European investors hunt for climate, social-sensitive firms

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European investors scouting for opportunities in Kenya are increasingly keen on businesses that are corrupt-free, prioritise the environmental the damage they produce, or that care about the health and safety of their employees and how diverse their workplaces are.

Investors are not only interested in catchy financial statements but in understanding how purpose is key to the performance of a business. All these environmental, social, and governance (ESG) metrics matter.

According to the European Business Council (EBC) in Kenya, an organisation that represents the private sector interests of 650 European companies in Kenya, this interest has dominated conversations after COP26 in Glasgow where countries made pledges to reduce greenhouse gas emissions.

What European investors care most about include a company's stand on human rights, promotion of biodiversity, gender issues, and generally sustainable development goals.

"Investors that have an interest in Kenya are keen on knowing how the companies are operated in terms of green sustainability," said Darren Gillen, the EBC chairman during an interview with *Business Daily*. He notes that Europeans are interested in investing in Kenya's aerospace, agriculture, and horticulture, cosmetics, security, and ICT sectors.

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While the ESG acronym is relatively new, green investing, sustainable development goals, implementing gender policies, and climate-sensitive projects have been conversations discussed in some boardrooms. However, many hope that the government should push the ESG agenda.

"There is a declining narrative that governments are the ones to spearhead ESG, amid pressure on the private sector -by regulators– to become implementers," the chair of EBC in Kenya said, an organisation formed three years ago to link European investors to Kenyans.

The European Commission, for instance, recently came up with a green deal dubbed 'farm to fork' that set out areas for companies to embrace in a bid to mitigate climate change, make food systems fair, and put things on a sustainable path. The strategy is agri-based which essentially gives Kenyan firms a competitive edge over their peers across East Africa.

Mr Gillen says that the time is ripe for Kenyan firms to look into ESG metrics to attract investment and financing, and make the country more self-sustainable and self-reliant. According to FSD Africa, currently, only three percent of global green finance comes to Africa.

He cites the war in Ukraine with Russia and the impact it has had on Kenya's wheat supply. Wheat prices have doubled in two weeks with a bushel of the products selling at a high of $13.48 from $7.50 when the war broke out.

"Post-Covid, there is still a lot of interest in the region and particularly in Kenya," he notes.

The Estonians –one of Europe's leaders in ICT–are in the process of setting up an embassy in Kenya. In the coming month, Kenya is set to receive investor delegations from Slovakia and another one from the Caribbean.

He lauds Kenya's move to digitise systems which discourages corruption when one is trying to get an operating license, business permit, migration, or investor permit.

Seven listed companies now ESG-compliant

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Seven listed companies have complied with the Nairobi Securities Exchange (NSE) directive to start reporting on environmental, social, and governance (ESG) risks and opportunities ahead of the December 2022 deadline.

The Nation Media Group, Safaricom, East African Breweries, Bamburi Cement and KCB Bank Group, Kakuzi, and Standard Chartered have all issued an ESG report to the bourse. NSE, however, says British American Tobacco is yet to issue a report but they have an ESG agenda as part of its strategy.

The bourse moved to compel listed companies to report publicly on their ESG performance at least every year.

NSE, which has 64 listed companies, gave a one-year grace period for firms to begin making the disclosures following the release of the guidelines in December 2021.

"Listed companies will have a grace period of one year from the issuance of these guidelines to interact and familiarise themselves with the ESG reporting steps contained in these guidelines," NSE said in the ESG Disclosures Guidance Manual November 2021. "Thereafter, listed companies will be expected to include a sustainability/ESG report in their annual integrated reports containing– at a minimum – the mandatory ESG disclosures discussed in Chapter 6 of this manual," NSE said.

Issuers are expected to include a sustainability/ESG report in their annual integrated filings or can also choose to publish a separate report.

OPINION

HOW TO TELL A GOOD ESG STORY

Sarah Njoroge

The world has changed. Environmental, social, and governance (ESG) issues have continued to dominate the center stage of corporate reporting. Pressure has been piling up from institutional investors demanding that corporate leaders improve sustainability practices that benefit both their company's performance and create a greater impact on society. These investors' demands are in line with multiple studies that suggest that ESG and corporate performance are intrinsically intertwined and promoting the ESG agenda does not mean sacrificing company returns. Companies with higher ESG performance are likely to have better financial performance, talent retention, and long-term value creation.

The ever-growing concerns around climate change, global warming, and labour rights are leading to a distinct behavioural shift among consumer groups globally. Consumers are leaning towards companies that demonstrate green and socially responsible processes and practices, not only within their periphery but also along their entire supply chains. Various studies have, for instance, shown that millennials are willing to pay more for products and services regarded as sustainable or coming from socially and environmentally responsible companies. By 2025, millennials will comprise 75 percent of the workforce. They have high expectations about social purpose and expect accountability in the companies they work for.

Change has also been coming quickly on the regulatory front. According to the Sustainable Stock Exchanges (SSE) Initiative, over 63 stock exchanges around the world have issued written ESG reporting guidance to regulate their listed companies. Closer home, in November 2021, the Nairobi Securities Exchange (NSE), issued an ESG disclosure guide that requires all listed companies in Kenya to report publicly on their ESG performance. Similarly, the Central Bank of Kenya (CBK) released the climate-related risk guidance.

All these factors have changed ESG integration from simply a nice-to-have to an essential-to-have. It is clearer than ever before that companies need to fast-track their response to these demands. It is essential for business leaders to adopt a proactive approach to holistically integrate ESG into their business practice and processes.

The process of integrating ESG into mainstream business activities and reporting should start with getting the basics right. A top-down approach can greatly facilitate the ESG integration process of a company. Having ESG ownership, buy-in and support at the board and senior executive level is critical to nurturing a supportive culture for driving the ESG agenda or initiating ESG-related discussions across the company. To do so, the board and senior management need to first understand the value and relevance of ESG to their business.

In addition to getting the board and senior management onboard the ESG agenda, stakeholder support and engagement are also essential in making ESG integration possible.

The saying, "if you can't measure it, you can't manage it", is particularly true when it comes to measuring ESG Key Performance Indicators (KPIs) and setting targets. Getting the right data is of paramount importance.

With all these efforts made towards advancing ESG, reporting should go beyond compliance, and instead be viewed as a value-adding endeavour for companies to communicate directly with their stakeholders on their contribution to the business and community.

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