

ENVIRONMENTAL, SOCIAL AND GOVERNANCE GUIDELINES FOR THE REAL SECTOR IN KENYA

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ACRONYMS

Acronym	In Full
CEO	Chief Executive Officer
CI	Community Investment
DLW	Decent Living Wage
DOSHS	Directorate of Occupational Safety & Health Services
EIA	Environmental Impact Assessment
EMCA	Environmental Management and Coordination Act
ESG	Environmental Social and Governance
ESMS	Environmental and Social Management Systems
ESRS	European Sustainability Reporting Standards
FPIC	Free Prior and Informed Consent
GDP	Gross Domestic Product
GRI	Global Reporting Initiative
HCS	High Carbon Stocks
HCV	High Conservation Values
HRDD	Human Rights Due Diligence
IBA	Important Biodiversity Area
IBAT	Integrated Biodiversity Assessment Tool

IFC	International Finance Corporation
IFL	Intact Forest Landscape
IFRS	International Financial Reporting Standards
ISSB	International Sustainability Standards Board
KBA	Key Biodiversity Area
NEMA	National Environment Management Authority
NSE	Nairobi Stock Exchange
OSH	Occupational Safety and Health
OSHA	Occupational Safety and health Act
SCI	Strategic Community Investment
TCFD	Task Force on Climate Related Financial Disclosures
UN	United Nations
WIBA	Work Injury Benefit Act

1. INTRODUCTION

1.1 Background

The goal of this guideline is to help companies to align their operations with good international industry practice related to sustainability. The guidelines recommend how companies can integrate environmental, social and corporate governance good practices into their business planning, internal governance structures, and risk management frameworks and transparently communicate those efforts to stakeholders.

These guidelines have been developed in line with Kenyan and international regulations and standards. Specifically, the guidelines support companies to meet the sustainability aspects of the laws issued by the National Environment Management Authority (NEMA). The Guidelines incorporate best practices from major international sustainability reporting standards, frameworks and initiatives. This includes stakeholder-oriented sustainability reporting, focusing on key economic, social, and environmental impact of the private sector.

The acronym **ESG** (Environmental, Social and Governance) is a framework used to assess a company's performance and ethical impact on the environment, society, and its governance practices. It also presents a basis for a business and its stakeholders to gauge the risks and opportunities in those areas. Globally, ESG has evolved to become one of the most profound instruments for influencing positive societal and environmental outcomes through strategic and operational choices of businesses and to meet stakeholder expectations.

The ESG landscape in Kenya is rapidly evolving, with regulators, investors, consumers, and the general public increasingly placing emphasis on sustainable practices. Businesses demonstrating good ESG practices are typically able to show compliance with regulatory requirements and may also enjoy the following:

- Enhanced access to capital from investors and lenders.
- Competitive advantage and improved access to international markets.
- Social capital arising from a strong brand reputation and improved stakeholder relationship, which allows them to evolve positively in response to stakeholder needs.

ESG is not only a requirement imposed by regulators and lenders, but when properly deployed, it can be used as a strategic business tool to improve long-term resilience and viability, helping to anticipate and positively respond to risks and opportunities.

Sustainability in business on the other hand means the integration of economic, environmental, and social responsibilities into all aspects of an organisations' operations and long-term strategies, ensuring that it can thrive while minimizing its negative impact on the environment and contributing positively to society. Even though sustainability is a much broader intersectoral and complex concept aiming at long term business viability and encompassing additional elements, its application as a business tool is similar to ESG.

ESG and Sustainability

ESG (Environmental, Social, and Governance) and sustainability are related concepts. Sustainability is a holistic and broader concept referring to a company's long-term commitment to responsible practices. It encompasses environmental, social, and economic factors. ESG, on the other hand, presents a framework for evaluating and reporting on a company's environmental, social and governance performance. It focusses primarily on how these impact financial risks and return.

Though this guidance is for ESG, we have adopted a slightly broader approach that also focuses on economic viability, legal compliance, etc, as required for business sustainability. The terms ESG and Sustainability are both used in the guidance to refer to the implementation of good social, environmental and corporate governance practices for long term business viability.

IFC working with NEMA and key stakeholders in Kenya has developed these ESG guidelines for the real sector in Kenya. The focus is primarily on three key industries: manufacturing, housing, and agribusiness.

The goal of these guidelines is to help businesses in the sector align their operations with good industry practice. This can be done by the development and implementation of strategies that help to identify, manage, mitigate, and monitor the impacts of operations on the environment and on society whilst maintaining a fair, transparent and ethical governing framework.

1.2 Objectives

The guidelines are developed with the following objectives:

1. To increase ESG awareness,
2. Build the capacity for real sector companies, and
3. Encourage the embedding of good ESG practices in the strategies of businesses in the real sector.



Figure 1: Objectives of the guidelines

1.3 Key sustainability issues in the real sector

The manufacturing, agriculture and housing industries are critical to the growth and development of Kenya's economy, providing employment, food security, affordable housing, and basic needs to the population. Agriculture for example, provides employment to over 40%¹ of the population, whilst the manufacturing sector contributes some 8% of the country's GDP². With a housing deficit of over 2 million units, the demand for affordable housing is expected to grow³.

Whilst these industries are crucial to the economic growth of the country and its citizenry, their operations may also come with possible adverse social and environmental impacts which need to be managed in a strategic manner to avoid negative outcomes. Current topical issues that are relevant for the real sector include:

Deforestation: Between the years 2001 to 2023, Kenya lost about 386,000 ha of its tree cover. This is equivalent to approximately 12% decrease in tree cover, and some 189 Mt CO₂ emissions during the period⁴, with agriculture and urban development being among the key drivers.

Resource efficiency: This is a cross-cutting issue relevant for agriculture, manufacturing, and affordable housing. Efficient planning, usage, and monitoring of key resources such as water and fossil fuels is critical to avoiding wastage and depletion whilst minimising the environmental impacts of excessive exploitation and improving access for other users in the community.

Emissions management and pollution avoidance: Land conversion for agriculture and urban development are among the leading drivers of deforestation and greenhouse gas emissions globally and in Kenya. Gaseous emissions and effluent discharges from the manufacturing sector also present site-specific pollution concerns which impact on the health and wellbeing of local communities and the adjoining environment.

Occupational Health and Safety: Agriculture (including forestry), work at height (associated with construction) and manufacturing are all ranked globally as being among the industries with the highest number of occupational health and safety incidents, including fatalities. Careful attention should be paid to the management of occupational health and safety issues in the sector.

Human rights: The Constitution of Kenya guarantees basic human rights to all. That notwithstanding, there are key human rights issues that continue to be relevant to the real sector. These include forced labour, child and workplace protections, non-discrimination and maternity protection.

Free Prior and Informed Consent (FPIC): This refers to the rights of Indigenous People⁵ to give or withhold their consent for any action that would affect their lands, territories, or rights. This is particularly relevant for projects taking place on lands within the territories of Indigenous People.

¹ Central Bank of Kenya 2023

https://www.centralbank.go.ke/uploads/market_perception_surveys/1997478297_Agriculture%20Sector%20Survey%20January%202023.pdf

² <https://kam.co.ke/wp-content/uploads/2024/04/MANUFACTURING-PRIORITY-AGENDA-MPA-2024.pdf>

³ <https://www.worldbank.org/en/country/kenya/publication/kenya-needs-2-million-more-low-income-homes-building-them-would-boost-its-economic-growth>

⁴ <https://www.globalforestwatch.org/dashboards/country/KEN/>

⁵ Though the concept was initially designed for indigenous people, its use may be extended to cover local communities

Child labour: Despite significant strides in combatting child labour in the recent past, reports indicate that the situation continues to persist, with agriculture being the industry with the highest reported case⁶. This is followed by industry (including construction and manufacturing).

Decent Living Wage: Decent Living Wage DLW refers to the theoretical income levels sufficient for a worker to afford a reasonable standard of living. This covers basic needs like food, housing, healthcare, and transportation. The UN Global Compact encourages companies to provide a living wage as an essential aspect of decent work. This helps to ensure that all workers, families, and communities can live in dignity⁷. Whilst not all businesses are able to readily meet the aspirations for a DLW, there is a legal minimum wage that applies across all sectors, which must be met. There is a common risk that temporary, casual or third party contracted workers, especially those in the agriculture sector may not always receive salary levels that meet the legal minimum.

Supply chain risks: Good ESG practice assesses the risks and impacts of the supply chain with the view to ensuring that the entire footprint of the operation aligns with sustainability. To do this businesses need to be able to (at the minimum), obtain traceability information of products used in their operations and ensure that production processes conform to good environmental and social practices.

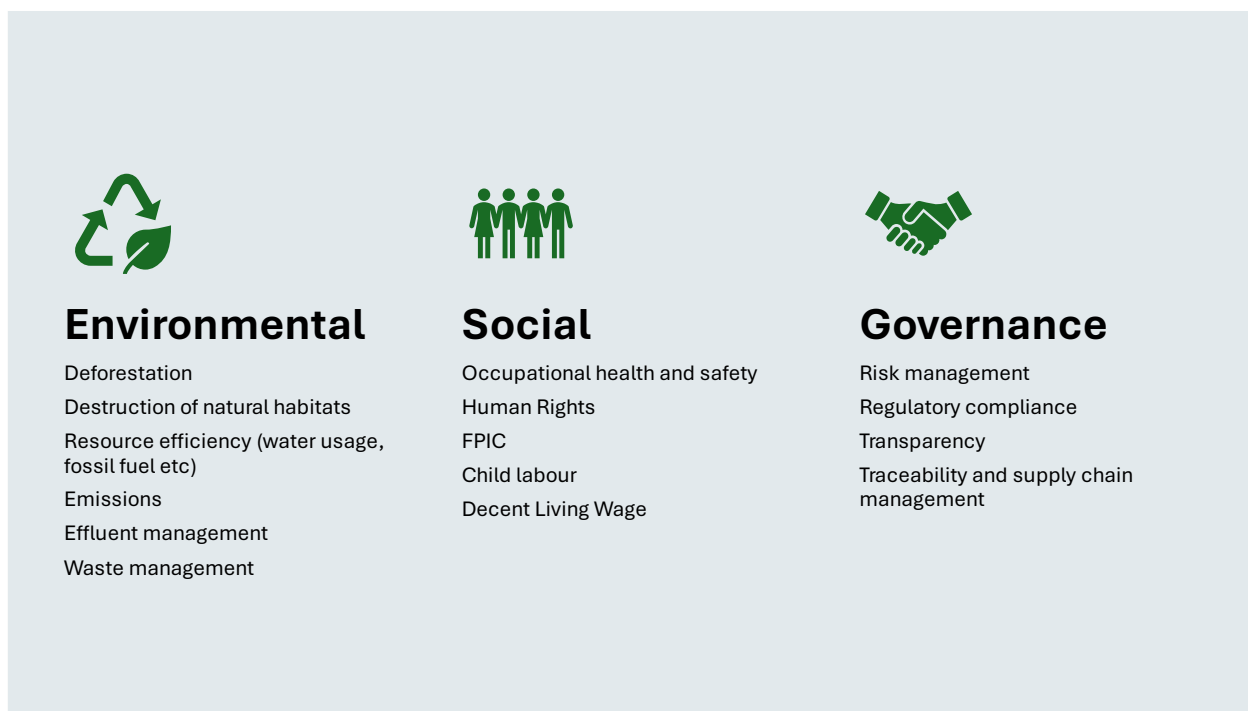


Figure 2: Common ESG issues in the real sector of Kenya

⁶ <https://www.dol.gov/agencies/ilab/resources/reports/child-labor/kenya>

⁷ <https://unglobalcompact.org/what-is-gc/our-work/livingwages>

1.4 Application of the guidelines

1.4.1 Target institutions

The guidelines are designed as guidance for firms in the real sector seeking to implement good practice for sustainable business. The broad scope of the target users means that not all the elements covered in this document will be relevant for all businesses. Whilst firms are likely to focus on those issues that are most relevant for their businesses, they are also encouraged to go through the entire document to obtain an appreciation of all other key issues that may become relevant for their business at some point.

1.4.2 Regulatory framework

The guidelines are designed to promote general good practice for sustainability. Legal and regulatory compliance forms a basic building block of good ESG practice on which to build a more comprehensive sustainability programme. Businesses are at the minimum, required to demonstrate full compliance with the legal / regulatory framework of the country, in order for their operations to be considered legal. A non-exhaustive list of applicable relevant laws is presented in [Annex 1](#), to serve as a basis on which readers can build their own legal registers. Some of the key overarching legal requirements are presented below:

Issue	Legal requirement	Description
Environmental protection	Environmental Management and Coordination Act CAP 387	The act requires that projects with potential environmental impacts undergo an Environmental Impact Assessment process. This involves assessing and mitigating potential negative effects on the environment before projects are approved and initiated.
Workers' rights	Employment Act, 2007	promote sound labour relations through freedom of association, the encouragement of effective collective bargaining and promotion of orderly and expeditious dispute for the protection and promotion of settlements conducive to social justice and economic development for connected purposes.
Transparency and ethical conduct in business	Companies' Act, 2015	mandates standards for corporate governance and reporting, promoting transparency, accountability, ethical and responsible business conduct.

1.5 Business case for managing, governing, and reporting on ESG

Sustainability issues, such as those related to environmental pollution and degradation, climate change, labour practices, biodiversity, human rights, and community health, safety and wellbeing, can affect the financial stability of companies.

Incorporation of ESG/sustainability consideration into long term decision making can help future-proof a business and yield numerous positive advantages, including:

- **Legal license to operate:** Good ESG practices help to ensure that at the minimum, all legal requirements are met, easing regulatory pressure. This means that there would be reduced adverse regulatory and legal interventions or operational interruptions. Good ESG practices can in some cases help engender government support.
- **Social license:** Good ESG performance results in improved labour relations, improved stakeholder engagement and enhanced goodwill. This social capital subsequently helps to avoid or reduce downtime due to labour unrests, community agitations and hostile stakeholder actions.
- **Market access and competitive advantage:** Businesses with good ESG credentials consistently perform better on the market than those without. They are also able to tap into new markets and expand into existing ones. With the ever-evolving consumer preference and sustainability requirements of international and local markets, businesses with good ESG performance are able to adapt and maintain their access to these markets.
- **Access to investment/funding:** ESG considerations are prominent in the financial industry, playing a pivotal role in determining access to capital and market competitiveness. It can also facilitate alignment with the evolving international and regional sustainable finance taxonomies. Businesses with good ESG ratings are considered lower risks than those without and are better placed to secure strategic partnerships and funding from global climate funding pools to accelerate sustainable growth.
- **Fact based decision making:** A good ESG/Sustainability culture encourages the collection, review, and monitoring of data on all aspects of business performance. The information made available from this process can serve as an invaluable aid for decision makers to take impactful actions that produce positive outcomes for the business.
- **Overall improved business performance (operational and financial):** Executing good ESG propositions can help reduce cost and create value. A McKinsey report in 2014 found a significant correlation between resource efficiency and financial performance. The report found that good ESG practices can positively affect operating profits by as much as 60 percent.
- **Business continuity:** Good ESG planning helps to anticipate risks and opportunities, equipping the business to take proactive steps to mitigate risks, utilize opportunities and deliver long term business resilience.

1.6 Structure of the Guidelines

Figure 3 introduces the four-pillars model of management and reporting on the sustainability performance which was introduced by the TCFD and later adopted by the ISSB for IFRS Standards S1 and S2, and with some modification by the ESRS.⁸



Figure 3: Four-pillars model of management and reporting of sustainability issues

Accordingly, the Guidelines are structured around six key aspects:

1. Governance of Sustainability
2. Developing an Integrated ESG Strategy
3. Driving Sustainability and Managing Risk
4. Continual Improvement
5. Disclosure and Transparency
6. Performance Monitoring and Measurement

⁸ ESRS uses the same model but added impact to risk management (Risk and Impact Management).

2. GOVERNANCE OF SUSTAINABILITY

The governance of sustainability helps to provide integrated leadership, management and supervision for corporate direction which helps keep the business productive and impactful for the long term. It does this by aligning value creation with the values of the business and recognises the importance of ESG/sustainability for long term resilience and growth. Some of the key elements of sustainability governance are highlighted below:

High level commitment

Commitment at the highest level of the business is required to demonstrate that ESG / sustainability are top priorities of the entity and provide the needed leadership and direction to execute the ambitions. This commitment is usually expressed in a company policy highlighting the ESG aspirations of the business. It should be accompanied by embedding strong sustainability values and ethics into the corporate culture⁹ to influence both strategic and day to day decision making. To make the maximum impact and drive the transition, this process may be accompanied by a re-examination of the business model, organizational structure, reward scheme, and other management systems. The goal is to ensure that sustainability is deeply integrated throughout all business activities, functions and operations.

Board oversight and competencies

In addition to defining the sustainability commitment of the entity, the board also plays a crucial role in overseeing the execution of sustainability-related strategies, policies, and action plans. Additionally, it reviews the exposure and response of the business to sustainability-related risks and opportunities. The board monitors and reviews the effectiveness of the sustainability roadmap and approves strategies, frameworks, and targets.

It is critical to have sufficient skills and competencies on the board to manage and oversee sustainability-related risks and opportunities. Where this is not available, steps should be taken to train the board and senior management on ESG.

Roles and responsibilities

The roles and responsibilities of senior management should be defined with a clear organisational structure and reporting lines. Depending on the size of the organisation, there may be a dedicated E&S / Sustainability Manager whose role would be to drive the implementation of the company's commitment, with direct reporting lines to the executive team. The presence of a sustainability manager does not in any way diminish the responsibilities and roles of top management and indeed all employees in executing the sustainability agenda. The Sustainability Manager monitors and ensures the alignment of day-to-day operations with high level commitments. The role would also be responsible for the development, implementation, and monitoring of the environmental and social management system (ESMS)

⁹ https://saylordotorg.github.io/text_a-primer-on-sustainable-business/s11-03-making-the-sustainability-comm.html

Technical capacity for implementation

As with the board, adequate and well-tailored training and capacity building should be conducted for the management team, employees, contractors, sub-contractors, and actors in the supply chain. The trainings would cover the high-level commitments of the company, the strategies and procedures for their implementation and equip the participants with the skills and competencies needed to ensure a seamless execution of the sustainability commitments. This may also require the recruitment of employees with the unique skill set needed to prosecute the sustainability agenda, as well as the acquisition of relevant tools to make this possible.

Budgets for sustainability

Good practice requires for the consideration of the sustainability function as a key integral part of the business, rather than a stand-alone function. All operational budgets should include considerations for sustainable performance. In addition, there should be a dedicated budget to implement the sustainability strategy and risk management frameworks, including the ESMS.

Whistleblowing

A whistleblowing system provides an ethically acceptable avenue for stakeholders to report on ESG violations, risks and malpractices in a manner that protects the rights of the whistleblowers. Central to the concept of whistleblowing is the provision made for the protection of the rights (including the identity) of whistleblowers enabling them to report on misconduct without the fear of retaliation. Secondly, the system should be readily accessible to all relevant stakeholders and allow for the swift review and address of issues raised with all seriousness.

Internal Controls: The board of directors should ensure that sustainability is integrated in internal controls and compliance to ensure the integrity of publicly reported sustainability information. (See Table 1 Best Practice on Integration of Sustainability in Internal Controls).

Table 1: Good Practice on Integration of Sustainability in Internal Controls

Internal Controls	Assurance of non-financial information	Oversight of Audit and Assurance Processes
The internal control function should ensure that the company complies with SUSTAINABILITY laws, regulations and standards, as well as internal policies. It should also ensure the quality and reliability of non-financial information.	Companies are increasingly expected to provide assurance that sustainability information is reliable for internal management and external reporting. This requires that the company clearly establish the scope, definition, and internal collection process for the data.	The audit committee should oversee financial and nonfinancial reporting as well as the audit and assurance processes. ISA Standards (700), require the auditor to disclose key audit matters that arose during the audit.

Stakeholder Engagement: Understanding the perspectives of key stakeholders can highlight market trends and provide valuable insight to assess the organization’s risks and opportunities, including material sustainability issues, and should be integrated in the first step of the sustainability strategy development. Companies should establish and maintain communications mechanisms with stakeholders — such as investors, shareholders, employees, customers, business partners, regulators, civil society and impacted communities — in relation to sustainability issues facing the company. The board of directors should ensure that an effective stakeholder engagement system is in place that includes mechanisms to identify stakeholders, receive feedback from stakeholders (including through an easily accessible grievance policy and channel), track and respond to the issues raised by stakeholders (such as through a procedure and register), seek stakeholder input on the company’s sustainability strategy, and ensure that stakeholder feedback on sustainability topics is addressed in the company’s strategy and risk management approach. These activities should be led by the E&S manager with oversight of the Board.

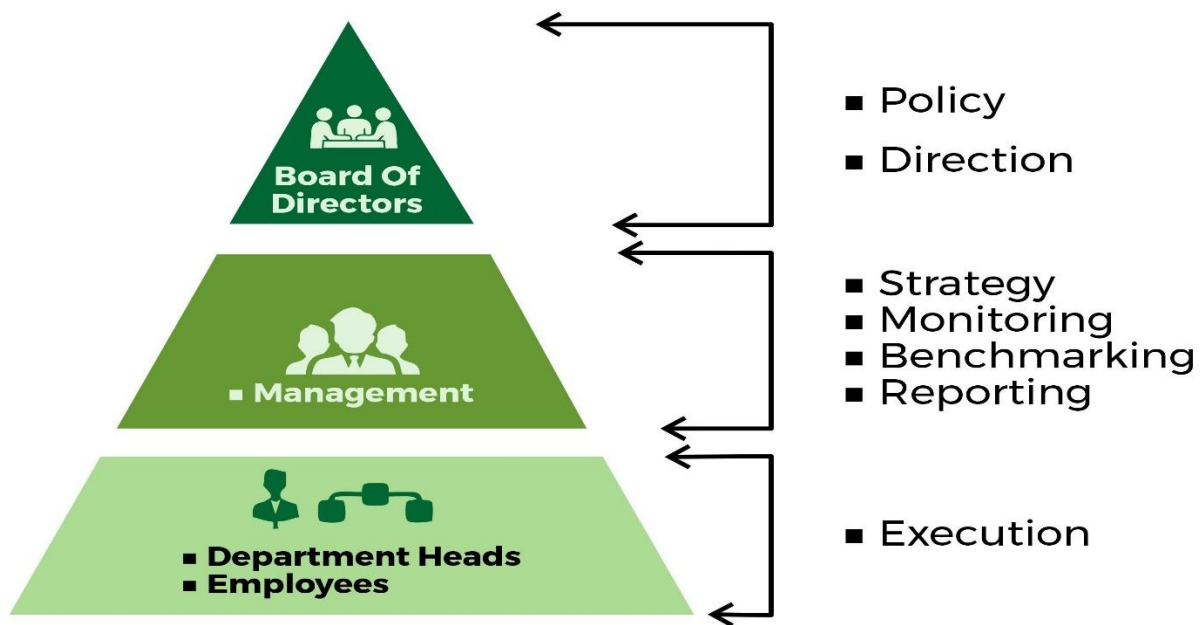


Figure 4: Governance of sustainability.

3. DEVELOPING AN INTEGRATED ESG STRATEGY

Companies should integrate sustainability into their long-term goals and objectives and eventually into strategy development, business model, target setting, and financial planning.

The implementation of a good ESG/sustainability culture starts with a clear and well communicated high level commitment to sustainability. This is usually supported with a strategy document and implementation plans. The sustainability strategy provides an agreed framework for coordinated action and helps to drive performance and engage internal and external stakeholders.

The sustainability strategy considers the entire footprint of the business and identifies all issues that are relevant. It then details a realistic and effective approach for promoting impactful positive outcomes. To ensure seamless implementation, sustainability should not be seen as a stand-alone silo of action to be implemented by a single department, but as an integral part of strategic and operational decision making, owned by all departments and employees.

The process of developing the strategy involves:

1. **A reflection of the values and mission of the operation.** *Why are you in business?* An understanding of the vision, mission and values of the company allows for the identification of business priorities and properly situate the sustainability strategy within a context that is already familiar and acceptable to the business whilst aligning with the corporate direction.
2. **A review of the business operations and its impacts.** *What ESG issues are relevant for your business?* This would include a formal materiality assessment to identify relevant sustainability risks and opportunities. This review helps to identify and streamline the ESG issues that are most relevant for the operations of the business. The materiality assessment provides a framework for prioritizing the most important environmental, social, and governance (ESG) issues that impacting businesses and their stakeholders. It provides the tool needed for evaluating which ESG issues are relevant enough to be incorporated into the sustainability strategy and reporting frameworks. Guidelines for conducting a basic materiality assessment are presented in [Annex 2](#).
3. **Assess the business environment and review the legal, social and market obligations.** *What are the minimum requirements you have to meet?* At the minimum, the business should meet all relevant legal and regulatory requirements needed to operate. To stay in business, the operation should also meet requirements and expectations of the market. A review of the various obligations of the business helps to establish the minimum performance thresholds on which to build the sustainability strategy.
4. **Outline and prioritise key actions required to achieve the desired impacts.** *What does the strategy intend to achieve and what actions ought to be taken to achieve these?* This step entails identifying the key actions and interventions needed to address risks and exploit opportunities listed in Step 2 above.
5. **Resourcing.** *What resources are available to execute the strategy?* Adequate resources (human, financial, material) should be made available to prosecute the vision of the strategy. Expert human resources may be available inhouse or through consultants. There should also

be a system in place to build internal capacity to own the strategy and execute the vision of the strategy as part of the day-to-day management.

6. **Targets and KPI.** *What specific measurable outcomes are desired?* Establish metrics and targets to manage and monitor sustainability-related risks and opportunities.
7. **Implementation.** This involves the actual execution of the strategy. Putting plans in place to deliver on the programmes and targets before the strategy is launched can help to maximise performance. Some of the considerations that need to be set up at this stage would include: providing guidance and inspiration to the employees who would be at the forefront of implementation and setting up a formal system of governance and accountabilities to oversee the strategy. Clearly communicated and easy to implement procedures and data collection protocols would be set up.
8. **Monitoring, feedback, and continual improvement.** *How can the system continue to improve?* Sustainability and ESG priorities evolve over time. The business needs to monitor how well it has implemented its existing strategy, what are the evolving material issues and how well can the business continue to improve on its performance.

Importance of the sustainability strategy?



Outlines high level commitment to drive process.



Builds buy-in across the organisation.



Makes available and guides resource use to the most impactful areas



Engages external stakeholders and provides a reference point



Drives performance by encouraging the business to achieve its goals.

4. DRIVING SUSTAINABILITY AND MANAGING RISK

Companies should integrate sustainability into their overall risk management process and evaluate the impact of sustainability on their risk profile and capital adequacy.

This section presents a practical framework for sustainability management for the real sector in Kenya.

4.1 Environmental and Social Management Systems (ESMS)

An ESMS provides a written framework for the implementation of environmental and social commitments. As a tool, it encompasses the entire process of committing to good practices, risk and impacts identification, management programs, organisational capacity and competency, emergency preparedness, stakeholder engagement, external communications and grievance management, reporting, monitoring, and review. Detailed guidance for the development and implementation of an ESMS are presented in IFC's ESMS Implementation Handbook¹⁰.

An ESMS is however only valuable if it is well implemented. The business should ensure that sufficient resources are allocated for the effective implementation of the ESMS with clear responsibilities and that employees are well trained to do this. Depending on the nature of the business and the complexities of the environmental and social issues at hand, the business may also rely on the services of experts and consultants to support with certain elements of their operations. For example, businesses with complex supply chains with a substantial risk of social and environmental violations may involve the use of experts and consultants to conduct a supply chain due diligence.

4.2 Legal compliance

The ability to demonstrate compliance with applicable laws and regulations can form a basis on which to build a broader sustainability programme. In Kenya, as with other countries, there are legal requirements related to various social and environmental indicators. These include environmental requirements such as the need to obtain environmental permits prior to start of new operations with potential environmental impacts, the protection of rare, threatened, and endangered species, protection of forests, management of riparian buffer zones and the regulation of emissions and effluent discharges. Additionally, there are social requirements that offer protection to local communities, the safeguarding of the rights of the labour force through the Employment Act guaranteeing a minimum wage, maternity and child protection and protection against discrimination, guaranteeing the health and safety of the workforce, among others.

Legal compliance is the minimum requirements that a business embarking on a sustainability journey should meet. [Annex 1](#) presents a non-exhaustive list of the applicable legal requirements for the real sector in Kenya. The following are some recommended practical steps that can aid an organisation in monitoring its compliance with legal requirements:

¹⁰ <https://www.ifc.org/en/insights-reports/2015/publications-handbook-esms-general>

1. **Legal register:** A legal register identifies the list of all applicable laws and the relevant portions of those laws to the operations of the business. This is typically conducted by the inhouse legal / corporate affairs teams or by an external consultant.
2. **A system for tracking changes in laws.** Legal requirements evolve over time. New laws and regulations may be enacted whilst old ones may be repealed or amended. To keep track of the changes in laws, it is essential to have a monitoring system in place. This can be done by the inhouse legal team or contracted to a consultant. This system should monitor and update the legal register on a consistent basis at set times. This may be done as and when new legislations are enacted or monitored on a quarterly or half yearly basis.
3. **Compliance reviews:** There should be an internal system that reviews the compliance levels of the operation on a regular basis against each indicator in the legal register. This is typically done annually. During the review, information on how the operations comply with each of the applicable legal requirements is documented. After the internal review of legal compliance, a positive assurance statement may be issued to management indicating that the business is able to demonstrate compliance with all applicable legal requirements at the time of the audit. Where non-compliances are observed, an action plan is developed and implemented to bring such areas into compliance.
4. **Permits and certificates:** It is good practice to keep a stand-alone list of all relevant permits and certificates that the business is required to have. The permit register carries details on the name of the permit, the issuing agency, the date of issue and the date of expiry of the permit¹¹. This helps to keep track and ensure that all permits are renewed on a timely basis to avoid penalties.
5. **Reporting requirements:** Some regulations require the periodic monitoring and or reporting of various elements of business operations. For example, it is a mandatory requirement to report on all workplace safety incidents¹² to the Directorate of Occupational Safety & Health Services (DOSHS) under the Occupational Safety and Health Act, 2007. Businesses should ensure that they are able to meet all reporting obligations under various regulations.

4.3 Environmental impacts

4.3.1 Resource efficiency and pollution prevention

The efficient use of resources and the avoidance of pollution are topical issues relevant for agriculture, manufacturing, and the housing sectors for several reasons:

1. Operations may be taking place in areas with constraints in the availability and access to resources such as water. Efficient management of the resource ensures fair access to all resource users.
2. Resources are by definition scarce. Sustainable resource usage ensures the reduction of wastage, saving money for the business and subsequently improving the bottom-line.
3. The usage of resources such as fossil fuels results in the generation of undesirable waste products such as greenhouse gasses, which subsequently contribute to global warming and

¹¹ It may also include information on the relevant legal provisions.

¹² Fatalities to be reported within 24 hours and other incidents to be reported within 7 days

climate change. Resource efficiency helps to reduce the usages of such resources and explores the availability of green renewable alternatives.

4. Emissions, effluent discharges, and waste disposal can have adverse climate impacts and deteriorate air, water, and soil quality.

Good sustainability practice can entail:

1. Designing and implementing simple plans for resource efficiency and pollution prevention. These may include the following:
 - Water use plan
 - Fossil fuel use reduction plan
 - Waste management plan including hazardous wastes.
2. Identification, quantification, and management of various sources of emissions. There are already legal requirements on emissions management and effluent discharge. Under these regulations, businesses (especially those in manufacturing) are required to conduct periodic monitoring of their emissions and effluent discharges and ensures that the quality of all emissions and discharges are in line with legal guidelines.
3. Ongoing monitoring of the implementation of plans to ensure continuous improvement.

4.3.2 Biodiversity conservation and sustainable management of living natural resources

The operations of the real sector may adversely impact on biodiversity and living natural resources. Agriculture (together with its downstream manufacturing) and urban development are among the key drivers of deforestation, degradation of the natural environment and habitat destruction. Deforestation is also a key contributor to greenhouse gas emissions.

The siting/ location of projects is one of the most crucial decisions that determines the project's impacts on biodiversity. Thus, a detailed assessments of the potential impacts of projects on the environment are required prior to the commencement of operations to avoid negative outcomes.

Kenyan law requires the conduct of an environmental impact assessment prior to the start of new projects. Among others, the EIA would help confirm that the location of the project would be aligned with national priorities for biodiversity protection. In addition to securing an environmental permit, there are several tools that may be used to help guarantee that potential adverse impacts on conservation values are minimized or avoided. These include the High Conservation Value (HCV) tool¹³ and the High Carbon Stocks Approach¹⁴.

High Conservation Values refer to biological, ecological, social, or cultural value considered to be of outstanding significance or critical importance. Where HCVs are located within or close to projects, steps should be taken to protect, manage and monitor them to ensure their continued existence.

¹³ <https://www.hcvnetwork.org/hcv-approach>

¹⁴ <https://highcarbonstock.org/toolkit/>

The Six High Conservation Values

1. **Species diversity:** Areas with high concentrations of biological diversity; protected areas, habitats of rare, endangered and or endemic species.
2. **Landscape-level ecosystems and habitats:** Intact Forest Landscapes and large landscape-level natural ecosystems and mosaics that contain viable populations of the great majority of species.
3. **Rare threatened and endangered ecosystems:** Rare, threatened, and endangered ecosystems, habitats and refugia.
4. **Ecosystem services:** Basic ecosystem services including protection of water catchments and control of erosion of vulnerable soils and slopes.
5. **Community needs:** Sites and resources fundamental for satisfying the basic necessities of Indigenous people and local communities.
6. **Cultural values:** Sites, resources, habitats, and landscapes of cultural, archaeological, or historical significance, and/or those that are critical for the traditional cultural identity of Indigenous people and communities.

High Carbon Stocks (HCS) refer to high concentrations of carbon contained in the vegetation and soils of forests and other natural vegetations. The conservation of these vegetations is critical in mitigating climate change as they absorb and store huge volumes of carbon dioxide from the atmosphere. The HCS approach provides a methodology for identifying areas which contain HCS and require protection as well as those areas that may be converted to agriculture and other land uses without adverse climate impacts.

Other approaches may be used to identify areas requiring protection from conversion. Examples:

- Important Bird Areas (IBAs)¹⁵
- Key Biodiversity Areas (KBAs)¹⁶
- Intact Forest Landscapes (IFL)¹⁷
- Integrated Biodiversity Assessment Tool¹⁸

To protect biodiversity and living natural resources, the operations should:

1. Ensure that the project is not located in an area containing HCVs, HCS, or other critical areas required for the protection of biodiversity and living natural resources.
2. Where a project must be sited in an area required to protect biodiversity and living natural resources, a clear management plan should be developed and implemented to eliminate or mitigate the potential impacts.
3. Establish baseline data on key indicators of biodiversity and living natural resources.
4. Monitor operations to ensure that impacts on biodiversity and living natural resources are within acceptable ranges and make recommendations for continual improvement.

¹⁵ <https://datazone.birdlife.org/about-our-science/ibas>

¹⁶ <https://www.keybiodiversityareas.org/>

¹⁷ <https://intactforests.org/>

¹⁸ <https://www.ibat-alliance.org/>

For already existing projects, management should seek to:

1. Review the impacts of current and planned operations.
2. Develop a management plan.
3. Establish a baseline and
4. Monitor operations and management interventions.

4.4 Social impacts

4.4.1 Labour and working conditions.

The protection of the workforce of any business is essential to ensuring long term productivity, and loyalty. Historically, the labour force in the manufacturing, agriculture and construction/housing sectors have seen some of the poorest working conditions and remunerations. This has given birth to modern labour (trade) unionism. Labour issues cut across the real sector. Key concerns include:

- Decent living wage (or national minimum wage)
- Freedom of association and the right to collective bargaining
- Non-discrimination and equal opportunities
- Occupational Health and Safety
- Forced, bonded or slave labour.
- Reproductive rights
- Child protection (including the prohibition of child labour).

Scope: The implementation of good labour practices in a business should ideally examine the entire footprint of the business. It is common for businesses to limit their interventions to only their full-time permanent staff. However, there are other categories of workers in the real sector for whom the business holds the ultimate responsibility. Temporary/seasonal workers, third party contracted workers and casual workers all contribute to the growth and development of the business and could be strongly impacted by decisions taken by the business. Their interests should therefore be carefully factored in when developing labour strategies. It is also crucial to include labour risks in the supply chain. This is particularly important for businesses in agriculture and manufacturing.

Implementation of good labour practices starts with a review of the relevant labour issues at play in one's organisation and supply chain. This can be done through an internal labour assessment or done by a third party. Both will help identify potential labour risks and help develop a plan for addressing them and integrating key actions into the ESMS. For bigger businesses, a Human Rights Due Diligence¹⁹ exercise can provide useful information on rights impacts that the business may cause or contribute to through its own activities, or which may be linked to its operations, products, or services by its business relationships.

¹⁹ https://www.ohchr.org/sites/default/files/documents/publications/guidingprinciplesbusinesshr_en.pdf

Human Rights Due Diligence (HRDD)

This is a process businesses follow to identify, prevent, mitigate, and account for their actual or potential adverse impacts on human rights. The HRDD process includes assessing actual and potential human rights impacts, integrating and acting upon the findings, tracking responses, and communicating how impacts are addressed. The level of effort required varies in complexity depending on the size of the business, the risk of severe human rights impacts, and the nature and context of its operations. Practical guidance for conducting an HRDD are provided by the Office of the High Commissioner for Human Rights²⁰.

4.4.2 Community impact

Agriculture, manufacturing, and housing are land-based activities that often come with impacts on communities. The impacts could range from reduced access to natural resources as a result of the operation of the company to total displacement from lands that communities occupy, own or use. Other impacts could include the loss of cultural heritage, increased risk of health and safety issues and potential conflicts between local communities and the security personnel of the business.

A well designed and executed social programme is required to help maintain a cordial relationship with local communities.

Stakeholder engagement

Community engagement helps to establish the free flow of information between the business, local communities, and other stakeholders. The engagement process would typically include a stakeholder mapping exercise. This process involves the identification of all the relevant stakeholders who affect or are affected by the business, their relationships, influence, interest, and power dynamics. The stakeholder mapping helps to identify the following categories of stakeholders: local communities, regulatory agencies, relevant civil society organisations and development partners, clients, suppliers, service providers, etc. An understanding of the roles of each stakeholder helps to better tailor the engagement approach to meet their needs and the needs of the company. The benefits of this activity may include:

1. Reduced conflicts
2. Improved communication
3. Better allocation of resources
4. Proactive risk mitigation

The IFC's Good Practice Guidance on Stakeholder Engagement²¹ provides detailed guidance on the key concepts on stakeholder engagement and practical guidance for implementation.

Communication process/grievance mechanism: Once the key stakeholders have been identified, a communication/grievance procedure²² should be developed. This should take into consideration the unique needs and interests of each stakeholder groups and the preferred communication methods

²⁰ https://www.undp.org/sites/g/files/zskgke326/files/2022-10/HRDD%20Interpretive%20Guide_ENG_Sep%202021.pdf

²¹ <https://www.ifc.org/content/dam/ifc/doc/mgrt/ifc-stakeholderengagement1.pdf>

²² Refer to the IFC guidance on addressing grievances from project affected communities <https://www.ifc.org/en/insights-reports/2000/publications-gpn-grievances>

and subsequently make provisions for all relevant stakeholders to be able to gain access to the business and report their grievances.

Sharing of information: It is crucial to share information with stakeholders on a regular basis. Information that is typically made available proactively include the key sustainability commitments of the business and the progress to meeting targets, contribution to local community developments and updates on the resolution of grievances presented by stakeholders.

FPIC

The concept of FPIC was developed in the context of Indigenous people and seeks to protect their interests. FPIC recognises the rights of Indigenous people to give or withhold their consent for projects that would take place on their lands or otherwise affect them. Over the years, the scope of this logic has been expanded to also cover the rights of local communities and resource users. Thus, in the broader sense, FPIC refers to the rights of Indigenous People and local communities to give or withhold their consent for projects that would take place on lands they own or use or projects that may otherwise affect them in any other way.

By definition, FPIC should take place prior to the commencement of the project and should be free (without coercion) and informed. Affected communities should be given adequate and transparent information on the positive and negative impacts of their operations and given enough time to consult amongst themselves, with experts and with their legal counsel before they make the decision to give or to withhold their consent.

Over the years, the FPIC concept has also been expanded to make it possible to be applied retroactively. Where projects have taken place without the prior consent, the tool allows for the engagement of stakeholders to assess the impacts of the projects and undertake remediation actions to eliminate or mitigate the identified adverse impacts.

Community Investment

Contributions to the development of local communities should be done in a coordinated and planned manner that yields optimal impacts in line with the sustainability strategy of the business. Good practice for community investment requires that the contributions to local development should be seen as a core part of the business that can also yield positive returns not only to the communities but also to the business itself. It recognises the needs of the communities and the unique strengths of the business and designs interventions that combine these two to yield shared prosperity. For example, a rubber plantation may decide to as part of its corporate investment strategy, support the establishment of rubber outgrower farms. They may give improved seedlings, extension support and offer a ready market for the rubber cup lumps that would be produced. Whilst this will provide an avenue for employment generation and reduce poverty in the community, it would also serve as a means of increasing the raw material supply base for the business.

Good community investment projects should among others

1. Have a clear exit strategy.
2. Should be self-sustaining following the exit of external funding support.
3. Should align with corporate vision.

4. Should yield demonstrable positive impacts to both the community and the business.

5. CONTINUAL IMPROVEMENT

Continual improvement involves the iterative process of monitoring and review of performance over time and implementing measures for better outcomes.

A robust and reliable source of data is critical to ensuring that improvements target key areas where they are most needed for impact. As with the implementation of the sustainability strategy, every member of the organisation needs to be onboard and be empowered to understand that they can point out areas for development to spark positive change.

How is it done?

1. Collect data on specified metrics over a set period. Data is commonly collected annually.
2. Review the performance during the set period (year) comparing it with the performance of prior years.
3. Identify areas where there have been improvements, retrogressions, or failed interventions.
4. Where there have been improvements, review the factors that have accounted for these improvements and explore how these can be further enhanced in subsequent years.
5. Where there have been retrogressions or failed interventions, conduct a root cause analysis and design and implement corrective actions.

Examples of metrics to collect data on?

- **Safety:** The number of occupational health and safety incidents, lost time incident rates, severity rates, identification of hazards and the average time to resolution, as well as trainings organised for the workforce are examples of data that can point to the safety performance of the business. Please note that there are regulatory requirements on monitoring and reporting on workplace safety incidents. At the minimum, safety metrics should meet the regulatory requirements relating to reporting formats and timeframes for notifying relevant the DOSHS.
- **Resource efficiency:** Track and review the usage of resources (e.g. water, fossil fuel) per unit of production both within production processes and in the supply chain over the period and explore opportunities for improvements.
- **Emissions and discharges:** Monitor the levels of emissions and discharges and consider improvements in emissions and discharges through the use of more efficient technology and the introduction of engineering and operational solutions that help to cut down on emissions.
- **Waste reduction and recycling:** Track the reduction in waste generation and the increase in re-use and recycling rates.
- **Employee wellbeing:** This can be measured through employee surveys, turnover rates, productivity levels etc.

It is common good practice for continuous improvement charts to be developed and displayed on the organisation's premises to get employees and other stakeholders informed and motivated about performance against key indicators over time.

Continual improvement involves constantly assessing and improving processes and systems to achieve better outcomes.

6. DISCLOSURES AND TRANSPARENCY

Companies should publicly disclose material and reliable sustainability information – together with financial information – and integrate such disclosure in the institutions’ regular communication and reporting channels, including the annual report and other investor and stakeholder communications.

Reporting on an organisation’s sustainability performance is one means of sharing information with regulators and other stakeholders. Even though there are mandatory ESG reporting requirements for listed companies on the Nairobi Stock Exchange (NSE), these do not necessarily apply to non-listed companies. That notwithstanding, it is good practice to provide ESG disclosures at least once a year. This provides a means to reach out to and share information with investors, clients, local communities, and other stakeholders. Some organisations may also participate in voluntary reporting standards.

This document provides generic guidance for sustainability reporting. Reference is made to the requirements of the Nairobi Securities Exchange ESG Disclosures Guidance Manual of 2021. Where a business subscribes to a voluntary reporting standard, their approach to reporting would be determined by the requirements of the standard. In the absence of a reporting standard, these guidelines would be a useful starting point.

6.1 Reporting content

Companies should report on the process and outcome of how they manage and govern sustainability. This is consistent with the modern standards on sustainability reporting including ISSB and others.

- **Governance and ethics:** The report should include information on the structure and processes in place for the board oversight of sustainability-related risks and opportunities.
- **Strategic outlook:** The report should explain the effect of sustainability-related risks and opportunities on the business model, strategy, and financial planning.
- **Reporting scope and approach:** This entails outlining the entities (subsidiaries, suppliers, etc) and operations that are covered by the disclosure document, including those it controls and those on which it exercises influence.
- **Materiality assessment and risk management:** The report should detail the processes used to identify, assess, prioritise, and monitor sustainability-related risks and their impact on the risk profile.
- **Performance disclosure:** company collects data - qualitative and quantitative - within the reporting boundary. This data is compiled, reviewed, signed off and reported externally (published) using an adopted reporting standard or framework for ESG reporting.
- **Assurance and internal controls:** The company builds credibility over its public ESG disclosures through internal audit processes, quality assurance on reported data and by seeking external third-party assurance on ESG disclosure topics.

6.2 Reporting approach and frequency

Public disclosure can be done in a number of ways. These include:

- Annual report: Presenting sustainability/ESG information in the annual report, in a dedicated sustainability section. Even though the annual reports tend to be strongly focused on financial reporting, the sustainability elements allow the organisation to reflect on the importance of sustainability in the overall performance of the business.
- Integrated reports: This provides a holistic view of the entire business showing how sustainability and ESG performance are interconnected with financial performance. It provides a comprehensive overview of the business.
- Standalone sustainability reports: These are dedicated standalone documents that comprehensively deal with all the relevant sustainability issues. They provide in-depth insights into the company's sustainability commitments, practices and progress towards meeting these. A standalone sustainability report would usually not contain financial information.

If disclosure of sustainability information is presented in the annual report is limited to what is financially material, additional information relevant to stakeholders can be provided separately through a more comprehensive standalone sustainability report and/or the corporate website.

[Annex 6](#). provides guidance for a standalone annual public sustainability report.

Annex 1: Relevant ESG legislations

Legal requirement	Description
Environmental Management and Coordination Act (EMCA) CAP 387	The Environmental Management and Coordination Act (EMCA) is a comprehensive legislation in Kenya that was enacted in 1999 to provide a legal framework for the sustainable management and conservation of the environment. The act came into effect on 4 January 2000 and was amended on 17 June 2015. The purpose of the act as stated in its preamble is, “to provide for the establishment of an appropriate legal and institutional framework for the management of the environment and for matters connected therewith and incidental thereto.”
Water Act of 2016	Act provides the legal framework for the regulation, management and development of water resources and water, and sewerage services in line with the Constitution. The Act gives provisions regarding ownership of water, institutional framework, national water resources, management strategy, and requirement for permits, state schemes and community projects. It establishes water resource user associations and emphasizes the sustainable and equitable use of water.
Forestry Act of 2005	This act governs the management and conservation of forests and forest resources in Kenya. It promotes sustainable forest management, community participation, and protection against illegal logging
Wildlife Conservation and Management Act of 2013:	This act focuses on the conservation and management of wildlife and protected areas in Kenya. It establishes the Kenya Wildlife Service (KWS) and outlines measures to combat poaching and protect endangered species.
The Environmental Management and Co-Ordination (Strategic and Integrated Environmental Assessment and Environmental Audits) Regulations, 2025,	These regulations provide guidelines for conducting environmental impact assessments (EIAs) and audits. They ensure that proposed development projects are evaluated for their potential environmental impacts.
Plastic Carrier Bags Regulations of 2017	These regulations aim to reduce environmental pollution by prohibiting the use, manufacture, and importation of plastic carrier bags.

The Environmental Management and Coordination (Management Of Toxic And Hazardous Chemicals And Materials) Regulations, 2024	regulates the management, control, and disposal of hazardous chemicals and waste to safeguard human health and the environment.
Climate Change Act of 2016	This law provides a legal framework for addressing climate change issues in Kenya. It establishes the Climate Change Directorate and outlines measures for adaptation, mitigation, and mainstreaming climate change considerations.
Environmental Management and coordination regulations, • Water quality, 2024 • Waste management, 2024 • Noise, and excessive vibrations, 2009 • Air quality, 2024 • Wetlands, riverbanks, and lakeshores, 2009 • Conservation of biodiversity, 2006	
Wildlife Management and Conservation act, 2013	Provides that wildlife should be conserved to yield optimum returns in terms of cultural, aesthetic, scientific, and economic benefits. The Act requires that full account be taken of the interrelationship between wildlife conservation and land use. The Act controls activities within the national parks, which may lead to the disturbance of wild animals. Unauthorized entry, residence, burning, damage to objects of scientific interest, introduction of plants and animals and damage to structure are prohibited under this law.
The forest act, 2005	This law was enacted by Parliament in 2005 to provide for the establishment, development and sustainable management including conservation and rational utilization of forest resources for the socioeconomic development of the country.
Agriculture, Fisheries and Food Authority act, 2013	The Act provides legislation for the control over soil conservation and development. The Cabinet Secretary may provide guidelines for several matters for the

	purpose of the conservation of the soil, or the prevention of the adverse effects of soil erosion on any land. These may include prohibiting, regulating, or controlling the undertaking of any agricultural activity including the firing, clearing or destruction of vegetation to protect the land against degradation, the protection of water catchment areas or otherwise, for the preservation of the soil and its fertility.
Housing Act, 2018	The Housing Act provides a legal framework for the provision of affordable and adequate housing, the regulation of the housing sector, and the establishment of institutions to oversee housing matters in Kenya. The Housing Act aims to promote the right to accessible and adequate housing for all Kenyan citizens. It seeks to ensure equitable access to housing, facilitate the provision of affordable housing, and promote sustainable housing development.
Land Act 2012	This is an Act of Parliament to give effect to Article 68 of the Constitution, to revise, consolidate and rationalize land laws; to provide for the sustainable administration and management of land and land-based resources, and for connected purposes. Part VIII of this Act provides procedures for compulsory acquisition of interests in land. Section 111 (1) States that if land is acquired compulsorily under this Act, just compensation shall be paid promptly in full to all persons whose interests in the land have been determined. The Act also provides for settlement programmes. Any dispute arising out of any matter provided for under this Act may be referred to the Land and Environment Court for determination.
The Land Registration Act, 2012	This is an Act of Parliament that revises, consolidates, and rationalizes the registration of titles to land, to give effect to the principles and objects of devolved government in land registration, and for connected purposes. The Act requires that there is proper marking and maintenance of boundaries. An interested person who has made an application to the Registrar for his/her boundaries to be ascertained, the Registrar shall give notice to the owners and occupiers of the land adjoining the boundaries in question of the intention to ascertain and fix the boundaries. Regarding the maintenance of

	boundaries, the Act requires every proprietor of land to maintain in good order the fences, hedges, stones, pillars, beacons, walls, and other features that demarcate the boundaries, pursuant to the requirements of any written law.
The Occupational Safety and Health Act (OSHA 2007)	Occupational Safety and Health Act applies to all workplaces where any person is at work, whether temporarily or permanently. The purpose of the Act is to secure the safety, health, and welfare of persons at work and protect persons other than persons at work against risks to safety and health arising out of the activities of persons at work. Section 19 of the Act provides that an occupier of any premises likely to emit poisonous, harmful, injurious, or offensive substances, into the atmosphere shall use the best practicable means to prevent such emissions into the atmosphere and render harmless and inoffensive the substances which may be emitted.
The Factories & Other Places of Work Rules, 1977 • First aid • Safety and health committee • Fire risk • Hazardous substances • Medical examination • Noise prevention and control	
Gender Equality and Women's Empowerment Act (2011):	promotes gender equality, prohibits discrimination based on gender, and seeks to eliminate discrimination and violence against women. It provides a legal framework for addressing gender disparities in various sectors, including education, employment, and political representation.
Children's Act (2001)	This legislation protects the rights and interests of children, including their right to survival, development, protection from abuse, and access to education. It aims to ensure social justice for children and secure their well-being and rights.
Employment Act, 2007:	The Act is enacted to consolidate the law relating to trade unions and trade disputes, to provide for the

	registration, regulation, management and democratization of trade unions and employers organizations and federations. The purpose of the Act is to promote sound labour relations through freedom of association, the encouragement of effective collective bargaining and promotion of orderly and expeditious dispute for the protection and promotion of settlements conducive to social justice and economic development for connected purposes.
Work Injury Benefit Act (WIBA) 2007	provide for compensation to employees for work related injuries and diseases contracted in the course of their employment and for connected purposes. The Act applies to all employees, including employees employed by the Government, other than the armed forces, in the same way and to the same extent as if the Government were a private employer. It is the duty of all employers to obtain and maintain an insurance policy from an approved insurer in respect of any liability the employer may incur as provided for by the Act. The Act also stipulates that an employee who suffers an accident that leads to disablement or death is subject to the provisions of this Act and is entitled to compensation.
Companies Act (2015):	sets out various governance requirements, including provisions related to incorporation, shareholder rights, director duties, and corporate reporting. The following are some specific requirements with respect to companies:

Annex 2: Materiality Assessment

The concept of materiality in ESG helps to determine which of the relevant issues are sufficiently important to an organisation and its stakeholders that it is essential to prioritise and act to address them. It helps companies understand which ESG factors are most critical to their long-term success and resilience.

It is essential to have a documented and transparent process for assessing materiality, and this should be supervised by the organisation's highest governance body, who will also review and approve material topics. It is good practice to conduct a materiality assessment yearly, to coincide with the preparation of annual reports.

The materiality assessment may include the following steps:

1. **Define the objective and scope:** Clarify the goal of the assessment and indicate whether it is for risk management, strategic decision making, reporting, etc. Also include the scope of the assessment.
2. **Identify and engage with stakeholders:** This includes internal stakeholders (board members, executive, employees) and external stakeholders (community members, clients, suppliers, regulators, etc).
3. **Identify and prioritize material issues:** List potential topics based on stakeholder inputs, industry trends, regulatory requirements, etc. Use the materiality matrix to prioritize visualize the impacts.
4. **Analyse and validate results:** Identify patterns and trends in stakeholder feedback. Benchmark against peers. Compare your results with industry standards and best practices. Validate findings by ensuring that the identified material issues are consistent with your overall strategy and goals.
5. **Integrate and act:** Develop an action plan based on the prioritized issues and develop a strategy to address them. Ensure that the findings are integrated into the overall ESG strategy.

Annex 3: Categorisation of Emissions

Emissions created by a business, its consumers and suppliers may be categorised into three distinct types (scopes). These are outlined below:

Scope 1 emissions

This refers to all emissions from sources directly owned or controlled by the organisation. Examples include the burning of fuel in the vehicle fleet.

Scope 2 emissions

This refers to those emissions that are caused indirectly by the company. This may come from the energy it purchases and uses. Example, the emissions caused when generating the electricity from the national grid used in manufacturing.

Scope 3 emissions

This refers to emissions that are not produced by the company itself and are not the result of activities from assets owned or controlled by them, but by those that it is indirectly responsible for up and down its value chain. For examples emissions associated with products that a business buys and uses from its suppliers. Scope 3 emissions also include all emissions that are not within the scope 1 and 2 boundaries.

Annex 4 Key Elements of a Stakeholder Map:

- **Stakeholder Identification:** Listing all the stakeholders involved in the project.
- **Interest Level:** Assessing how much each stakeholder is interested in the project.
- **Influence Level:** Determining how much influence each stakeholder has over the project.
- **Relationships:** Mapping out the relationships between different stakeholders.
- **Communication Plan:** Developing a communication plan to effectively engage with different stakeholders.

Annex 5 Principles for Strategic Community Investment

Strategic Community Investment should be²³:

Strategic:

- Activities flow from a well-defined strategy (objectives, criteria, guiding principles) linked to a clear business case and assessment of risks and opportunities
- Addresses both short and long-term objectives through a strategic mix of investments
- Focuses selectively on a few key areas for greatest impact where the company can most effectively leverage its unique role and competencies to address community priorities
- Looks beyond financial resources and considers how to make best use of company assets, resources, expertise, advocacy, and relationships to benefit local communities
- Evolves with the business phase and uses different approaches along the project cycle.

Aligned:

- Aligns the strategic issues of the business with the development priorities of local communities, civil society, and government to create “shared value”
- Coordinates CI with other company policies and practices that affect communities, such as impact management, stakeholder engagement, and local hiring and procurement
- Promotes cross-functional coordination and responsibility for supporting CI objectives among all business units that interact with local stakeholders

Multi-stakeholder driven:

- Positions the company as a partner in multi-stakeholder processes rather than as the principal actor in promoting local development
- Recognizes that a multi-stakeholder approach reduces company control but adds value by building local ownership and complementarity around shared interests
- Supports communities and local governments in defining and meeting their own development goals and aspirations through participatory planning and decision making

Sustainable:

- Seeks to avoid dependency, encourage self-reliance, and create long-term benefits that can outlast company support
- Does not commence activities without a viable exit or handover strategy
- Invests heavily in capacity building, participatory processes, and organizational development to enable local communities, institutions, and partners to take progressively greater roles and responsibilities
- Reinforces, rather than replaces, indigenous institutions and processes where feasible

²³ Culled from IFC's Good Practice Handbook on Strategic Community Investment 2010 https://commdev.org/wp-content/uploads/pdf/publications/P_SCI_Handbook_full_English.pdf

Measurable:

- Measures return on community investment to both the company and the community
- Uses outcome and impact indicators to measure the quantity and quality of change
- Tracks changes in community perceptions to gain real-time feedback on performance
- Uses participatory methods of monitoring and evaluation to build trust and local ownership of outcomes
- Proactively communicates the value generated by CI to internal and external audiences

Annex 6: Sample Outline an ESG report

The template below is culled from the reporting template provided in the Nairobi Securities Exchange ESG Disclosures Guidance Manual

Introduction

1. Message from the Board Chair – *The Board Chair's message should contain, i) the steps the Board has taken to embed a culture of sustainability in the organisation, ii) how stakeholder expectations are identified and the framework that exists to ensure that these are addressed, and iii) overview on corporate governance.*
2. Message from the CEO - *The CEO's message should outline, i) the organisations commitment to sustainability, ii) its sustainability strategy, iii) important updates on ESG performance and management approach in the reporting period, and iv) how ESG performance has influenced the financial position of the organisation.*
3. Financial year review
4. ESG report overview

Strategic Outlook, Governance and Ethics

1. Organisational profile
2. Organisational strategy
 - a. Financial ambition
 - b. Business model review
 - c. Operating model review
 - d. Supply chain analysis
3. Environmental and social risk management
4. How we are governed – Corporate Governance
5. Ethics and integrity

Reporting boundary and approach to ESG reporting

1. ESG impacts reporting boundary
2. Framework for ESG reporting – *The GRI Standards are the proposed standards and framework for reporting.*

Stakeholder engagement

1. Approach to identifying and prioritizing stakeholders
2. Stakeholder engagement strategies – *For prioritised stakeholders*

Materiality analysis and ESG Impact

1. Approach to materiality assessment
2. Our material topics
3. Value creation strategy for material ESG topics – *includes content creation for the material topics using the GRI standards.*
 - Governance
 - Economic

- Social
- Environmental

Organisations must demonstrate the Reporting Principles in their ESG performance disclosures.

Ambitions and future targets

Provide an outlook on the organisation's main challenges and targets for the next year and goals for the coming 3–5 years

Assurance Statement

Refer to criteria for claiming a report has been prepared in accordance with the GRI Standards