Why African banks need to embrace non-financial disclosures, and fast

By Sandra Villars

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Sub-Saharan Africa remains one of the world's youngest, fastest-growing regions - home to more than 1 billion people, half of whom will be under 25 by 2050. But to enable transformation and boost shared prosperity, Africa needs investment, and to unlock capital on a large scale, better corporate disclosure practices are needed - including banks disclosing the impact of their financing.

Source: Supplied. Sandra Villars, senior advisor to Oliver Wyman.

Why? Because most investors are becoming subject to similar demands and will simply not release capital without such disclosures in the future, and because the entire stakeholder landscape of the next generation – from customers to regulators to employees – is shifting firmly in favour of institutions that are seen to positively impact people and the planet.

According to UN estimates, Africa needs an incredible $7tn a year to achieve its Sustainable Development Goals (SDGs) by 2030, and $6tn of this is reliant on the private sector – and banks and financial institutions are obviously a crucial part of this process.

In short – unless African banks up their game, they will find it challenging to access funding sources that would otherwise be open to them. Several advocacy groups have developed disclosure guidelines, which include reporting on the social and developmental impact of projects banks have financed.

These disclosures are largely voluntary – but those who choose to ignore them will likely face prohibitive censure from investors, including pension funds and development finance institutions.

And it's not just that investors will become more reluctant to invest blindly: many simply won't be able to.

Far too many African banks are doing a poor job on disclosures while global financial powerhouses are ramping up. This is not because they do not understand the value of disclosure.

African banking industry's views on ESG matters

Around 70% of board members, banking executives, financial services investors, and heads of sustainability at African banks polled by Oliver Wyman recently indicated that they agree that the quality of a company's non-financial disclosure reflects management's seriousness on ESG matters, while approximately two thirds agreed the reputational benefits from voluntary non-financial disclosures generally outweigh reputational risks.

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But there's also a clear disconnect between these opinions and actions taken by the banks themselves. This was evident from the fact that half of the respondents ranked lack of prioritisation at the executive level as one of the biggest blocks to implementing a comprehensive non-financial disclosure framework.

It's hardly surprising then that 77% of respondents could think of very few strong examples of what good non-financial disclosure looks like in the African banking landscape. It is critical that this mindset changes – if not, Africa's financing institutions stand to be gradually locked out by institutional investors.

This is important, with $41tn in managed investments held by ESG-focused funds, according to Bloomberg Intelligence.

Non-financial disclosure a gateway to funding

While regulatory frameworks catch up, non-financial disclosure must be seen not as a burden and compliance risk, but as an opportunity to attract funding and capital and, importantly, to take control of the narrative.

There are some no-regret steps that banks can take to get started on improving disclosure.

- **Establish ESG strategy, targets and metrics.** No single approach applies to all organisations – each bank should adopt a customised ESG strategy that aligns to its unique mission, while also utilising frameworks such as the *Global Reporting Initiative* and the *Task Force on Climate-Related Financial Disclosures*. Roadmaps should also be forward looking because disclosure standards are evolving rapidly and converging.

- **Define who should do what.** Banks need a clear governance and operating structure that runs throughout the organisation that does not shy away from answering difficult "who does what" questions when time and resources are scarce. It's important to assemble a broad and cross-functional team that has C-suite support.

- **Enable experts.** The team needs empowered members with specific expertise in ESG issues, and if specialised resources are not available internally, qualified third parties can be engaged. Many African banks will also have to face the reality that their sustainability functions and reporting areas require additional resources in the form of recruitment, training, and IT investment.

- **Align governance structures.** Ongoing, co-ordinated governance through senior committees is important to establish accountability for achieving ESG goals. Banks should also start thinking about how to align achievement of the most important ESG targets with existing incentives, such as by adjusting metrics in performance review frameworks.

- **Take inventory, track, and benchmark.** Measuring ESG efforts against peers can be challenging, but doing so is hugely insightful to setting up an appropriate strategy.

  Taking the voluntary step of seeking independent reviews and ratings should be seriously considered. Banks should also take inventory of the steps they are already taking across the business, including community initiatives, green products, fair-lending practices, consumer protection-, and anti-money-laundering compliance programmes.

- **Connect and network.** While financial non-disclosure may seem daunting, there are supportive resources available to help, from voluntary initiatives to global undertakings like the Glasgow Financial Alliance for Net Zero (GFANZ), a coalition of leading financial institutions committed to accelerating the decarbonisation of the economy.

A shift in mindset – and actions – is never easy. But ignoring the call will be costly: financing institutions in Africa can no longer afford to ignore non-financial disclosure quality. Those that do could face consequences that are damaging to both their bottom lines and that of the continent.

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