ESG in Developing Countries, Passing Fade or Investment for the Future

For decades, companies have been using corporate social responsibility (CSR) to give back to society while bolstering brand reputation. Corporate Social Responsibility initiatives as we know them today are mainly products of the twentieth century. Under the CSR management approach a good business model will include one or more of the four pillars that often make up Corporate Social Responsibility. These are reflected in Carroll's pyramid and are economic responsibility, legal responsibility, ethical responsibility, and philanthropic responsibility.

Business operations will look different between companies but most will often incorporate Corporate Social Responsibility strategies or CSR practices in some shape or form. Within a company, this could include looking at the supply chain and if sustainable practices are being used. Or focusing on ethical labor practices, treating employees with respect, and boosting employee engagement or employee satisfaction.

Despite the growing reception of Corporate Accountability, Corporate Social Responsibility continued to fall under the umbrella of Corporate Citizenship. In an attempt to overcome the systemic challenges of Corporate Social Responsibility such as Greenwashing Global South governments have adopted or domesticated international corporate governance frameworks such as IFRS 1 (International Financial Reporting Standard 1), IFRS 2 (International Financial Reporting Standard 2), Global Reporting Initiative (GRI), Task Force on Climate-related Financial Disclosures (TCFD) or Sustainability Accounting Standards Board (SASB). And with that Corporate CSR strategies started focusing on having a positive impact on the environment and this has only become more important for Corporate compliance.

Dependent on the industry Corporates in Zimbabwe are governed by several key pieces of legislation that include but are not limited to the Companies and Other Business Entities Act [Chapter 24:31], the Public Entities Corporate Governance Act [Chapter 10:31] for state-owned enterprises and the Zimbabwe Stock Exchange (ZSE) Act for listed companies.

The most glaring limitation of CSR is it is not legally binding, it is conceptualized within the lens of both the shareholder and corporate values which is how decades of CSR initiatives in Extractives communities have largely been Greenwashing initiatives. The concerns of economic responsibility have driven the subject of corporate sustainability into evolving past CSR metamorphosing into sustainability concerns as envisioned by the ESG school of thought which is benchmarked on quantifiable external frameworks.

The link between Corporate Social Responsibility (CSR) and greenwashing is greenwashing is the deceptive, false, or misleading practice of promoting a company's CSR initiatives to create a positive public image without genuinely enacting the practices to back them up. A company can realize a million dollar profit per financial year and opt to buy the schools of their host community backpacks for children or a high polluting entity can opt to undertake a community sports programme or cleanup campaign.

Greenwashing utilizes CSR as a tool to manipulate stakeholder perception and improve reputation, essentially engaging in "green talk" without the accompanying "green walk" Greenwashing occurs when a company uses CSR initiatives as a superficial means to improve its image, rather than implementing them sincerely. Companies may provide exaggerated or false information about their CSR activities, such as charitable donations, environmental protection efforts, or employee benefits. Instead of taking substantive action.

The term “ESG” was coined in 2005 in a UN Global Compact report. It was used again in the Principles of Responsible Investment, formed in 2006 thereafter the discourse around ESG continued to gain popularity. Investors and financial institutions use the term ESG as a term covering financial policy discussions, regulation, and financial-sector sustainability. Investors and financial institutions use the term ESG, the acronym for '“environmental, social, and governance” issues, to describe their practices in analyzing and assessing non-financial information.

Simply put “CSR is adherence to the actual values of corporate shareholders while ESG is a set of measurements from which conclusions about CSR can be drawn.” The usage of ESG in developing Countries such as Zimbabwe can shape Environmental and Social Justice though the promotion of community-centered development projects to enforcing stricter environmental protections, ESG provides an actionable framework for African nations to ensure that economic development does not come at the cost of social or environmental degradation.

Slow ESG reception by Global South states exposes developing african states to unavoidable challenges created by the broader impacts of ESG-oriented investment such as the grand initiatives adopted by the European Union. These challenges demand that Global South countries adapt to the changing investment landscape in rhe case of the latter ESG regulations affect not only investment coming from Europe, but also sales by African companies that export to the European market or fall under the definition of “supplier” in goods or services value chains. Initiatives like the European Green Deal can have a positive impact on Africa by offering new opportunities however they can also have the opposite effect by raising obstacles or even protective barriers in key sectors like energy or agribusiness which creates the need for developing countries to adopt robust sustainability reporting mechanisms.

In addition to the already existing body of Corporate governance Zimbabwe recently gazetted the Climate Change Bill, which proposes to mandate all corporates to designate a climate change officer or an environmental or sustainability officer who shall be responsible for submitting all reports that disclose the status of the Corporate's performance in regards to iits climate change obligations. Though applications may vary from industry to industry below is a brief summary of four common uses for ESG.

A. ESG as Factors for Investment Analysis

This school of thought defines ESG as an attempt by financial institutions to "develop guidelines and recommendations on how to better integrate environmental, social and governance issues into asset management, securities brokerage services and associated research functions." ESG as an Investment Analysis is anchored upon focusing on "issues which have or could have a material impact on investment value. It is imperative to note that this outlook on ESG takes a broad view of materiality.

To take S as an example, as one scholar explained, "In the context of responsible investment, the S is meant to better evaluate how well positioned a company is for the long term, the reputational value it or its products gain from goodwill, the stability and long-term efficiency of its workforce, potential costs of labour conflicts, the political risk of conflicts with communities, the legal and reputational risks that it runs from potential problems with its supply chain employment practices or community protests.

B. ESG as Risk Management

Socially responsible investors view ESG as a reliable tool to identify investment opportunities as well as to manage risk. For many mainstream investors and asset managers, the key justification for incorporating ESG factors into investment analysis relates to their potential impact on portfolio-level risk-adjusted returns and the relationship between ESG factors and risk management at the company level.

Companies are using ESG on the ground" not just as a strategy to meet to "identify and manage social risks to their business." Unlike internal controls and accounting which operate under an externally-driven, rules-based framework, "ESG represents an attempt by companies to self-regulate their conduct through the aide of compliance regulations set forth in both SI 134 of 2019 of Zimbabwe, the Companies and Business Entities Act of Zimbabwe. In this understanding of ESG, "the values that ESG promotes do not originate from an abstract moralistic philosophy of 'doing the right thing,' nor are they dictated by a central standard setter rather, they arise following a wide-ranging consultation with stakeholders, who are better positioned to take notice of potentially catastrophic company operations."

C. ESG as Corporate Social Responsibility or Sustainability

It must be observed that to many people the ESG movement sounds like older corporate social responsibility (CSR) movement—but with a new name. In contemporary parlance ESG gets equated, or conceptually combined, with CSR and this is because of the belief that ESG represents "a step towards a better world" that is tied to beneficial long-term social outcomes. A variation of this equates ESG with a different term—sustainability. In this understanding of ESG as a synonym for CSR, it encompasses notions of moralistic or ethical value. It is a "normative (values-based) argument" to "inject social consciousness into both corporate and individual investment decisions as guided by the laws of the land which in the Zimbabwean context are SI 134 of 2019, the COBE act and the UN SDGs."

D. ESG as an Accountability tool for Residents of Mining Communities

ESG serves as a crucial advocacy tool for mining community accountability by providing standards for environmental protection, social responsibility, and transparent governance, which help mitigate risks, build community trust, and ensure long-term sustainable operations through robust risk assessment and continuous monitoring and evaluation. By embracing ESG, mining companies can foster better community relations, through bias free safe Community Engagement Strategies that refine Corporate materiality allowing Corporates to gain social license to operate, and drive positive social and economic impacts within the communities where they operate.

Sustainability report monitoring helps Residents of communities endowed with natural resources that are exploited by Corporatess to identify and address potential environmental and social risks, like health hazards posed by Particulate emissions. ESG frameworks, such as those provided by SI 134 of 2019, IFRS S1, IFRS S2 and GRI require companies to report on their impacts and practices, creating a common language for accountability to stakeholders, including local communities.

What are IFRS S1 and IFRS S2

IFRS S1 and IFRS S2 are the first two sustainability disclosure standards developed by the International Sustainability Standards Board (ISSB). They were released in June 2023 and came into effect for annual reporting periods starting on or after 1 January 2024. Recent directives by Zimbabwe Stock Exchange and Victoria Falls Stock exchange indicate that listed companies must submit Sustainability reports at the start of the next financial year covering everything from 2024 onwards. Listed entities have been directed to use IFRS S1 and IFRS S2 to develop their Sustainability Reports..

These frameworks set out the procedures that an entity must follow when it adopts IFRSs for the first time as the basis for preparing its general purpose financial statements. The two standards are designed to work together IFRS S1 sets the general standard for disclosing sustainability-related risks and opportunities. IFRS S2 focuses specifically on climate-related risks, including both physical and transition risks.

IFRS S1 sets the general requirements for disclosing sustainability-related financial information, providing a foundational framework for companies to report on a wide range of risks and opportunities that could affect their future prospects. IFRS S1 was designed to provide users of general-purpose financial reports (such as investors and creditors) with information about an entity's sustainability-related risks and opportunities. IFRS S2 sets out detailed requirements for disclosing information about an entity's climate-related risks and opportunities. Focuses specifically on climate-related information, encompassing both physical risks (like extreme weather events) and transition risks (associated with the shift to a lower-carbon economy).

Conclusion

The continued evolution and global reach of ESG, underscores the importance of business and human rights standards for global south countries whose development is premised on the exploitation of natural resources. Residents of mining communities need to exploit the opportunities created by the recent ZSE & VFX directives demanding that listed companies develop sustainability reports covering 2024 onward using IFRS 1 & IFRS 2 standards with leeway to companies to use the GRI standards Residents of mining communities must become more equipped to not only interpret but also influence the materiality lists of the Corporates exploiting the natural resources Zimbabwe is endowed with.