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TEMPLARS ThoughtLab

The Push Towards Sustainable Investments: Guidance For ESG Disclosures by Listed Companies in Ghana

Introduction

The focus on sustainable investments has surged in recent years in line with the rising interest of investors and other corporate stakeholders in environmental, social and governance ("**ESG**") matters as a deviation from the traditional one-dimensional assessment of companies solely based on financial metrics. The push for corporate focus on sustainability in Ghana, like other countries, has therefore been mainly based on increasing sustainability-focused investments. Rising sustainable investments have however been directly proportional to an increased demand from investors for sustainability reporting with disclosures on ESG policies and practices of target companies and transparency about how companies effectively implement such policies.

Thus, while there is no legal obligation for public companies listed on the Ghana Stock Exchange (**GSE**) to provide disclosures on ESG matters under the current disclosure regime, listed companies in Ghana are increasingly providing reports on their ESG performance as a practical matter to attract preferential investments. Listed companies that have directly or indirectly benefitted from development finance institution funding are also often required to integrate ESG considerations into core operations and institute reporting mechanisms. This article therefore examines the ESG disclosures guidance manual issued by the GSE in collaboration with African Securities Exchanges Association, Swiss State Secretariat for Economic Affairs and Seven Levers LLP to guide listed companies on their sustainability reporting and set the applicable ESG disclosure standards in Ghana.

ESG Considerations

ESG, at its core, is a set of non-financial factors which investors may consider as part of their analysis for identifying material risk and growth opportunities of potential target companies. While there is no single list of such factors and ESG concepts often overlap, the three categories of ESG (namely environmental, social and governance) are increasingly integrated into investment analysis, processes and decision making.

The environmental aspect of ESG measures a company's impact on the natural environment by considering metrics such as its energy efficiencies, greenhouse gas emissions, water use, waste and pollution, land use and biodiversity while the social aspect of ESG focuses on companies' policies in relation to social institutions and human relationships by considering their labour standards, wages and benefits, workplace and board diversity, racial justice, pay equity, human rights, privacy and data protection and other social justice issues. The governance aspect however pertains to the governance factors of decision making from policymaking to the distribution of rights and responsibilities among different participants in companies including the board of directors, managers, shareholders and stakeholders. These considerations therefore provide a framework for potential investors to evaluate the sustainability and ethical impact of their investments against the business practices of target companies.

ESG Reporting Standards

The GSE has in its guidance manual recommended the adoption of the Global Reporting Initiative (**GRI**) Standards as the common framework for ESG reporting by listed companies in Ghana to reduce uncertainties on which framework or standards are applicable in Ghana. The GRI Standards are issued by the Global Sustainability Standards Board (GSSB), an independent operating entity of GRI, through a unique multi-stakeholder consultative process involving representatives from organizations and global report information users and are based on expectations for responsible business conduct set out in authoritative international instruments such as the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises and the United Nations Guiding Principles on Business and Human Rights. These standards enable companies to report information about their most significant impacts on the economy, environment, and people in a consistent and credible manner.

The GRI Standards are also the most widely used for sustainability reporting and will therefore ensure that sustainability reporting by Ghanaian listed companies will comply with global standards. According to KPMG's Survey of Sustainability Reporting 2022, GRI offered the only reporting standards used by a majority of surveyed companies in all regions (75% in the Americas, 68% in Asia-Pacific and Europe, 62% in Middle East & Africa) with the GRI Standards being adopted for use by 78% of the world's biggest 250 companies by revenue.

The adoption of the recommended GRI Standards by Ghanaian listed companies further means that the sustainability reporting of such companies will be based on the 8 reporting principles required under the GRI Standards namely:

a. **Accuracy**: Companies are required to report information that is correct and sufficiently detailed to allow an accurate assessment of significant impacts. The characteristics that determine accuracy vary depending on the nature of the information (qualitative or quantitative) and the intended use of the information.

b. **Balance**: Companies are required to report information in an unbiased way and provide a fair representation of positive and negative impacts of the company. In line with this requirement, companies must distinguish clearly between facts and their interpretation of the facts and ensure that positive news is not overemphasized.

c. **Clarity**: Companies must present information in a way that is accessible and understandable. To apply this principle, companies must consider specific accessibility needs of their target users and present their reports in a way that users can find the relevant information without unreasonable effort.

d. **Comparability**: Companies must present an analysis of changes in their impacts over time and an analysis of these impacts relative to those of other companies. A key means of achieving such comparability is to present information for the current reporting period alongside at least two previous periods, to allow for a trend analysis, and maintain consistency in the manner of presenting information.

e. **Completeness**: This principle requires that companies provide sufficient information to enable a holistic assessment of their impacts during the reporting period. Listed companies must therefore report all relevant events including activities that have a minimal impact in the short-term, but a reasonably foreseeable cumulative impact that can become unavoidable or irreversible in the long-term.

f. **Sustainability Context**: Companies are required to report information about the impact of their activities on sustainable development goals and conditions. For example, a company reporting on its carbon offset projects must situate such information in relation to the goals set out in the United Nations Framework Convention on Climate Change (Paris Agreement).

g. **Timeliness**: Companies must publish reports on a regular schedule and make it available in time for information users to integrate them into their decision making. To maintain continuing compliance with this principle, it is recommended under the GRI Standards for companies to align their sustainability reporting timelines with other statutory reporting. Thus, listed companies in Ghana may align the timing for their ESG reports and disclosures with their annual returns and/or annual reports to the Office of the Registrar of Companies and the GSE.

h. **Verifiability**: Companies must compile and record information in their sustainability reports in a manner that the information can be examined as part of an external due diligence to establish its accuracy. For the purpose of compliance with this principle, companies must set up their internal systems for data compilation, progress tracking, data retention and information management in a manner which will allow external parties to examine and verify their sustainability reports.

Mandatory ESG Disclosures

Listed companies which adopt the GRI Standards for the purpose of reporting on their ESG impact must conduct a materiality assessment exercise and determine material topics which relate to ongoing identification and assessment of their impacts on sustainable development in order to prioritize the most significant impacts which must be reported. Once the material topics are identified, a reporting company is required to disclose its impact in relation to each material topic.

Other than the disclosures listed companies may make in their sustainability reports for identified material topics, listed companies are required to mandatorily report on the following ESG topics to ensure comparability of ESG reports issued by companies in Ghana:

a. ***General*** – Disclosures under this section must be made in relation to corporate governance, corporate strategy, environmental and social risk management, stakeholder engagement, regulatory compliance and data privacy. For the purpose of reporting on these matters, the GSE recommends that listed companies define and evaluate their impact based on relevant Ghanaian legislations and codes such as the Securities and Exchange Commission's Corporate Governance Code for Listed Companies, the Data Protection Act and the Consumer Protection Act.

b. ***Economic*** – Disclosures must be made on economic performance, taxes and anti-corruption.

c. ***Social*** – Disclosures must be made regarding human rights, labour and working conditions, occupational health and safety, training and education and diversity and equal opportunity.

d. ***Environmental*** – Disclosures must be made in relation to environmental oversight, environmental compliance, and emissions (carbon footprint).

It is important to note that the above-mentioned mandatory ESG topics do not restrict or prohibit listed companies from identifying and making disclosures in respect of additional material topics or sector-specific topics which are not represented in the mandatory ESG topics. The GSE has also set out optional ESG topics which are gaining prominence with stakeholders in Ghana such as supply chain screening, local content or participation and waste management which listed companies are encouraged to report on.

Conclusion

ESG or sustainability reporting has become a key concern for listed companies in Ghana as sustainable investments take hold within the Ghanaian capital market and other stakeholders such as regulators and employees increasingly include such non-financial factors in their assessment of companies. The GSE's guidance manual is therefore properly positioned to guide listed companies in Ghana on their preliminary ESG integration plans and continuing reporting systems to attract investments and present additional opportunities for shareholder value creation. The board of directors of such companies are however advised to seek legal and financial advisory services to design a robust ESG integration plan and sustainability reporting system in compliance with global standards.