific
Materiality	Stakeholder-focused	Consistent with other information included in financial filings	Investor-focused
Assurance	No requirement; up to entity discretion	No explicit requirement; disclosures should be subject to internal governance processes	No requirement; up to jurisdictional discretion
Disclosure granularity	Moderate to High	Low	Moderate to High
Disclosure location	Annual Reports	Annual financial filings	General purpose financial reporting (e.g., management discussion and analysis (MD&A))

Global Reporting Initiative (GRI)

Universal Standards

Consists of three standards which are necessarily applied to reporting

GRI 101 – Foundation

Information about how to use the GRI standards. This Standard applies to all organizations using the Standards, whether reporting in accordance with or with reference to the Standards.

GRI 102 – General Disclosures

Disclosures about the reporting the organization. These include disclosures that provide details about the organization and its reporting practices, activities, governance, responsible business conduct policies and practices, and stakeholder engagement

GRI 103 – Management Approach

To identify and report general information on the organization's material topics. Material topics are those topics that reflects the organization's most significant impacts on the economy, environment, and people, including impacts on human rights

Topic Standards

Include disclosures that provide information on particular topics. The organization selects and uses the Standards that correspond to the material topics it has identified

GRI 200 – Economic

GRI 300 – Environmental

GRI 400 – Social

Sector Standards

Provide information on the most likely material topics for organizations in a given sector. The organization uses the applicable Sector Standard(s) to identify its material topics and what to report for each material topic.

Priority group 1 – Basic materials and needs

Priority group 1 – Industrial

Priority group 1 – Transport, infrastructure and tourism

Priority group 1 – Other services and light manufacturing

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IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*

Objective

The Standards requires an entity to **disclose information about all sustainability-related risks and opportunities** that:

i. **is useful to primary users** (existing and potential investors, lenders and other creditors) of general-purpose financial reports in making decisions relating to providing resources to the entity

ii. could **reasonably be expected to affect the entity's prospect**s (i.e. cash flows, its access to finance or cost of capital over the short, medium or long term)

Scope

- To be applied in preparing and reporting sustainability-related financial disclosures ***in accordance with IFRS Sustainability Disclosure Standards***.
- Only for sustainability-related risks and opportunities that could reasonably be expected to affect an entity's prospects.
  Any ***sustainability-related risks and opportunities that that could not reasonably be expected to affect an entity's prospects are outside the scope of this Standard***.
- Applicable irrespective of whether an entity's financial statements are prepared in accordance with IFRS Accounting Standards or other GAAP.
- **Suitable for profit-oriented entities, including public-sector business ent***ities*.
  If entities with not-for-profit activities in the private sector or the public sector apply this Standard, they might need to amend the descriptions used for some disclosure items when applying IFRS Sustainability Disclosure Standards.
- **The entity's sustainability-related financial disclosures must be for the reporting entity as the related financial statements.**

Conceptual Foundations

Materiality – In the context of sustainability-related financial disclosures, ***information is material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that primary users of general-purpose financial reports make on the basis of those reports***, which include financial statements and sustainability-related financial disclosures and which provide information about a specific reporting entity

NB// This is based on the IFRS Accounting Standards definition of 'material

Fair Representation – To achieve faithful representation, an entity shall provide a **complete, neutral and accurate depiction** of those sustainability-related risks and opportunities.

Fair presentation also requires an entity:

- to disclose information that is comparable, verifiable, timely and understandable; and
- to disclose additional information if compliance with the specifically applicable requirements in IFRS Sustainability Disclosure Standards is insufficient to enable users of general-purpose financial reports to understand the effects of sustainability-related risks and opportunities on the entity's prospects.

Connected Information – Companies must explain the connections across their sustainability-related risks and opportunities and the information in related corporate reports, including the financial statements. The intent is to promote an integrated approach to reporting on sustainability matters.

Reporting timing and location – Sustainability-related disclosures should be made in corporate reporting as part of the same package that includes the financial statements and published for the same reporting period, at the same time. (In the first year of application, later publication is permitted; and a company may also limit its reporting to climate-related disclosures.)

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IFRS S2 *Climate-related Disclosures*

Objective and Overview

To require a company to disclose information about its climate-related risks and opportunities that is useful to investors and other providers of financial capital in making decisions relating to providing resources to the company. The standard addresses:

Physical risks
(e.g. flooding)

Transition risks
(e.g. regulatory change)

Climate-related opportunities
(e.g. new technology)

The standard incorporates and builds on the TCFD Recommendations and should be applied alongside IFRS S1 which sets out general requirements for reporting using the ISSB standards.

Disclosure Requirements

Climate-related disclosures should address the following:

Governance

The governance processes, controls and procedures a company uses to monitor, manage and oversee climate-related risks and opportunities.

Strategy

A company's strategy for managing climate-related risks and opportunities.

- The **climate-related risks and opportunities** that could reasonably be expected to affect the company's prospects
- The current and anticipated effects of those climate-related risks and opportunities on the company's **business model and value chain**
- The effects of those climate-related risks and opportunities on the company's:
  - **strategy and decision-making**, including information about its climate-related transition plan
  - **financial position, financial performance and cash flows** for the reporting period, and the anticipated effects over the short, medium and long term (subject to relief if a company is unable to provide quantitative information)
- The **climate resilience** of the company's strategy and its business model to climate-related changes, developments and uncertainties, using scenario analysis that is appropriate to the company's circumstances

Risk Management

The processes used to identify, assess, prioritize and monitor climate-related risks and opportunities, including whether and how those processes are integrated into and inform the company's overall risk management process.

Metrics & Targets

A company's performance in relation to its climate-related risks and opportunities, including progress towards any targets it has set or is required to meet by law or regulation.

Companies must disclose information in relation to the following metric categories:

- Greenhouse gas emissions (GHG) (Scopes 1, 2, and 3) in accordance with the GHG Protocol. Guidance is included to support the measurement of Scope 3 emissions, recognising the level of estimation involved
  An entity that participates in one or more financial activities associated with asset management, commercial banking and insurance shall disclose additional information about the financed emissions associated with those activities as part of the entity's disclosure of its Scope 3 greenhouse gas emissions
- Financial metrics related to climate-related transition and physical risks, climate-related opportunities, and capital deployment
- Internal carbon prices used and their role in decision-making
- Whether and how climate-related considerations are factored into executive remuneration and the related percentage

Companies are also required **to disclose industry-specific metrics**. Illustrative guidance is provided, derived from the SASB Standards. Companies with activities in asset management, commercial banking and insurance must disclose financed emissions.

Companies must disclose any targets set to monitor progress towards achieving strategic goals, including greenhouse gas emissions targets, together with:

- The base period from which progress is measured
- Any milestones or interim targets
- The planned use of carbon credits

Notes: In the first year of application, Scope 3 emissions do not have to be disclosed. If a company is using a different methodology other than the GHG Protocol, it may continue to do so in the first year of application of this standard. It may also apply a different methodology if it is required in its jurisdiction(s).

Integrated Reporting

There are seven guiding principles

- Strategic focus and future orientation
- Materiality
- Conciseness
- Stakeholder relationships
- Reliability and completeness
- Connectivity of information
- Consistency and comparability

There are eight content elements

- Organisational overview and external environment
- Governance
- Business model
- Risks and opportunities
- Strategy and resource allocation
- Performance
- Outlook
- Basis of preparation & presentation

Integrated Reporting - Capitals

Strategy and resource allocation: The six capitals

	Capitals = resources and relationships on which an organisation on depends	
1	Financial capital	The **pool of funds available to an organisation** obtained through financing.
2	Manufactured capital	**Manufactured physical objects** available for use **in production of goods or provision of services.**
3	Intellectual capital	Organisational, **knowledge-based intangibles**.
4	Human capital	People's **competencies, capabilities and experience**, and motivations to innovate.
5	Social and relationship capital	The institutions and **relationships with communities, groups of stakeholders and other networks**. Includes social license to operate.
6	Natural capital	All **renewable and non-renewable environmental resources** and processes that support past, current or future prosperity.

Financial

- Revenue
- Sales
- Operating or underlying profit
- Profit before tax

Manufactured

- Buildings
- Equipment and tools
- Infrastructure e.g. roads, water/waste treatment plants

Human

- Know-how and skills
- Employee engagement
- Health & Safety
- Diversity

Intellectual

- IP e.g. patents, copyrights, software
- Organisational capital e.g. knowledge, systems, procedures
- Brand

Social and relationship

- Relationship with stakeholders
- Product quality/profile
- Social license to operate
- Community investment

Natural

- Raw materials
- Waste
- Emissions

Q&A Session