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NYAWIRA KINYUA - PARTNER
CORPORATE & COMMERCIAL DEPARTMENT

ESTABLISHING ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) FRAMEWORK & POLICY FOR ORGANIZATIONS

ESG PILLARS

Environmental Factors: Includes concerns like resource usage, water conservation strategies, waste handling, carbon emissions, and efforts to combat climate change.

Social Factors: Centers on essential factors such as fair labor practices, inclusive work culture, employee well-being, human rights, community engagement and philanthropy.

Governance Factors: Pertains to corporate leadership, board composition executive compensation and incentives.

We are globally awakening to the need to better manage sustainability-related issues.

Companies have an important role to play here: they can contribute by gaining clarity on the environmental, social, and governance (ESG) issues that are relevant to their operations. They can also examine their impact materiality, which involves ascertaining how their business activities affect the ecosystems in which they're embedded. Part of this entails identifying material risks and opportunities, measuring and tracking ESG performance, setting targets, rallying internal stakeholders, and identifying areas for improvement. In so doing, companies can unlock new value, for themselves, for their stakeholders, and for the planet.

ESG issues are essentially business issues, categorized as environmental, social, or governance in nature. They are sustainability-related considerations on par with traditional financial factors like economic contributions and financial returns.

It's important to understand that not all ESG issues matter or are material to all companies—these depend on the exact nature of a company's business activities, where it's located, and where its value chain operates. In other words: what a company does, how it does it, and where it does it.
Thus, the objective is to prioritize the ESG issues that are most relevant to your company and its core activities.

THE ESG PILLARS

Broadly, ESG refers to three interconnected pillars that can guide responsible and ethical business practices and help companies identify their financial materiality profile. When considering what ESG is in business, it's important to understand what each 'pillar' represents:

1. **Environmental factors (E):**

From the perspective of impact materiality, the environmental dimension of ESG is about how a company affects the natural world. It includes concerns like resource usage, water conservation strategies, waste handling, carbon emissions, and efforts to combat climate change. Companies need to identify which environmental risks impact the conduct of their business. By embracing sustainable approaches, companies can mitigate their ecological impacts in the transition to a net to zero future. Indeed, they have a vital role in reducing carbon emissions by adopting renewable energy sources, enhancing energy efficiency, and implementing carbon offset strategies.

In September 2023, the Climate Change Act, No 11 of 2016 (Laws of Kenya) (the Climate Act) was amended to provide express regulation of carbon markets in Kenya . The Climate Act was amended in particular to provide guidance in the development and implementation of carbon markets in compliance with international obligations, to provide policy direction on carbon markets, and to develop benefit-sharing mechanisms in carbon markets.

The amended Climate Act now provides for the establishment of a national carbon registry in Kenya and regulates trade in carbon credits. Carbon trading projects are now required to undergo mandatory environmental and social impact assessment under Kenya's environmental laws hence emphasizing on the importance and benefits of the implementation of an ESG framework for your organizations' considering venturing into the carbon market.

2. **Social factors (S):**

The social aspect of ESG pertains to a company's influence on the society in which they are embedded. It encompasses considerations related to employees, communities, customers, and other stakeholders. This facet centers on essential factors such as fair labor practices, inclusive work culture, employee well-being, human rights, community engagement and philanthropy, etc. By prioritizing social responsibility, companies can build strong, positive relationships and make meaningful contributions to the overall welfare of society. With respect to financial materiality, companies will want to pinpoint which social issues are most relevant to them. This involves ascertaining how/to what degree social issues affect their risk profile, reputational capital, investor attractiveness, etc.

Organizations that successfully adopt the social pillar of ESG recognize that business operates within the context of a society that is intrinsically inequitable. This means that some individuals are subject to more systemic inequalities and injustices than others, and businesses have a responsibility to address the inequities within their locus of control. Otherwise, they become participants in a system that upholds these inequalities.

3. **Governance Factors (G):**

Robust governance means that companies conduct themselves with honesty and transparency, proficiently handle risks, and prioritize the welfare of all stakeholders when making decisions. More specifically, governance pertains to corporate leadership, executive compensation and incentives, board composition, to name a few which build strong business foundations.

BENEFITS OF ESTABLISHING AN ESG POLICY FOR ORGANISATIONS

Creating an ESG policy is an important step in ESG strategy because it sets the vision and approach to these issues for the whole company. The following are the benefits of establishing ESG policies in Organizations.

1. An ESG policy unifies employees to work towards shared goals through consistent business practices within the business context.

2. Additionally, an ESG policy communicates a company's ESG position to external stakeholders, such as investors, suppliers, customers, potential talent, and the public. This builds trust and transparency, which are increasingly demanded by customers.

3. Internally, the policy guides ESG efforts, working towards common goals and contributing to the company's commitments. For example, if a company articulates that it aims to be a digital-first operation to reduce paper use, employees will be encouraged to adopt paperless practices across the organization. Ultimately, this unity can increase success in achieving ESG goals.

4. An ESG policy can improve risk management. Developing and maintaining the policy encourages businesses to understand the relationship between ESG issues and business activities. This helps to identify issues and manage them proactively.

WHAT SHOULD AN ESG POLICY INCLUDE?

ESG policies can vary depending on a company's activities and what is important, or material, to them. Nonetheless, there are key sections to include in any ESG policy:

1. **The organization's ESG commitment** – for example, acknowledging the business' role in addressing climate change, creating positive social impact, and upholding ethical business standards.

2. **The role of employees** – How employees uphold the ESG policy at an organizational level (e.g., incorporating ESG targets into strategic planning) and an individual level. Employees contribute by reducing the environmental impact of their teams , building a diverse and inclusive workplace, upholding compliance, and raising issues when necessary.

3. **The role of the value chain** – How the company expects its suppliers and customers to uphold ESG standards, such as workplace safety and ethical procurement.

4. **Oversight of the policy** – Who is responsible for the policy and its implementation. ESG policy and strategy should be overseen by an ESG committee, with direct reporting to senior leadership or the board.

5. **Monitoring and reporting** – How the company ensures the policy is upheld, successes tracked, and issues raised.

At A & S we are equipped to guide your organization towards the implementation of an ESG framework and development of strategies that align with your ESG framework ensuring that the same is best suited and aligned to your organizations' core values , vision, and mission.

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ANDREW & STEVE ADVOCATES
Advocates, Commissioners for Oaths and Notaries Public

Andrew & Steve Advocates

Advocates, Commissioners for Oaths and Notaries Public

Western Heights, 2nd Floor
+254 707 324113 / 0202 324113
as@asadvocates.co.ke