ESG and Ghana Financial Institutions: What's Happening?

Introduction - ESG?

Environmental, Social and Governance (ESG) is a rapidly growing concept around the world based on the need for more balanced institutional and business operations. This concept has ushered in a new wave of change in more recent times leading to the incorporation of Environmental, Social and Governance (ESG) concerns in carrying out business activities. Regulators, policy makers, government and organisations such as the financial institutions have become vocal and more proactive on these concerns.

The increased need to move towards a low carbon economy is one of the ESG goals.This will create additional complexity for financial service firms: commercial, investment & mortgage banks, discount houses, insurance companies and the likes. It has also been observed that there is a huge gap in understanding what ESG constitutes and how it should be measured with respect to compliance with its goals.

There is also a looming negative perception by stakeholders on the readiness of financial institutions in dealing with various risks and opportunities that they will be exposed to by implementing ESG.

This article explores areas such as current global development around ESG, the development of ESG in Ghana financial institutions as well as a review of what the future of ESG entails and how stakeholders like investors, regulators, employees, lenders, rating agencies, customers and the society at large will play a significant role in future ESG conversations.

Introduction - ESG?

Environmental, Social and Governance (ESG) requirements aim to promote sustainability within the financial sector as well. This has led to the development of the concept of sustainable banking within the sector. Basically, sustainable banking incorporates ESG criteria into the usual traditional way of providing financial services to ensure that ESG goals/benefits are achieved in the long run.

Financial markets in Europe and North America currently account for about 90% of the sustainable investment market in the world1. Private finance, which is one of the markets covered, is still far from evolving into emerging markets based on the expectations to contribute its quota to achieving sustainable development goals.

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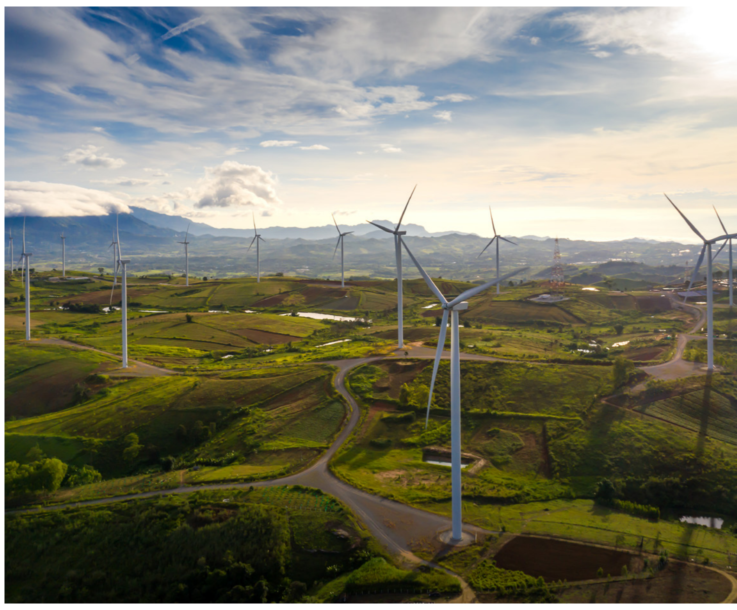
Financial markets in Europe and North America currently account for about 90% of the sustainable investment market in the world1. Private finance, which is one of the markets covered, is still far from evolving into emerging markets based on the expectations to contribute its quota to achieving sustainable development goals. The reasons for the underdevelopment of the private finance market can be linked to the fact that sustainable reporting is not mandatory as well as unstandardized data and inconsistencies in disclosures between countries making ESG information less transparent.

However, the current issue of underdevelopment and inconsistencies in ESG disclosures between countries is about to change. Recently, there was a push by the International Financial Reporting Standard (IFRS) Foundation, through International Sustainability Standards Board (ISSB), that will mandate governments of more than ninety countries who attended the COP26 to submit enhanced climate commitments, known as Nationally Determined Contributions (NDCs)2, every five years.

In a bid to attain sustainable banking, several initiatives are being introduced by banks across the globe to address some of the issues raised by stakeholders in implementing ESG. Examples of such initiatives include;

- **Financial inclusion** such as increasing and developing mobile money services, partnerships with global bodies, organizing business seminars and financial education programs, participating in different countries' Central Bank Micro, Small & Medium Enterprises (MSME) development funds, etc.
- **Green facilities** such as the introduction of solar powered bank branches and solar powered ATMs.
- **Human and labour rights** such as establishment and code of ethics, insider trading policies and hotlines, staff fitness programs, etc.



- **Energy and waste management** such initiatives that are big on paper saving, waste recycling, and power and energy saving.
- **Investment in communities** such as introducing programs to the different communities that drives clinic support, community empowerment, staff volunteering, skill acquisition, etc.

Clearly, ESG development across the world is gaining irresistible momentum thereby defining the changes businesses and various organisations will have to make going forward.

ESG Development in Ghana Financial Institutions

The term Sustainability has developed through the years to become an indisputable tool that financial institutions now use to examine their business operations and activities. Ghanian Financial Institutions began their journey into promoting a sustainable economy through sustainable banking about 2 years ago. A committee was inaugurated in 2015 by the Governor of the Bank of Ghana (BoG) to establish a sustainable banking framework that will drive innovation, market resilience and sustainable economy. The result was the establishment of Ghana Sustainable Banking Principles (GSBPs) launched in 2019.

The GSBPs contain principles and guidelines on how financial institutions should support business activities such as Agriculture & Forestry, Mining and Oil & Gas, Construction & Real Estate, Power & Energy and Manufacturing activities in a sustainable manner.
The following are the seven principles of GSBPs as established in 2015[3]

- Identify, measure, mitigate and monitor environmental and social risk in our business activities. Identify environmental and social opportunities in our business activities;
- Promote good environmental, social and governance practices in our internal business operations;
- Promote good corporate governance and ethical standards;
- Promote gender equality;
- Promote financial inclusion;
- Promote resource efficiency and sustainable consumption and production
- Reporting

Moreso, the implementation of the GSBPs would require financial institutions to design and implement Environmental and Social Management Systems (ESMS) which can be incorporated into the business operations in order to achieve great milestones thereby contributing to the credibility of Ghana Financial Institutions in the years ahead.

The journey into the implementation of GSBPs will have some challenges or issues that will be encountered by financial institutions. We would therefore suggest that Ghana Financial Institutions and Authorities, in their bid to promote ESG development and implementation, should set out corresponding measures, policies and regulations that will provide
a-more-lasting-solution as they experience and identify inhibitions that will affect the achievement of their objectives.

ESG Future Outlook

Considering the continuous trends of ESG dialogue, board members have given ESG a special place on their agendas. Top leadership of organisations are prioritising ESG criteria during their strategic business meetings. They seemingly are under obligation to respond to the demands of various stakeholders such as investors, regulators, employees, lenders, rating agencies, customers and the society at large who seek to know the potential risk and opportunities that ESG enshrouds within their business context.

Now, it is important for organisations to have a more forward-looking approach. They should also envisage the possible transformation that their business will experience, the potential challenges and the new pathways that ESG implementation will present to their business.
In addition, regulators around the world are now moving from policies to establishing concrete regulatory frameworks that will result in complete compliance, consistent measurement standards of ESG impacts to promote a sustainable environment and economy. This move by regulators should not be handled with levity by organisations. Therefore, organisations need to lay the groundwork for uncertainties and unavoidable changes around reporting, disclosures, value creation, green investment and the likes that would arise when complying with policies and regulations.

Conclusion

This article has given some highlights on what is happening in the financial sector around the world and in Ghana with respect to the development of ESG. The recent development and implementation being witnessed in the ESG space will bring about some unequivocal changes.

This, therefore, has made it imperative for stakeholders, organisations and institutions to closely monitor and keep abreast with the new and future development around ESG. This will aid the process of effecting the appropriate adjustments to their business model and/or operations which will eventually result in enhancing a sustainable environment and the economy at large.

Reference

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