The State of Sustainability Reporting

PwC Zambia

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Contents

Foreword

In an era where climate change and other megatrends are re-shaping the future of business, it is imperative for companies to weave sustainability into the fabric of their strategic planning. Ignoring these trends not only negatively affects their enterprise value but also means they may miss out on the potential for growth that sustainability offers.

PwC Zambia recognises the critical role of sustainable practices and sustainability reporting and the evolving landscape of sustainability related regulatory requirements in shaping business strategies.

This report delves into the intricacies of sustainability reporting in Zambia; a country where environmental stewardship is integral to economic progress as highlighted in the Eighth National Development Plan (8NDP). It also illuminates the risks and opportunities that organisations must acknowledge.

The Zambian Government's dedication to environmental sustainability is catalysing transformative changes in policy and regulation. Key initiatives include the 'Nationally Determined Contribution Implementation Framework for Zambia 2023 to 2030' (NDC Implementation Framework) and the National Green Growth Strategy (NGGS).

The NDC Implementation Framework articulates Zambia's commitment to curbing greenhouse gas emissions and adapting to climate change, while the NGGS charts a course for sustainable and inclusive growth across four pivotal domains: resilient and climate-compatible growth, improved resource efficiency, strengthened natural capital, and enhanced inclusivity.

These measures provide a platform for businesses to align their operations with sustainable practices, including sustainability reporting, and actively contribute to Zambia's environmental objectives. They also carve out avenues for growth for those businesses

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that integrate sustainability, alongside risks that must be managed to safeguard their value.

Beyond fulfilling regulatory obligations, sustainability reporting serves as a catalyst for organisations to evaluate and adjust to the realities of climate change and associated policies, such as the NDC Implementation Framework and the NGGS. It unlocks a wealth of opportunities that extend past compliance, such as tapping into green and sustainable finance, participating in carbon markets, and harmonising climate-positive actions with business outcomes.

The Zambia Institute of Chartered Accountants (ZiCA) has taken a commendable step by issuing a directive for the adoption of the ISSB's Sustainability Disclosure Standards, IFRS S1 and S2, effective for reporting periods commencing on or after 1 January 2025. The adoption of these standards is critical for ensuring clarity, comparability and reliability in sustainability/ESG disclosures. These frameworks provide a foundation for setting benchmarks, aligning with national and international goals, and promoting transparency and accountability.

We extend our heartfelt gratitude to the Ministry of Green Economy and Environment for their steadfast efforts to propel Zambia's sustainability agenda forward, and to the PwC team for their unwavering commitment to the creation of this insightful publication.

Executive Summary

Sustainability reporting has emerged as an important way for organisations to communicate their environmental and social impacts, particularly in the context of global challenges like climate change and resource scarcity. This type of reporting encompasses Environmental, Social and Governance (ESG) factors, which are integral to creating long-term value for organisations. The process involves assessing both qualitative and quantitative data to convey a company's sustainability goals and achievements, as well as identifying risks and opportunities that could affect a company's value.

Integrated reporting, where a company combines financial information with sustainability-related data, is becoming increasingly popular because it provides a more comprehensive view of a company's performance. This integrated approach to reporting better reflects an organisation's overall impact and value creation. As highlighted in the 2023 PwC Global Investor Survey, investors are showing more interest in companies' sustainability efforts and how they use emerging technologies. Investors want detailed information on sustainability commitments and their financial implications, and are wary of greenwashing, which is where companies overstate their sustainability performance.

Sustainability reporting is a strategic tool that enhances transparency around a company's sustainability/ ESG efforts and addresses modern sustainability challenges. It improves risk management, refines business models, boosts operational efficiencies and meets stakeholder expectations. However, organisations face challenges, such as having to use diverse reporting frameworks, the risk of greenwashing and how to integrate sustainability into their core strategy.

Sustainability reporting is important for creating value and resilience in businesses. It enables organisations to address sustainability challenges more effectively and to communicate their progress to stakeholders. It also has the potential unlocking capital and generating green foreign direct investments for Zambian organisations. While there are challenges to overcome, the benefits of robust sustainability reporting are clear, and will contribute to a more sustainable and resilient future for all.

Significant strides have been made in standardising sustainability reporting through important proposals such as the Corporate Sustainability Reporting Directive (CSRD), the IFRS Foundation's International Sustainability Standards Board (ISSB) Sustainability Disclosure Standards and the US Securities Exchange Commission's (SEC) Climate Disclosure Rule.

In Africa, and particularly in Zambia, sustainability reporting is becoming more important, with initiatives such as the adoption of the ISSB Sustainability Disclosure Standards, development of various policies and frameworks to promote low-carbon and sustainable development underway. Despite the lack of a consolidated legal framework for sustainability/ ESG disclosures in Zambia, statutory provisions and regulated issued requirements are driving companies towards sustainability reporting.

Zambia faces challenges when it comes to sustainability/ ESG reporting, including the absence of a comprehensive regulatory framework and companies' limited capacity to monitor sustainability/ESG issues. However, there are opportunities for companies to align their sustainability reporting with national climate agendas and enhance business performance.

Organisations in Zambia should leverage national frameworks to align their reporting with sustainability priorities. The benefits of doing so include better decision-making,risk management, and enhanced credibility. Recommendations to improve sustainability/ ESG reporting in Zambia include establishing a clear reporting framework, forming an adoption-readiness working group and prioritising capacity building activities for key stakeholders such as reporting entities and regulators.

1 Overview of Sustainability reporting

Sustainability reporting: setting the context

Climate-related disturbances are increasing around the world and this is having a significant impact on, amongst other things, sustainable economic development. From a Zambia perspective, the impacts of climate change, such as floods and droughts, over the last 30 years, are estimated to have cost the Zambian economy US$13.8 billion in GDP losses[1].

With these climate-related disturbances, organisations need to reshape their strategy and operations to improve their environmental and social impact, and, in doing so, help tackle the challenges of climate change, resource scarcity, demographic changes and inequality.

Sustainability represents an organisation's ability to create long-term value by focusing on sustainability/ESG factors. Reporting on sustainability accurately, both qualitative and quantitative in execution, requires strict analysis to help businesses communicate what and how they are doing in terms of achieving their targets on a range of sustainability parameters in the context of ESG. This approach enables businesses to articulate their progress in meeting sustainability targets within the sustainability/ESG framework. Moreover, sustainability reporting serves as a tool for organisations to identify and address current and future risks and the impact of those risks, offering ways to enhance their business value.

The primary goal of sustainability reporting is to prompt companies to adopt more sustainable practices. Through this type of reporting, companies can establish their priorities and communicate the economic, social and environmental impact of their activities, both positive and negative. This form of reporting empowers organisations to share in a transparent way their journey towards achieving sustainability goals, fostering accountability and continuous improvement[2]. Fig 1 below highlights some challenges, risks and opportunities that an organisation can consider including in their sustainability report.

Figure 1: The specific challenges, and risks that sustainability/ESG presents to organisations

Specific challenges, and risks ESG presents to organisations

Environmental concerns

- Emissions
- Waste
- Pollution
- Water and resource scarcity
- Deforestation
- Land protection
- Environmental taxes i.e. carbon / plastic
- Green subsidies and incentives
- Tax compliance and reporting requirements

Social concerns

- Community engagement
- Social acceptance
- Social insurance, health care - and pension premiums
- Land rights
- Fair work conditions
- Gig economy, flexible workforce and global mobility
- Equal pay, living wages and remuneration policies
- Social insurance, health care and pension premiums
- Equality and diversity
- Safeguarding employees and customers

Governance concerns

- Ethical behaviour
- Aligning ESG policy with tax strategy
- Tax reporting and stakeholder communication
- Process controls and compliance assurance programme (co-operative compliance)
- Anti-corruption
- Risk and opportunity oversight disclosure
- Whistleblowing

[1]https://www.mgee.gov.zm/wp-content/uploads/2024/04/2NATIONAL-GREEN-GROWTH-STRATEGY-2024-2030-6.pdf
[2]https://link.springer.com/article/10.1007/s10668-023-02921-x

Traditional reporting versus integrated reporting

Integrated reporting, where a company combines financial information with sustainability-related data, is becoming increasingly popular because it provides a more comprehensive view of a company's performance by combining financial information with material sustainability data. This integrated approach to reporting better reflects an organisation's overall impact and value creation.

This differs with traditional reporting which primarily focuses on financial performance, providing a historical view of an organisation's economic activities. It typically includes balance sheets, income statements and cash flow statements, which are essential for stakeholders to assess the financial health of a company. However, this form of reporting often overlooks the broader impact of a company's operations, including social and environmental aspects.

Integrated reporting, on the other hand, represents a more holistic approach. It aims to convey a comprehensive picture of an organisation's overall value creation process. Integrated reporting combines financial data with information about the company's sustainability programmes, offering insights into how an organisation's strategy, governance, performance and prospects are influenced by and impact the commercial, social and environmental context in which it operates.

The International Sustainability Standards Board (ISSB), together with its sister organisation the International Accounting Standards Board (IASB), assumed responsibility for the Integrated Reporting Framework when the Value Reporting Foundation, the organisation behind the Integrated Reporting Framework, consolidated into the IFRS Foundation in August 2022.

The IASB and the ISSB will work together to determine how to build on and integrate the Integrated Reporting Framework into their standard-setting projects and requirements including the ISSB's Sustainability Disclosure Standards.

The ISSB's Sustainability Disclosure Standards serve as a framework to guide organisations in disclosing sustainability-related information. These standards are designed to provide a global baseline for sustainability disclosures, enhancing the comparability and consistency of information reported.

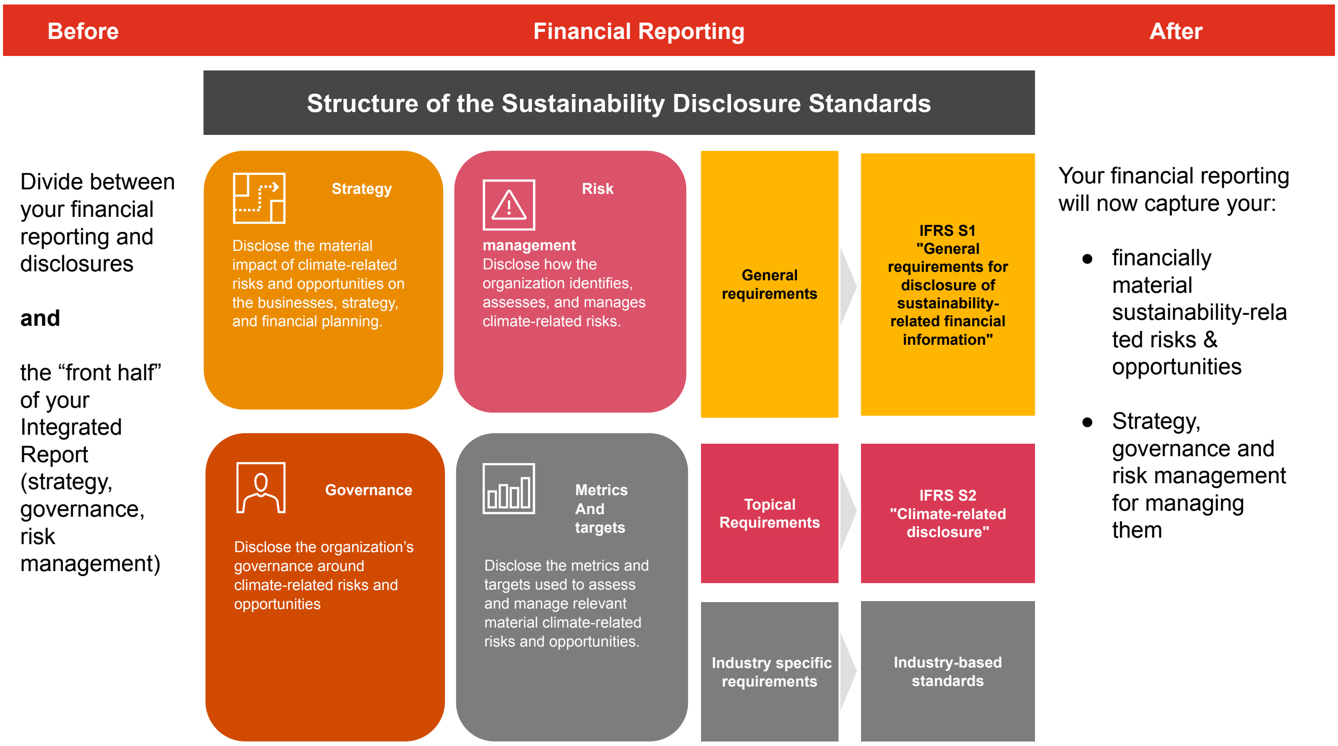
The transition to integrated reporting, as illustrated by the ISSB standards, involves several key elements:

- **Strategy and resource allocation:** this includes how an organisation's strategy considers sustainability issues and how resources are allocated to address them.
- **Governance and culture:** this involves reporting on the governance structures and cultural norms that underpin an organisation's approach to sustainability.
- **Risk management:** this includes the identification, assessment and management of sustainability-related risks and how they may affect the organisation's ability to create value over the short, medium and long term.
- **Performance metrics:** integrated reporting requires the inclusion of performance metrics that reflect the organisation's economic, environmental and social impacts.
- **Outlook:** this provides an outlook on how the organisation anticipates future challenges and opportunities in the context of sustainability.

By adopting integrated reporting, organisations can provide a more transparent, reliable and comprehensive account of their performance.

This approach not only benefits stakeholders who seek a deeper understanding of a company's sustainability practices, but also helps the organisation identify and capitalise on opportunities for sustainable growth.

Figure 2: Traditional reporting versus integrated reporting



Sustainability reporting trends

The 2023 PwC Global Investor Survey reveals growing investor demand for clarity on how businesses are navigating sustainability and integrating advanced technologies such as artificial intelligence. There is a pressing need for corporate leaders to respond to this demand.

Investors are keen to grasp how companies withstand crises and maintain resilience, all while fostering and safeguarding long-term value in an increasingly fragmented global landscape. Investors' attention is drawn to how businesses are leveraging sustainability and emerging technologies to drive innovation and corporate evolution, enabling them to assess whether these companies will outpace their rivals or lag behind[3].

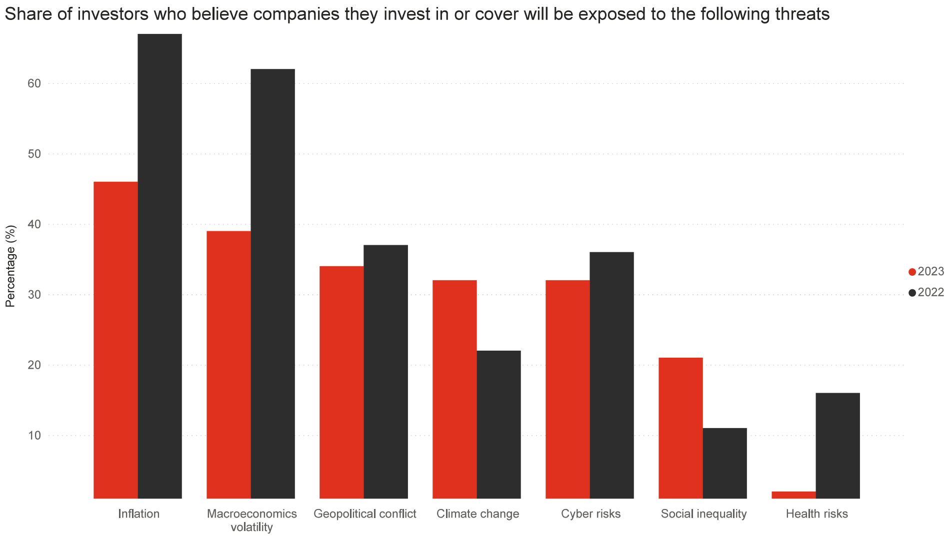
The 2023 PwC Global Investor Survey indicates a shift in investor concerns, with inflation perceived as a less imminent threat than the escalating risks associated with climate change.

[3]https://www.pwc.com/gx/en/issues/c-suite-insights/global-investor-survey.html

The significance of sustainability

A significant 75% of investors consider a company's approach to managing sustainability risks and opportunities as a critical element in their investment decisions. Investors are calling for more comprehensive information, including the financial implications of sustainability commitments and a transparent strategy for meeting these objectives. This should be presented alongside an analysis of how these commitments affect financial statements. Investors are also requesting detailed reports on the environmental and societal impacts of corporate activities[4].

Figure 3: Indicating a shift in investor concerns to the escalating risks associated with climate change
(Source: PwC analysis)



75%

of investors consider a company's approach to managing sustainability risks and opportunities as a critical element in their investment decisions

The challenge of greenwashing

The survey highlights a concerning trend: nearly all investors are sceptical about the authenticity of sustainability performance reports, noting an uptick in unsupported claims compared to previous years.

Additional findings from the 2023 PwC Global Investor Survey

- Investors are increasingly scrutinising the veracity of sustainability claims in corporate reporting.
- There is a call for more transparent and reliable information on how businesses are addressing sustainability challenges.
- The survey underscores the importance of sustainability in investment decision-making and the need for clear, actionable corporate strategies in this area.

Figure 4: Trends in investors' scepticism over the authenticity of sustainability reports.
(Source: PwC analysis)

94%

of investors surveyed believe corporate reporting contains at least some level of unsupported sustainability claims (i.e greenwashing)

[4] https://www.pwc.com/gx/en/issues/c-suite-insights/global-investor-survey.html

Below are some additional responses from the *2023 PwC Global Investor Survey:*

Figure 5: Global reporting trends (Source: PwC Global Investor)

75%
of investors want to see the effect of sustainability risks and opportunities on the company's financial statements.

76%
of investors want companies to disclose the cost of meeting their planned sustainability commitments

85%
of investors agree to a moderate or higher extent, they get more confidence from sustainability reporting that has reasonable assurance.

70%
of investors agree that companies should embed ESG directly into their corporate strategy

94%
of investors believe corporate reporting contains at least some level of unsupported sustainability claims (i.e., greenwashing)

75%
of investors want to see the impact a company has on the environment or society now and in the future

The importance of sustainability reporting

Investor transparency and sustainability/ESG data

Investors increasingly demand clear insights into companies' sustainability/ESG practices. The availability of detailed, reliable sustainability/ESG information is essential for making informed investment decisions. As such, sustainability reporting has become an important way of showcasing a company's commitment to sustainable practices and its ability to manage ESG-related risks.

Strategic business tool

Sustainability reporting serves as a strategic instrument for companies to confront current sustainability challenges. It provides economic, environmental and social advantages, and fosters transparency and accountability. This process not only supports continuous improvement but also establishes a solid foundation for sustainable growth. It is an integral component in enhancing a company's strategic resilience over the long term.

Comprehensive perspective and impact assessment

By adopting a holistic approach that includes social, environmental and economic factors, businesses can measure and understand their operational impact more effectively.

Armed with this knowledge, organisations can set ambitious targets and implement necessary changes. This approach equips them for a seamless transition to a sustainability-centric global economy.

Below is a summary of why sustainability reporting matters:

Figure 6: Why sustainability reporting matters (Source: PwC analysis)

Build trust

Clear and meaningful reporting improves confidence in the information presented by an entity. Being able to articulate well the company's ESG strategy, direction of travel and how far along that journey the company is, enhances **corporate reputation** and reinforces its **licence to operate**. The **higher the quality of data, processes and controls** that lead into reporting, the higher the confidence level.

Better transparency

Stakeholders are not shy about demanding information that is meaningful to them. The users of ESG information are increasingly broad and complex as companies look beyond themselves and their shareholders to their wider **impact on society**.

Aside from the company's determination of what is useful to report voluntarily, many of them will be responding to disclosure requirements that have, or will be, mandated through **current and future regulation**. PwC is able to help companies to upscale from a compliance reporter to a best in class leader.

On top of risks and opportunities

If done well, the way sustainability information is reported can be a competitive advantage to a company. To **reduce risk** and **create opportunities**, reporting should provide a holistic view of the company and comprehensively consider ESG strategy as part of the basis for **making the right decisions**.

Increased value

Examples from the market show that providing transparent, relevant and reliable ESG information in external reporting improves trust with stakeholders, positively affects cost of capital, promotes more meaningful employee engagement and can provide wider access to capital markets or other third party lending: a demonstrable link between high quality ESG reporting and enhancing value for our clients to leverage.

Clients need to get ready for the inevitable and use this as an opportunity to develop **high quality ESG reporting** that goes beyond compliance, bringing them meaningful change and **creating and enhancing corporate value**.

Summary of benefits

Risk management and resilience

Effective risk management today combines resilience with sustainability. As businesses face the tangible effects of climate change, building resilience to climate-related threats becomes imperative. This requires a thorough risk analysis, where potential threats are identified and appropriate measures taken to safeguard corporate interests.

Enhanced business models and operational efficiency

Sustainability reporting is not limited to bolstering company resilience. It also improves business models and operational efficiencies. Companies with a focus on sustainability are more adept at uncovering latent inefficiencies, which can lead to improved operational efficiency.

Stakeholder expectations and market demands

Fuelled by increased consumer engagement, stakeholders today have higher expectations around how a company behaves in relation to the environment, its people and the communities in which it operates. As a result, there is growing pressure for brands, companies and governments in both mature and developing markets to be more transparent. Responding to this trend is key to maintaining customer loyalty and employee satisfaction.

Stakeholders, opportunities and challenges

The following illustration outlines the diverse range of stakeholders involved in sustainability reporting, as well as the opportunities and challenges they present:

Figure 7: Sustainability reporting stakeholders, opportunities and challenges (Source: PwC analysis)

Stakeholders

- Investors
- Employees
- Customers
- Suppliers
- Business partners
- Communities
- Government

Opportunities

- Aids long-term value creation
- Fosters holistic value creation for stakeholders (organisations can influence what they measure)
- Holistic source of information for all key stakeholders
- "Accounting" for climate, social and governance risks

Challenges

- Proliferation of frameworks and standards and resultant potential for green-washing
- Challenges with data sourcing and transformation
- No standardized reporting process and governance challenges
- Robotics and analytics (manual reporting)

Challenges in sustainability reporting

Extrinsic challenges

Organisations face increasing scrutiny regarding their sustainability practices and their impact on communities and the environment. A significant external challenge for companies is navigating the myriad reporting frameworks and standards available, such as the Global Reporting Initiative (GRI) standards, Sustainability Accounting Standards Board (SASB) standards, and the Task Force on Climate-related Financial Disclosures (TCFD) recommendations.

The diversity of these frameworks often leads to complexity in data system design, which can impede the comparability and usefulness of sustainability reports.

Moreover, the varying objectives of reports and the differing needs of target audiences add another layer of complexity. There is also the risk of presenting inaccurate or misleading information, commonly referred to as “greenwashing”.

This can damage a company’s credibility and highlights the need for robust data collection systems to ensure reliable and transparent reporting.

Intrinsic challenges

Internally, organisations may grapple with a lack of commitment to environmental and sustainable practices among their leadership, usually due to a limited understanding of the associated problems, risks and opportunities. Often, the integration of environmental and sustainability issues into a company’s core organisational strategy is inadequate.

In addition, the volume of data that organisations are expected to collect can be overwhelming. The production of various internal and external reports on sustainability-related issues, which are often written by different authors for different audiences, further complicates the reporting process. Companies are also often unsure which metrics to use for the different reports.

The assortment of metrics, data, language and reporting requirements, coupled with the plethora of standards and frameworks, creates a challenging environment for report preparers. Determining the most effective reporting technique can be daunting, and the uncertainty surrounding the different standards and frameworks can lead to increased costs in preparing relevant and accurate reports.

2 The State of Sustainability reporting

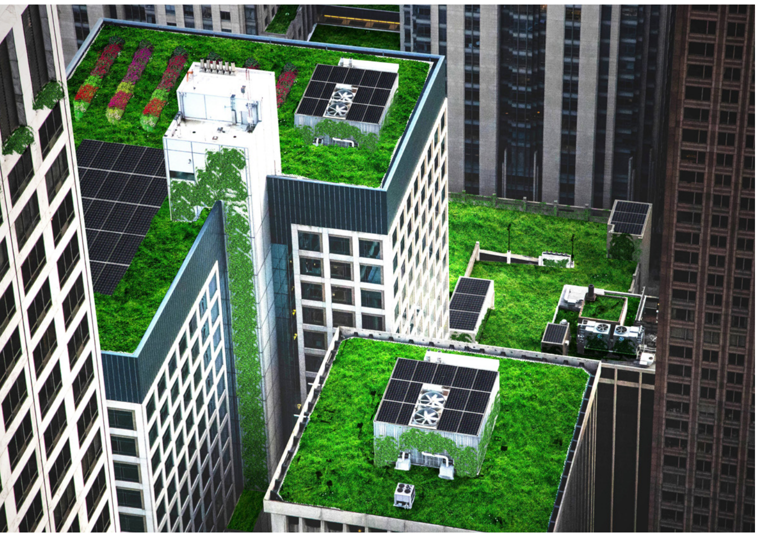
Global overview

Advancements in sustainability reporting standards

2023 was a pivotal year in the evolution of sustainability reporting, with the introduction of three new proposals that are reshaping the sustainability reporting landscape. These include the European Union's Corporate Sustainability Reporting Directive (CSRD), the IFRS Sustainability Disclosure Standards, and US SEC Climate Disclosure Rule.

International Auditing and Assurance Standards Board initiative

The International Auditing and Assurance Standards Board (IAASB) plays a crucial role in enhancing the credibility of sustainability reports. The IAASB is in the process of developing a new assurance standard for sustainability reporting. The standard was released for comments in 2023 and is expected to be issued by the end of 2024. This initiative is a response to the growing demand for reliable and verifiable information on sustainability.



Momentum for transparency and reliability

The push for improved sustainability reporting is largely driven by the increasing demand for transparency from a diverse group of stakeholders, including investors, regulators and the broader public. This demand is fostering the creation of standards that aim to deliver consistency, comparability and trustworthiness in sustainability disclosures.

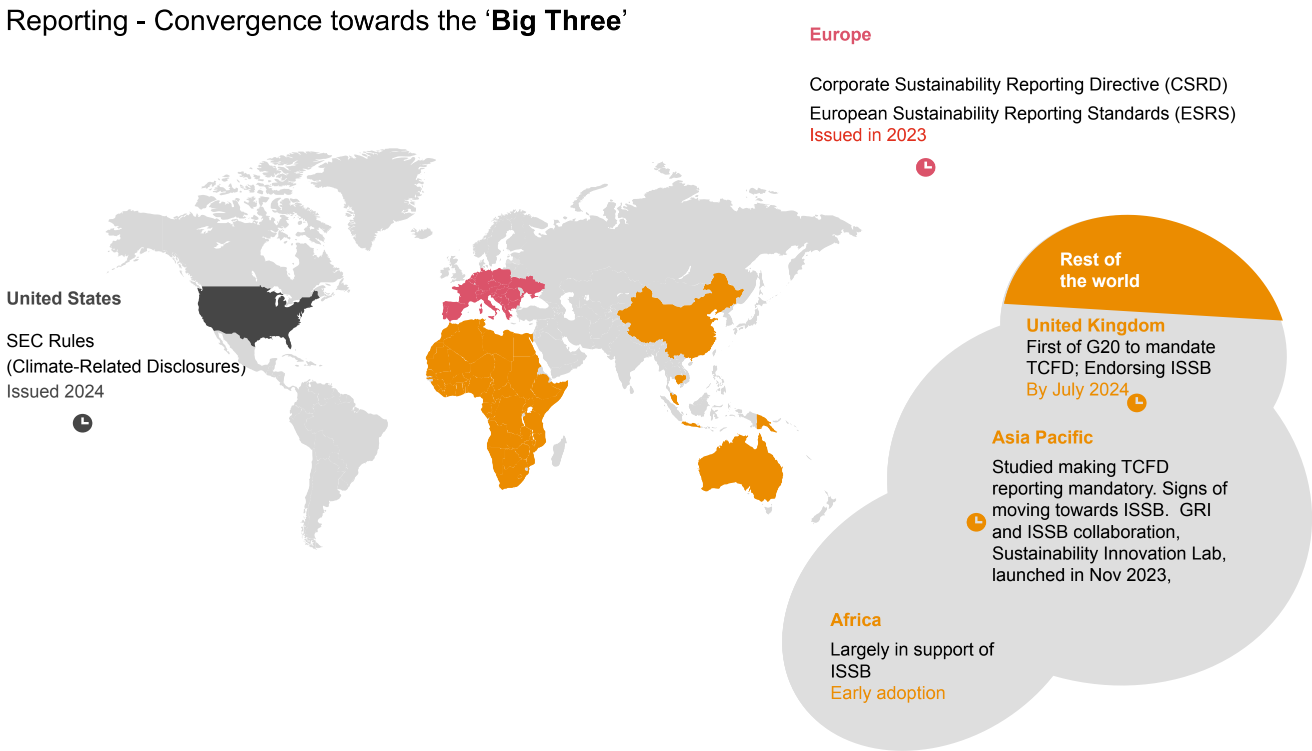
The 'big three' proposals

The landscape of sustainability reporting is being shaped by the 'big three' proposals, which are setting the stage for changes in how companies report on their sustainability across jurisdictions. The big three are:

- **The European Union's CSRD:** the European Financial Reporting Advisory Group has developed the European Sustainability Reporting Standards, which form a core component of the CSRD. These standards were issued in 2023 and are set to enhance the quality and scope of sustainability information provided by companies.
- **IFRS Foundation's Sustainability Disclosure Standards:** the ISSB of the IFRS Foundation released the IFRS Sustainability Disclosure Standards in 2023. These standards are designed to integrate sustainability information with financial reporting, providing a global baseline for sustainability disclosures.
- **The US SEC's Climate Disclosure Rule:** the SEC's climate proposal, formally known as the Enhancement and Standardisation of Climate-Related Disclosures for Investors, was issued in 2024. The adopted rules aim to provide investors with detailed and consistent information on climate-related risks and opportunities.

These developments represent a significant step forward in the standardisation and enhancement of sustainability reporting, reflecting a global commitment to more sustainable business practices and informed decision-making.

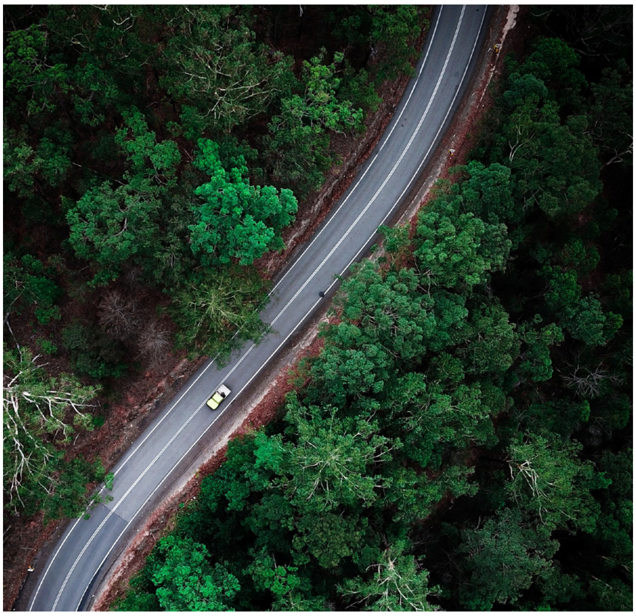
Figure 8: Advancements in Sustainability Reporting Standards - convergence towards the Big Three
(Source: PwC analysis)



Sustainability reporting in Africa

Businesses across Africa are embracing sustainability reporting standards to attract investors. This shift is largely attributed to the growing trend of responsible investment, with an increasing number of investment firms considering sustainability/ESG factors when allocating funds.

Despite the challenges companies face in sustainability reporting, African business leaders are prioritising green growth. Green growth promotes low-carbon, resource-efficient, resilient and socially inclusive company growth in order to move a country towards a green economy. The PwC 2023 Global CEO Survey highlights how CEOs in sub-Saharan Africa are actively engaging with their organisations' sustainability agendas. CEOs in Africa navigate a complex business landscape, shaped by misinformation, economic fluctuations, climate concerns and evolving regulations.

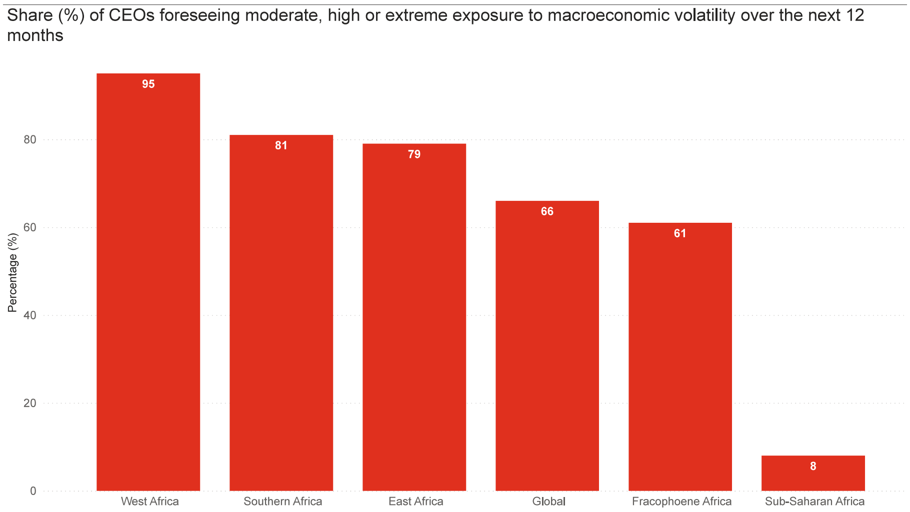


Impact of macroeconomic and social risks

Macroeconomic volatility is a major concern for organisations globally in 2024. Traditional approaches to combat macroeconomic issues like inflation may prove to be ineffective. Businesses and governments are thus seeking new strategies to foster stability and maintain growth.

The global economy's current difficulties, which include the impact of climate change, are forcing companies and governments to make critical decisions in the short term. The survey indicates that 80% of CEOs in sub-Saharan Africa perceive their organisations as moderately to highly susceptible to macroeconomic instability this year, which is higher than the global average of 68%.

Figure 9: Macroeconomic volatility and social risks on Sustainability Planning
(Source: PwC's 27th Annual Global CEO Survey)



80%

of CEOs in sub-Saharan Africa perceive their organisations as moderately to highly susceptible to macroeconomic instability this year

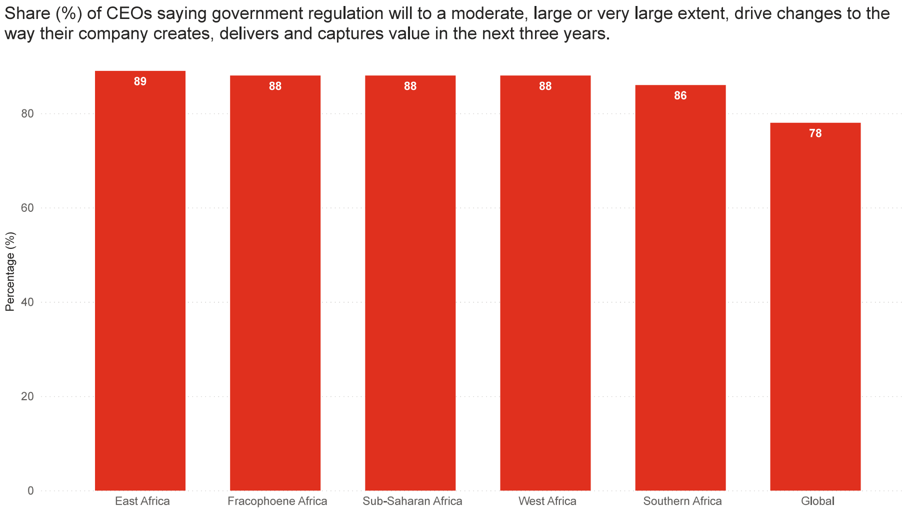
Regulatory changes in response to global disruptions

Regulatory changes, particularly in the wake of climate change, have significantly impacted companies' value creation processes. Over the past five years, 81% of CEOs in sub-Saharan Africa have felt the influence of government regulations on their businesses, in a period marked by the Covid-19 pandemic and subsequent economic and supply-chain interventions.

Looking ahead, most global CEOs expect regulations to continue shaping their businesses.

Approximately 78% of CEOs worldwide foresee regulation as a moderate to extreme influence on their company's value generation, delivery and retention over the next three years, with this figure increasing to 89% in sub-Saharan Africa[5].

Figure 10: Change in regulations by governments in response to climate change
(Source: PwC's 27th Annual Global CEO Survey)



78%

of CEOs worldwide foresee regulation as a moderate to extreme influence on their company's value generation, delivery and retention over the next three years

Comparative analysis of sustainability reporting adoption

The ISSB has released two key sustainability reporting standards: the General Requirements for Disclosure of Sustainability-related Financial Information (IFRS S1) and Climate-related Disclosures (IFRS S2).

These IFRS Sustainability Disclosure Standards, which are aligned with the TCFD framework, are poised for adoption by local securities exchanges and regulators, potentially becoming mandatory. Several organisations have signalled their intention to adopt these standards, which can be voluntarily applied regardless of whether IFRS is their primary reporting framework. This should be considered in conjunction with the IFRS Sustainability Disclosure Standards[6].

A review of stock exchanges in Botswana, Ghana, Malawi, Kenya, Nigeria, Mauritius, South Africa, Uganda, Zambia and Zimbabwe reveals initial steps towards sustainability / ESG reporting disclosures. Nonetheless, there is a need for more decisive and widespread commitment. It is recommended that stock exchanges implement more robust and meaningful disclosure regulations[7].

Nigeria's Early Adoption of ISSB Standards

On November 10, 2022, Nigeria, a member of the Global South, was the first country to announce the decision to adopt the ISSB Sustainability Disclosure Standards. Nigeria has adopted the ISSB Sustainability Disclosure Standards to provide a consistent framework for sustainability-related disclosure standards.

The Financial Reporting Council Act of Nigeria 2011 was revised to encourage compliance with the ISSB standards. In March 2024 Nigeria proceeded to issue the Roadmap Report for Adoption of IFRS Sustainability Disclosure Standards in Nigeria ("The

[5]https://www.pwc.co.za/en/assets/pdf/africa-business-agenda-2021.pdf
[6]https://www.ifrs.org/issued-standards/ifrs-sustainability-standards-navigator/ifrs-s1-general-requirements/
[7]https://www.accaglobal.com/content/dam/acca/global/PDF-technical/sustainability-reporting/tech-tp-seissa.pdf

Roadmap") which provided a structured approach to the adoption of the ISSB standards by Nigerian companies.

Some of the key outcomes in the Roadmap are summarised in Fig. 11 below. According to Roadmap, the decision of Nigeria to adopt the ISSB standards was based on the fact that these represent a global baseline for a single set of high-quality sustainability reporting standards and their adoption has the effect of unlocking capital and generating the much-needed foreign direct investments for Nigeria.

Aside from that, in Nigeria's view, the ISSB standards have strong international support with backing by the G7, the G20, the International Organization of Securities Commissions (IOSCO), the Financial Stability Board, African Finance Ministers, and Central Bank Governors from more than 40 jurisdictions and still counting[8].

Figure 11: The African Sustainability Reporting Landscape (Source: PwC Africa analysis)

Nigeria		
First African country to announce intention to adopt ISSB standards		
Roadmap for adoption [Specific to Nigeria]		
Third and Fourth Years after Reporting	Fifth Year after Reporting	Sixth Year after Reporting
Limited assurance / verification of S1 and S2 disclosures (excluding scope 3 emissions scenario analysis and transition plans).	Reasonable assurance / verification of S1 and S2 disclosures (excluding Limited assurance / verification scope 3 emissions scenario analysis and transition plans).	Reasonable assurance / verification of all disclosures (full quantitative assurance)

Tanzania

With effect from 1 January 2024, Tanzanian entities are required to incorporate sustainability disclosures (in line with the ISSB standards) in their directors report

Zambia

The Zambia Institute of Chartered Accountants followed suit in early adopting the sustainability standards IFRS S1 and IFRS S2 along with the Integrated Reporting framework,after ISSB adopted them in June 2023

Kenya | **Zimbabwe** | **Ghana**

- Expressed an intention to adopt ISSB Standards
- Adoption dates and approach not yet finalised
- Ongoing discussions with regulators and ISSB board members

South Africa

- King IV Report on Corporate Governance ™ (King IV)
- JSE Sustainability - related and Climate Disclosure guidance issued in 2022 (Voluntary)
- Regulatory discussions ongoing - potential adoption of ISSB Standards in SA

[8]https://frcnigeria.gov.ng/wp-content/uploads/2024/04/FINAL-COPY-OF-SUSTAINABILITY-ROADMAP-1.pdf

Sustainability reporting in Zambia

The significance of Sustainability reporting

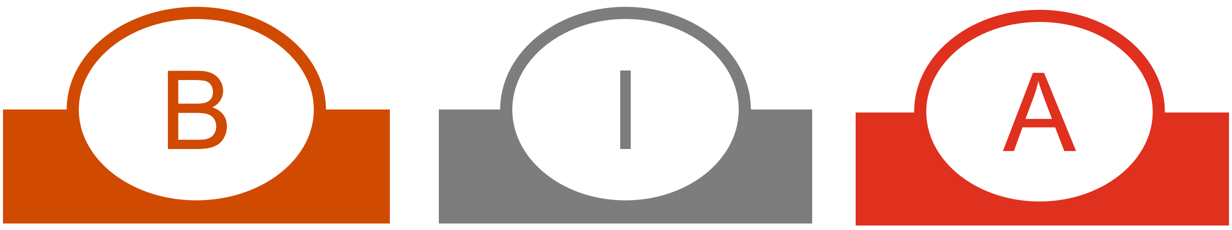
In Zambia, sustainability reporting is gaining prominence due to escalating sustainability/ESG risks. The country is grappling with severe climate events, such as drought and temperature variations, which are increasingly frequent and prolonged, and present a multitude of challenges to sectors such as banking. These challenges include heightened credit, market, operational and reputational risks, exacerbated by a rise in insurance claims and physical damage.

To address these issues, collaborative efforts such as the Green Finance Main Streaming Working Group, which comprises the Bank of Zambia, the SEC, the Pensions and Insurance Authority, the Zambia Institute of Chartered Accountants, the World Wide Fund for Nature Zambia, and the UNDP Biodiversity Finance Initiative, are actively promoting policies that support low-carbon and sustainable growth.

The agricultural sector, too, is confronting the impact of climate variability, which threatens crop yields. In response, the national agriculture policy is focusing on enhancing competitiveness and sustainability. These initiatives are in line with Zambia's 8th National Development Plan and its National Determined Contributions, which aim to foster stable economic growth through the adoption of climate-resilient infrastructure and sustainable industry practices.

Below is a summary of the PwC Zambia analysis of the government policy that is targeted at addressing climate risk in the key sectors of the economy.

Figure 12: Analysis of the government policy targeted at addressing climate risk in key sectors of the economy (Source PwC analysis)



BANKS

Climate risk

Climate change effects on banks including; credit risk, market risk, operational risk, and reputational risk.

Mitigation Measures
The 8NDP and NDC Implementation Framework aims to maintain price and financial stability for sustainable growth.

INSURANCE

Climate risk

Over time, risk-based premium levels will rise from anticipated increase in insurance claims and physical risk exposures brought on by climate change.

Mitigation Measures
The tripartite green finance, including BOZ, SEC, and PIA, aims to improve policies and procedures for low carbon and sustainable development.

AGRICULTURE

Climate risk

Crop productivity and output will probably gradually diminish from temperature and rainfall variations.

Mitigation Measures
National agriculture policy aims for an efficient, competitive, and sustainable sector, providing food and nutrition security, employment opportunities, and incomes.

Figure 12: Analysis of the government policy targeted at addressing climate risk in key sectors of the economy (Source PwC analysis)

BUILDING/ INFRASTRUCTURE

Climate risks

The hazards to our infrastructure will change as the climate does. Some individuals will have to leave their homes since they can no longer be livable due to rising sea levels.

Mitigation Measures
The NDC Implementation Framework aims to enhance climate resilience and low carbon investment in infrastructure.

HEALTH

Climate risk

The health implications of climate change include illnesses connected to food and water, injuries and deaths, diseases of the heart and lungs

Mitigation Measures
The NDC Implementation Framework outlines measures to support the 8NDP, including strengthening health sector policies

FORESTRY

Climate risks

Drought can weaken trees and increase a forest's susceptibility to insect or wildfire outbreaks. In a similar vein, wildfires can increase a forest's susceptibility to pests.

Mitigation Measures
The NDC Implementation Framework aims to address threats to natural resources like habitat transformation, encroachment, wildfires, and invasive species.

WATER

Climate risk
Water availability at the national level is expected to decrease by 13% from 97 km3 to 84 km3 by the end of the century

Mitigation Measures
The 8NDP in Zambia prioritizes water security through gender-responsive infrastructure and climate-smart measures, focusing on clean and safe water in areas with water deficiencies.

WASTE

Climate risk
Mining operations also impact air quality. In the mining towns of the Copperbelt Province, miners and residents have endlessly been exposed to elevated concentrations of SO2 and PM.

Mitigation Measures
Zambia's government plans to improve sanitation services by strengthening sewerage and solid waste management systems, promoting sustainable practices, and enhancing financing to address infrastructure constraints.

LIVESTOCK

Climate risk
Smallholder farmers, dependent on rainfed agriculture, face significant challenges due to climate change, experiencing droughts and floods that often lead to failed harvests.

Mitigation Measures
The government's plan to increase agriculture production and productivity focuses on farmers adopting improved practices to cope with climate change impacts.

Zambia's policy and regulatory landscape

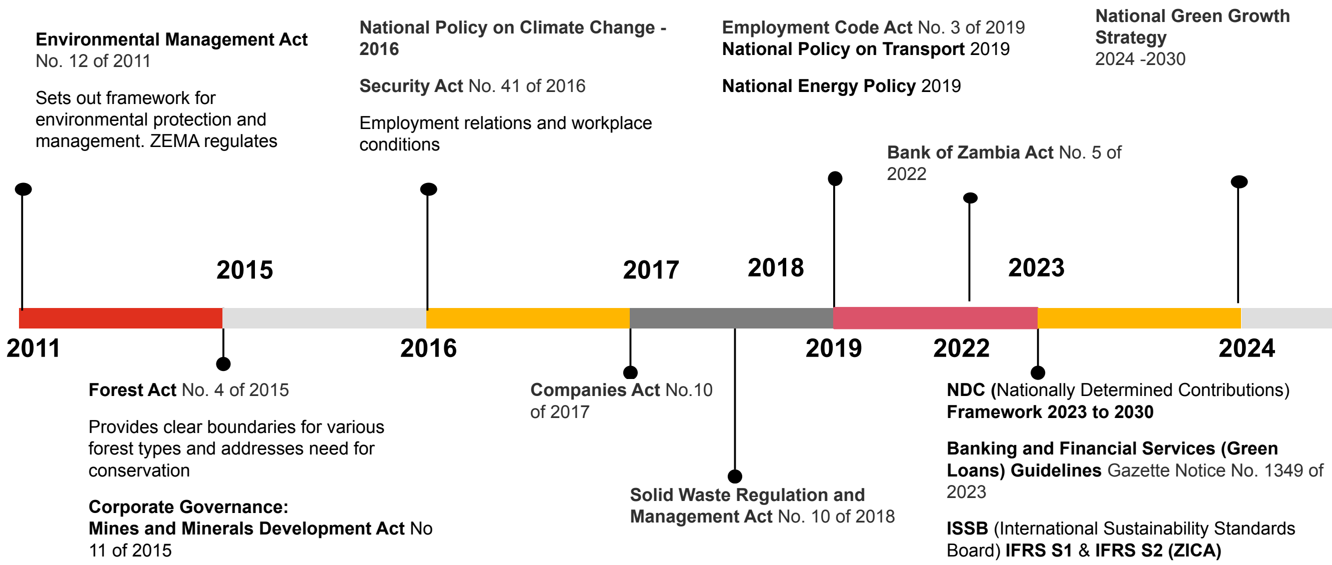
While Zambia lacks a unified legal framework dedicated to sustainability/ESG disclosures, existing statutory provisions mandate certain businesses, including those listed on the stock exchange and in the mining sector, to report on sustainability and corporate social responsibility as part of their operational responsibilities.

Key regulatory drivers for sustainability/ESG disclosures

- **Environmental Management Act:** the Act (No. 12 of 2011) sets out a comprehensive environmental protection and management system. It authorises bodies like the Zambia Environmental Management Agency to enforce standards and mandates environmental impact assessments for specific activities, including mining and construction.
- **Employment Code:** the Employment Code (Act No. 3 of 2019) covers the labour and social dimensions of ESG, focusing on employment relations, working conditions, and health and safety in the workplace.
- **Mines and Minerals Development Act:** this Act encompasses corporate governance within the mining sector, promoting responsible mining practices.
- **Companies Act:** the Companies Act (No. 10 of 2017) enhances corporate governance standards and emphasises transparency. It outlines the duties of directors and company secretaries, aligning with sustainability/ ESG values, and addresses shareholder rights, meeting procedures and resolutions, with an emphasis on equity.
- **Securities Act:** under Section 84 (1) of the Securities Act (No. 41 of 2016), the SEC is empowered to set ethical and governance standards for capital market participants. Listed companies are required to disclose their compliance with the LuSE Code of Corporate Governance in their annual reports.
- **Green loans guidelines:** these guidelines require financial service providers to report their green loan strategies and policies to the Bank of Zambia, including the performance of green loans in their compliance reviews and conducting regular audits on green loan performance. Borrowers must also report on the use of funds annually until fully utilised[9].

Figure 13: Key climate and sustainability related legislation and policies (PwC Zambia analysis)

Whilst significant policy and regulatory activity sweeps across the world, we are also forging ahead



[9]https://iclg.com/practice-areas/environmental-social-and-governance-law/zambia#:~:text=Comprehensive%20ESG%20reporting%20enhances%20transparency,in%20the%20Zambian%20business%20landscape.

The current Sustainability reporting landscape

Zambia's sustainability reporting is in its infancy, yet it shows promise and potential for growth[10]. The landscape is poised for transformation with the local adoption of the ISSB's Sustainability Disclosure Standards, IFRS S1 and S2, and the Integrated Reporting Framework.

These standards will take effect from 1 January 2025, with reporting expected in annual reports from 2026, as directed by the Zambia Institute of Chartered Accountants (ZiCA) for all publicly accountable entities (PAEs). PAEs are entities whose securities are traded in public markets or entities in the process of issuing securities for trading in public markets.

Other organisations may choose to adopt these standards voluntarily. However, the depth, quality and assurance of sustainability / ESG reporting among companies in Zambia vary widely.

Several factors are propelling sustainability/ ESG reporting in Zambia:

- The government's alignment with the global climate agenda and responsible management of the nation's environmental resources.
- The establishment of the Ministry of Green Economy and Environment (MGEE), which champions sustainable economic growth, the development of the Nationally Determined Contribution (NDC) Implementation Framework, the National Adaptation Plan, the National Green Growth Strategy, National Policy on Climate Change, and the Environmental Management Act under Zambia Environmental Management Agency.
- Tax incentives, such as exemption from withholding tax on interest income from green bonds listed on the Zambian securities exchange provided the bond has a minimum maturity of three years.
- Growing awareness and interest in sustainability/ ESG issues among investors, customers, employees and civil society organisations.
- Recognition of the benefits of sustainability / ESG reporting in enhancing business performance, resilience and reputation.

The government is also taking steps to promote sustainability, such as embedding eco-friendly practices in the financial sector, offering tax incentives for sustainable practices in transport, logistics and energy, increasing the number of automatic weather stations, improving the legal and regulatory framework for green finance, and conducting environmental assessments to spur investment.

The MGEE is actively engaging with the private sector and stakeholders on the draft carbon market framework, which will facilitate transactions in international carbon markets and support Zambia's NDCs. This framework, expected to be finalised in 2024, is based on interim guidelines published in December 2022 and introduces a new process for the technical committee on climate change mitigation to evaluate proposals.

Sustainability reporting baselines

To measure sustainability / ESG performance and impacts, organisations in Zambia should consider the following to inform their reporting baselines:

- **ISSB Sustainability Disclosure Standards:** these include industry-specific standards that highlight financially material sustainability/ESG issues, offering a concise framework for reporting to investors and financial stakeholders.
- **GRI standards:** these widely recognised standards offer a comprehensive framework for reporting on economic, environmental and social impacts based on principles of materiality and stakeholder inclusiveness.

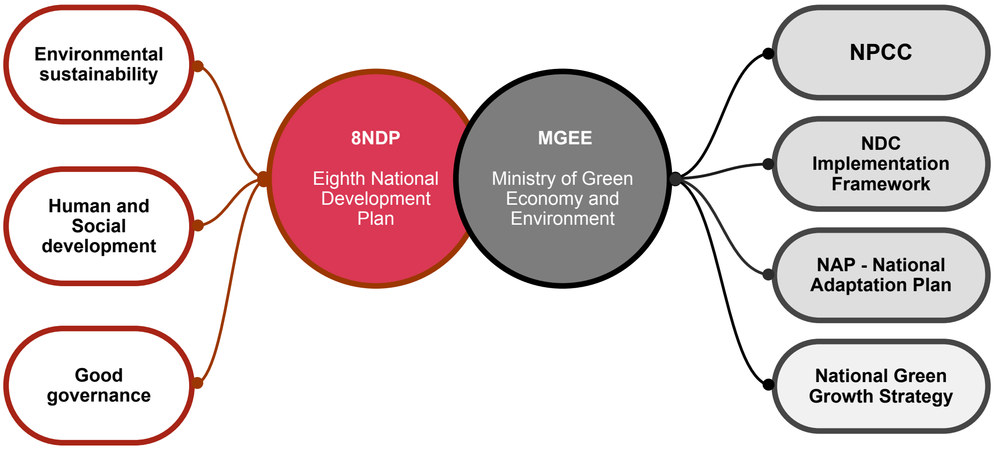
[10]https://iclg.com/practice-areas/environmental-social-and-governance-law/zambia

- **Sustainable Development Goals:** The cornerstone of the Agenda, the 17 Sustainable Development Goals (SDGs), aims to ensure that no one is left behind by providing the most realistic and efficient means of addressing the causes of violent conflict, violations of human rights, climate change, and environmental degradation.
- **8th National Development Plan:** this plan emphasises financial stability and supervision to encourage low-carbon and resilient development. It includes the formation of a green finance working group, and the development of guidelines and incentives for green finance.
- **NDC Implementation Framework:** this provides a coordinated approach for sector-specific actions to meet Zambia's climate development priorities from 2023 to 2030. It outlines sectoral targets, actions and the monitoring system, serving as a baseline for aligning sustainability / ESG reporting with national climate goals.
- **National Green Growth Strategy (GGS):** aiming for a low-carbon, resource-efficient, resilient and inclusive economy by 2030, the GGS aligns with Zambia's Vision 2030 and the Paris Agreement, and aims to create green jobs and increase resilience.
- **National Adaptation Plan:** this plan focuses on reducing vulnerability and enhancing resilience and sustainable development in response to climate change.

These baselines provide organisations with a foundation for consistent, comparable and credible sustainability / ESG reporting, aligning with both national and international sustainability objectives.

Figure 14: The national cross cutting policies which organisations should take into account in crafting their sustainability/ESG strategies in Zambia (Source: PwC Zambia analysis)

Government as a catalyst - National cross cutting factors supported by Vision 2023 and 2024 National Budget



[11]NDC Implementation Framework for Zambia - 2023 Full package FCDO.pdf

Government will use the NDC to drive implementation around Environmental Sustainability under 11 clustered sectors and 18 outcome areas aligned to the 8NDP.

Figure 15: NDC Implementation Framework clustered sectors (Source: PwC Zambia analysis)

Banking	Buildings	Agriculture, Forestry & Other Land Uses	Water
Finance	Infrastructure	Industry	Waste Management
Energy	Transport		Health

NDC was developed with a conditional pledge to reduce Greenhouse Gas (GHG) emissions by 25% by 2030, against a base year of 2010. That's equivalent to 20,0000 Gg CO_2 equivalent

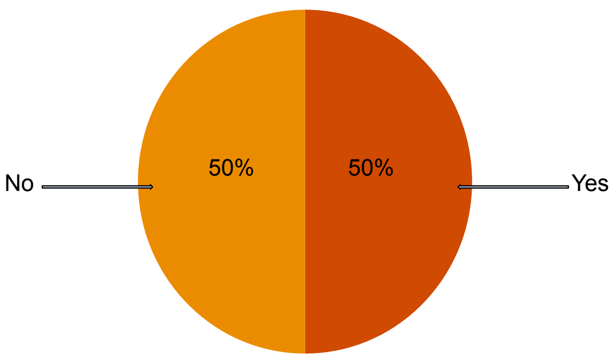
PwC Zambia Survey insights

Having looked at climate/sustainability policy and legislative landscape, we now share some climate/sustainability related outcomes and insights of some of the commercial sector surveys that PwC Zambia conducted, with special focus on the banking and mining sectors respectively.

Mining industry analysis

The PwC Zambia 2022 Mining Survey highlights that 50% of the responding mining companies are aligning their non-financial reporting with global sustainability standards such as TCFD, GRI and SASB. The remaining 50% have not yet adopted these frameworks.

Figure 16: 50% of the responding mining companies are aligning their non-financial reporting with global sustainability standards (Source: PwC Zambia 2022 Mining survey)



The survey underscores that a significant 88% of mining firms in Zambia have incorporated sustainable investment criteria into their decision-making processes. Only a minority, 12%, have not yet done so but are contemplating integrating sustainable investment criteria.

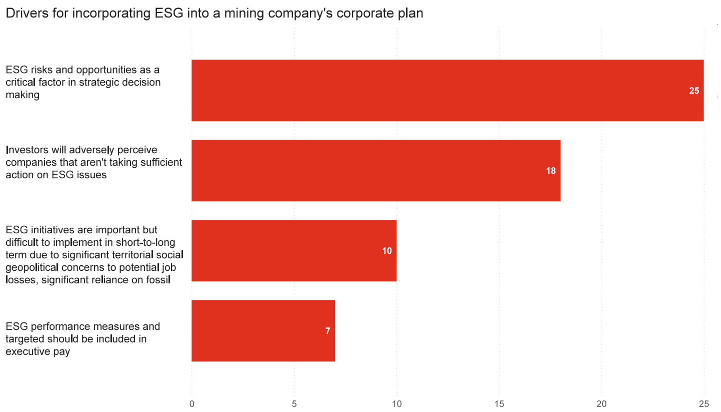
According to the survey results, the adoption of sustainability/ESG strategies by mining companies is primarily motivated by three factors:

- Compliance with group-level requirements, often influenced by shareholder expectations.
- Enhancement of corporate social responsibility, which bolsters the company's reputation and contributes to sustainable business practices.
- Anticipation of future regulations that may mandate more environmentally friendly operations.

Mining companies are actively embedding sustainability/ESG principles into their operational and strategic planning. This integration of sustainability/ESG considerations is increasingly recognised as vital in fostering long-term sustainability in the business[12].

[12] https://www.pwc.com/zm/en/assets/pdf/zambia-mining-report-2023.pdf

Figure 17: Drivers for incorporating sustainability/ESG into the mining companies planning process
(Source: PwC Zambia 2022 Mining survey)



90%

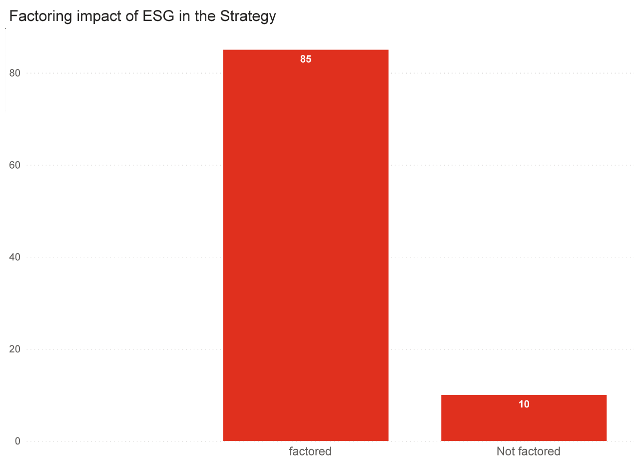
of banks said they had incorporated sustainability/ESG factors into their strategic planning and operational processes in 2022

The PwC Banking Survey highlights

The PwC Zambia 2022 Banking Survey reveals a significant shift in the banking and non-banking financial sector towards embracing sustainability/ESG considerations. An impressive 90% of banks said they had incorporated sustainability/ESG factors into their strategic planning and operational processes in 2022.

The chart below shows the percentage of banks that have factored the impact of sustainability/ESG into their strategies.

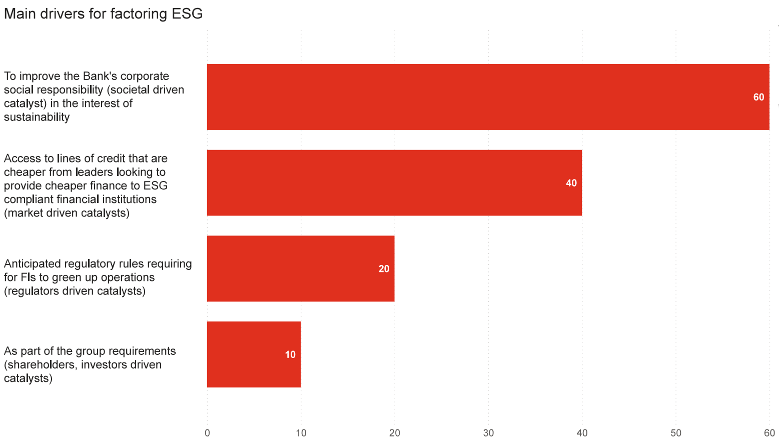
Figure 18: The percentage of banks that have factored the impact of sustainability/ESG into their strategies.(Source: PwC Zambia 2022 Banking survey)



Drivers of sustainability/ESG strategy adoption

The main reasons companies are factoring sustainability/ESG into their strategies are shared below. The survey also sheds light on the motivation behind the adoption of sustainability/ESG criteria within bank strategies.

Figure 19: The main drivers for factoring sustainability/ESG in the financial institutions' strategies
(Source: 2022 PwC Zambia 2022 Banking survey)



Assessment of sustainability / ESG pillars

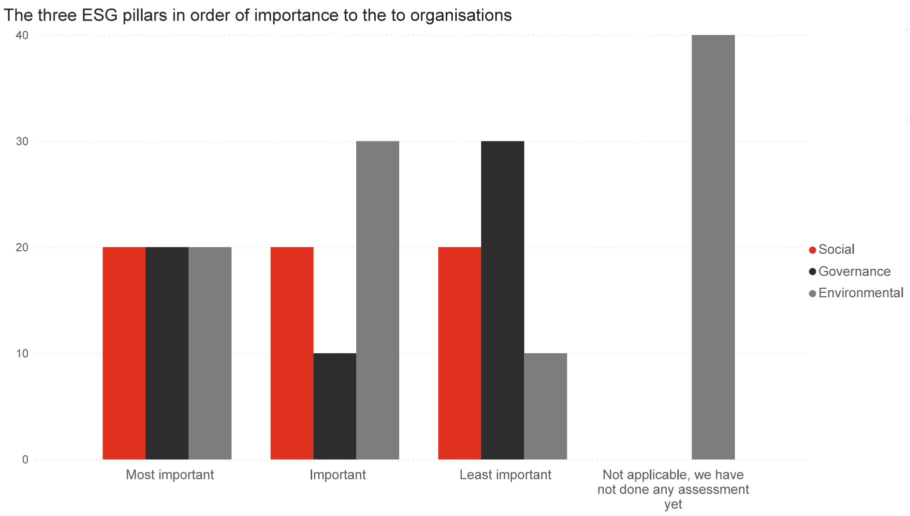
When evaluating the significance of the individual sustainability/ESG components, the survey findings are quite revealing. A notable 40% of banks have not conducted an evaluation of sustainability/ESG factors and therefore could not ascertain their importance.

Conversely, 20% of the surveyed entities regard the environmental, social and governance pillars as equally critical. For those who prioritised these aspects, environmental concerns emerged as the most important for 30% of respondents, while governance was deemed the least significant by an equivalent percentage. Social factors were considered the second most important by 20% of participants and the second least important by another 20%[13].

Customisation of sustainability / ESG strategies

It is important to recognise that sustainability/ESG strategies are not one-size-fits-all and will vary as much as market conditions do. Despite sustainability/ESG being a relatively nascent concept both in Zambia and worldwide, Zambian banks can take steps to navigate and lead in this evolving landscape.

Figure 20: Zambian banks taking proactive steps to navigate and lead in this evolving landscape
(Source: 2022 PwC Zambia 2022 Banking survey)



20%

of the surveyed entities regard the environmental, social and governance pillars as equally critical

[13]https://www.pwc.com/zm/en/assets/pdf/zambia-bank-and-non-banking-industry-survey-2022-v8.pdf

Challenges of sustainability reporting in Zambia

Zambia faces several challenges when it comes to sustainability reporting. These challenges include:

- The absence of a detailed regulatory framework that clearly outlines the requirements, expectations and incentives for organisations. This lack of regulation makes it difficult for companies to understand their obligations and the benefits of compliance.
- The absence of a national or regional taxonomy to define what activities or investments are considered green or sustainable. This creates confusion and inconsistency in what is reported and how it is evaluated.
- A noticeable deficiency in the capacity, knowledge and skills within organisations to effectively measure, manage and disclose their sustainability/ESG performance and impacts. This hinders the ability of organisations to engage in meaningful sustainability reporting.
- A lack of quality and reliable data available on sustainability/ESG issues at both the national and sectoral level. This makes it challenging for companies to establish benchmarks and track progress over time.
- A shortfall in stakeholder engagement, dialogue and feedback regarding sustainability /ESG reporting. Without active communication between organisations and their stakeholders, it is difficult to ensure that reporting is meeting the needs and expectations of all interested parties.

Opportunities for adopting sustainability reporting in Zambia

Adopting sustainability reporting presents significant opportunities for organisations in Zambia. One of the primary opportunities is that sustainability reporting enables a company to align its operations with the national climate agenda and the Sustainable Development Goals and showcase its contribution to these global initiatives.

Sustainability reporting also helps organisations meet increasing demands for transparency and accountability from investors, customers, employees, regulators and other stakeholders. This transparency is becoming a critical factor in maintaining trust and securing investment.

By engaging in sustainability reporting, organisations can better manage and mitigate risks, and capitalise on opportunities related to sustainability/ESG issues, such as climate change, human rights and anti-corruption measures. This approach can safeguard against potential future liabilities.

Furthermore, sustainability reporting can enhance an organisation’s reputation, trustworthiness and competitive edge in the marketplace. A strong reputation for sustainability can be a significant differentiator and attract customers and investors alike.

Finally, sustainability reporting can drive innovation, operational efficiency and value creation, not just for the business, but for society as a whole. By focusing on sustainable practices, organisations can uncover new markets, improve resource efficiency and contribute to a more sustainable economy.

3 Recommendations for enhancing Sustainability reporting in Zambia

To address the challenges of sustainability reporting in Zambia and to harness its full potential, a clear and comprehensive framework must be established. ZiCA has taken a commendable step by issuing a directive for the adoption of IFRS S1 and S2, effective for reporting periods commencing on or after 1 January 2025.

To facilitate a smooth transition, the formation of an Adoption Readiness Working Group similar to the one set up in Nigeria is recommended. This group should be a collaborative assembly of regulators, industry representatives, audit firms and academics tasked with crafting a detailed implementation roadmap.

The readiness of organisations to adopt these standards is crucial and should be evaluated through a phased approach that reflects the varying stages of current sustainability reporting practices. Entities should be encouraged to undertake the following preparatory actions:

- **Gap analysis:** conduct a thorough review to identify the differences between current reporting practices and the requirements of the new standards.
- **Implementation plan:** develop a strategic plan that outlines the steps needed to achieve compliance with the new reporting standards.
- **Sustainability disclosure policies:** formulate policies that will govern the disclosure of sustainability information.
- **Governance structures:** establish robust governance frameworks to oversee the sustainability reporting process.
- **Capacity building:** invest in training for board members, management and staff to enhance their understanding of sustainability and sustainability/ESG principles.
- **Risk management and sustainability frameworks:** implement frameworks that integrate enterprise risk management with sustainability considerations.
- **Data collection systems:** set up systems capable of collecting, measuring and managing sustainability data, including the assessment of risks and opportunities.
- **Internal controls:** strengthen internal controls to ensure the accuracy and reliability of sustainability reporting.

To further support reporting entities, it is recommended that ZiCA and other regulators consider providing transitional reliefs, as in Nigeria. These may include allowing organisations to initially focus on climate-related information in the first two annual reporting periods and waiving penalties for non-disclosure during the first reporting cycle.

To address the challenges of sustainability reporting in Zambia and to harness its full potential, a clear and comprehensive framework must be established

Such measures would encourage entities to gradually build their reporting capabilities without the immediate pressure of full compliance.

- **Collaboration and guidance**: regulators should work together to develop comprehensive guidance on data collection and verification processes. This guidance will be instrumental in ensuring that the data reported is both reliable and relevant.
- **Training and capacity building:** reporting entities must engage in extensive training and capacity-building programmes. These programmes should aim to deepen their understanding of the reporting requirements and the intrinsic value of sustainability / ESG reporting. By doing so, entities will be better equipped to meet the demands of the new reporting landscape.
- **Feedback mechanisms:** it is also essential for reporting entities to establish mechanisms for receiving and incorporating feedback. These mechanisms will not only improve the quality of reporting but also enhance stakeholder engagement, ensuring that the reports produced are responsive to the needs and expectations of all interested parties.

Conclusion

Sustainability reporting is an essential strategic tool for organisations in Zambia, enabling them to navigate the complexities of modern sustainability challenges and build long-term value and resilience.

The adoption of comprehensive sustainability reporting frameworks, such as the ISSB's Sustainability Disclosure Standards, IFRS S1 and S2, is critical for ensuring clarity, comparability and reliability in sustainability/ESG disclosures. These frameworks provide a foundation for setting benchmarks, aligning with national and international goals, and promoting transparency and accountability.

While the path to robust sustainability reporting is fraught with challenges, including data complexity, compliance costs and the risk of greenwashing, the benefits are substantial. Effective sustainability reporting facilitates strategic decision-making and risk management, and enhances credibility and stakeholder trust. As demand for holistic and forward-looking sustainability/ESG information grows among investors and regulators, organisations committed to comprehensive sustainability reporting will be better positioned to succeed in a sustainable global economy.

In conclusion, the recommendations aim to support Zambian organisations in overcoming the challenges of sustainability reporting and in realising the numerous benefits integrated reporting offers. By adopting these recommendations, organisations can contribute to a more sustainable and resilient future for Zambia and its people.

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