Sustainability and climate disclosure cost-benefit analysis

Report

21 June 2023

IFC International Finance Corporation WORLD BANK GROUP

JSE

G:ENESIS UNLOCKING VALUE

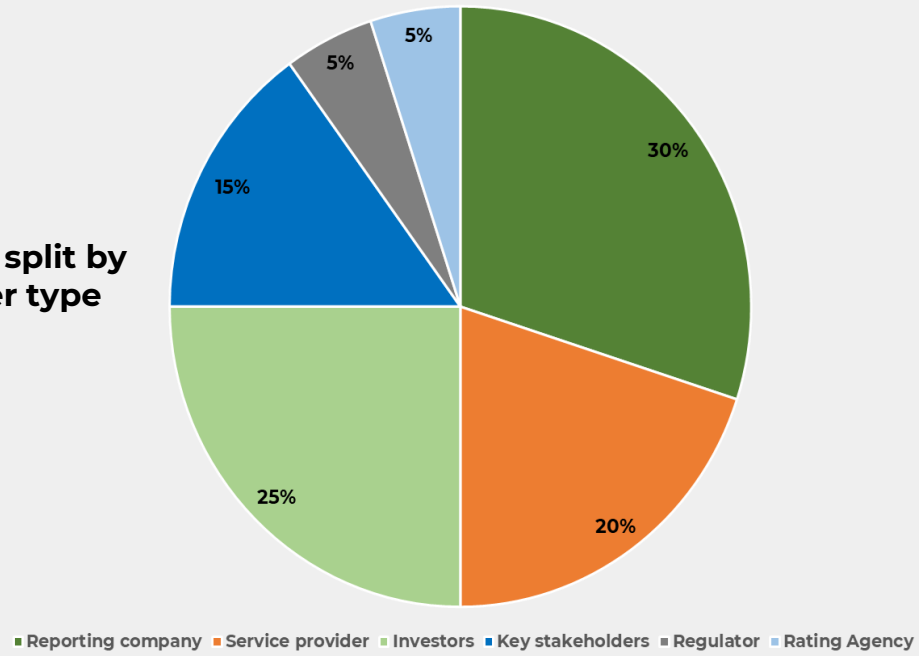
The Brief

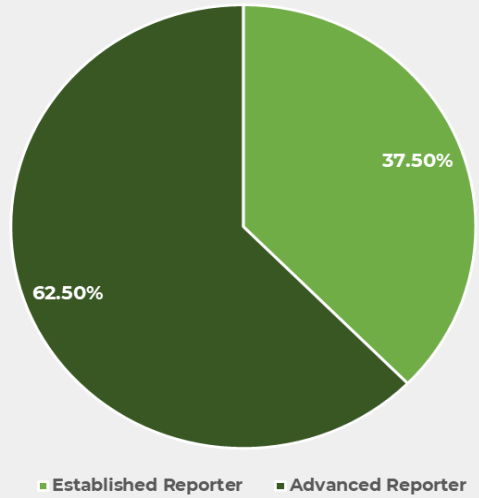
In June 2022, the Johannesburg Stock Exchange (JSE) released Sustainability and Climate Disclosure Guidance to promote transparency and good governance by guiding listed companies on latest best practice in environmental, social and governance (ESG) and climate-related disclosure. [1]

The JSE, in partnership with the IFC, commissioned Genesis Analytics to analyse the costs and benefits to companies implementing disclosure practices in line with the JSE's Sustainability and Climate Disclosure Guidance.

20 stakeholders were interviewed during the interview process across a range of sectors.

Stakeholder split by stakeholder type





Six interviews that covered eight reporting companies revealed that a larger proportion of the stakeholders interviewed for the cost-benefit analysis fell within the Advanced Reporter Archetype 4.

Source: 1. JSE (2022). JSE's Sustainability and Climate Disclosure Guidance.

Conceptual approach: There are four steps in the reporting process

To capture the costs and benefits of reporting in line with the JSE's Sustainability and Climate Disclosure Guidance, this study considers the full journey undertaken by a reporting company. The steps in the reporting company's journey used in this report are determined by stakeholder interviews and Section 3.2 of the JSE's Sustainability Disclosure Guidance documents.

- Conduct materiality analysis
- Identify relevant disclosure metrics
- Integrate sustainability considerations into organisation's strategy and internal processes

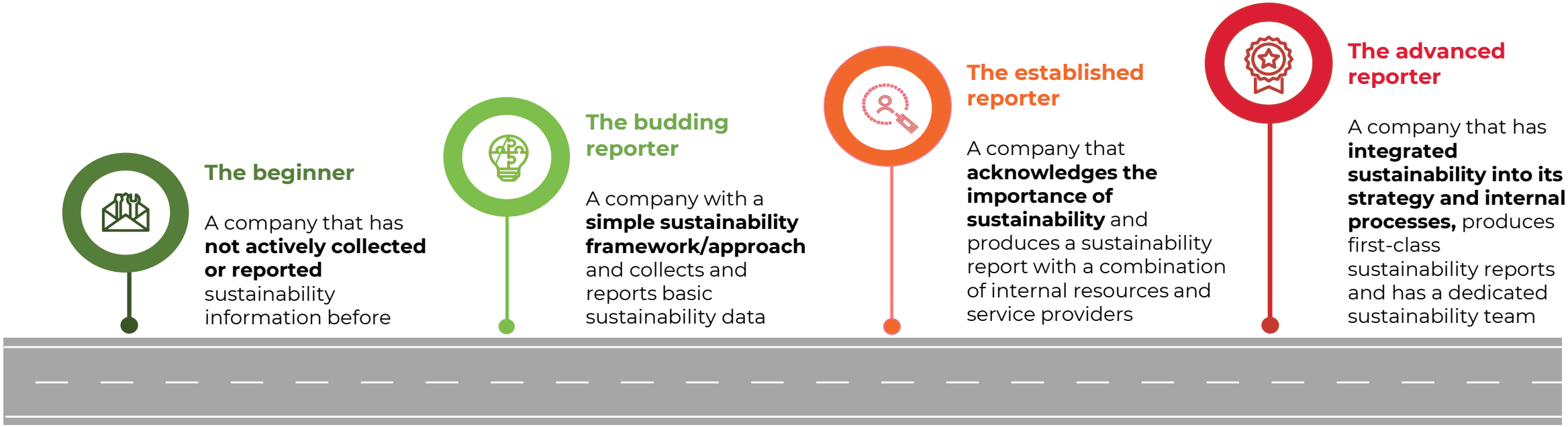
- Develop or purchase data collection and management system/tool
- Socialise data collection in the company
- Develop data security policies that ensure the integrity and prevent unauthorised access of digital information

- Collate and analyse all sustainability and climate data
- Draft and publish a sustainability report
- Submit reports to investors and/or rating agencies
- Respond to stakeholder queries

- Commission independent verification or assurance (limited or reasonable) of the sustainability report/integrated annual report

Conceptual approach: The study assesses the costs and benefits for four reporting company archetypes

Companies will face different costs and benefits of reporting based on their existing reporting practices.
The archetypes are categorised according to the existence of the four steps in the reporting process.



The beginner

A company that has **not actively collected or reported** sustainability information before

The budding reporter

A company with a **simple sustainability framework/approach** and collects and reports basic sustainability data

The established reporter

A company that **acknowledges the importance of sustainability** and produces a sustainability report with a combination of internal resources and service providers

The advanced reporter

A company that has **integrated sustainability into its strategy and internal processes,** produces first-class sustainability reports and has a dedicated sustainability team

***Example**: A company that does not prioritise sustainability or climate change due to limited resources and/or lack of external pressure to do so. For example, companies. listed on the Altx*

***Example**: Listed or unlisted, medium-sized companies, with more complex supply chains, diverse operations and less regulatory or stakeholder pressure to disclose information based on a perceived lower social and environmental impact.*

***Example:** Medium- to large-sized companies that are most likely listed*

***Example:** Medium- to large-sized companies that are most likely listed and in sectors perceived to have greater social and environmental impacts and hence would have industry standards/regulatory requirements.*

Note:
The research shows that due to the different nuances faced by reporting entities, it is unlikely that most reporting entities will fall neatly into one archetype. Most of the insights in this study reflect the experiences of medium to large companies. The experience of SMEs would best be covered in separate research.

Detailed archetype descriptions

	Beginner	Budding reporter	Established reporter	Advanced reporter
1. Organisation sustainability framework	Has not developed any sustainability frameworks for the business	Has developed a simple sustainability framework	Has worked with an external consultant to embed a sustainability framework into strategy and internal policies	Has embedded a sustainability framework into their strategy and internal policies with corresponding KPI targets.
2. Staff Allocated	No individual or team dedicated to sustainability	One middle-level employee working with an external consultant	One senior executive, a middle-level employee and analyst	A full dedicated sustainability team
3. Data collection	Collects no or very little sustainability data	Collects basic sustainability data	Collects and manages sustainability related data. Uses internal data systems or possibly an off-the-shelf data tool.	Has customised a data collection and management tool/system to actively track and report on sustainability related metrics and targets
4. Training costs	No training	Very little training The sustainability resource trains the rest of the organisation	Internal team or external consultant would train the rest of the organisation	Internal team or external consultant would train the rest of the organisation Would also invest in additional training from regulators or accredited firms for the team
5. Preparation of report	No report	Prepares basic sustainability reports to align to specific regulatory or supply chain requirements	Prepares sustainability related reports as part of annual reporting	Prepares elaborate sustainability reports, including as part of integrated reporting May even produce a suite of sustainability topic reports
6. Reporting history	Never reported	0–4 years or reporting	4–7 years of reporting	7+ years of reporting
7. Graphic design, copyediting and marketing	No report	Very simply designed reports to align to regulatory requirements	Designs and publishes sustainability related reports	Designs and publishes elaborate sustainability related reports May even produce a suite of reports
8. Data collection through external sources/consultants	No data collection	Does not collect external sustainability data	May subscribe to external data collection databases to report on climate-related data	May have built internal technical capacity in addition to subscribing to data collection databases to help report on some indicators. May even commission independent research.
9. Independent verification or assurance (optional)	NA	Does not undertake any form of verification or assurance	May undertake independent verification	May undertake independent verification, limited assurance, or reasonable assurance

Only some archetypes will have to undertake new activities to align with the JSE's Disclosure Guides

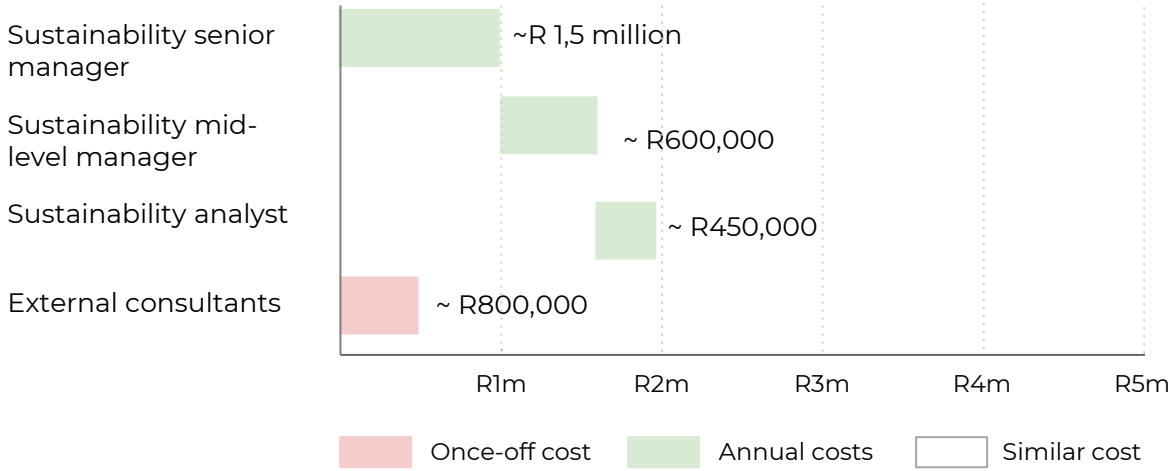
		Step 1: Organisation sustainability framework	Step 2: Data collection and management	Step 3: Preparing and publishing sustainability data	Step 4: Independent verification or limited/reasonable assurance
Beginner	Status quo	No sustainability framework/approach	No sustainability data collected	No sustainability report	No sustainability report
	With JSE Disclosure Guides	**Develops a simple sustainability framework**	**Collects new data needed for JSE Disclosure Guidance alignment (basic Excel spreadsheet)**	**Publishes sustainability data in accordance with JSE Disclosure Guidance**	**Optional/no action required**
Budding	Status quo	Simple sustainability framework which would include conducting a materiality analysis and identifying relevant disclosure metrics	Collects basic sustainability data	Basic/bare minimum sustainability report	No independent verification/assurance
	With JSE Disclosure Guides	**Enhances sustainability framework to align with the JSE Disclosure Guidance**	**Collects new data needed for JSE Disclosure Guidance alignment (basic Excel spreadsheet)**	**More comprehensive sustainability report**	**Optional/no action required**
Established	Status quo	Sustainability framework embedded in company strategy and internal policies	Collects data with external data management tool, with possible consultant assistance	Regular, comprehensive sustainability report	May already undertake independent verification or limited assurance
	With JSE Disclosure Guides	**Minor framework updates**	**Customises data management system in accordance with JSE Guidance Document data needs**	**Minor report updates**	**Optional/no action required**
Advanced	Status quo	Sustainability framework embedded in company strategy and internal policies with corresponding KPIs and targets	Advanced, bespoke data management system to track and visualise sustainability performance	Regular, comprehensive sustainability report, and possibly topic-specific reports (e.g., on climate)	May already undertake independent verification or limited assurance
	With JSE Disclosure Guides	**Minor, if any, framework updates**	**Minor, if any, system updates**	**Minor, if any, report updates**	**Optional/no action required**

KEY **Red:** No action required as the activity is optional **Orange:** Minor changes required **Green:** Substantial changes required

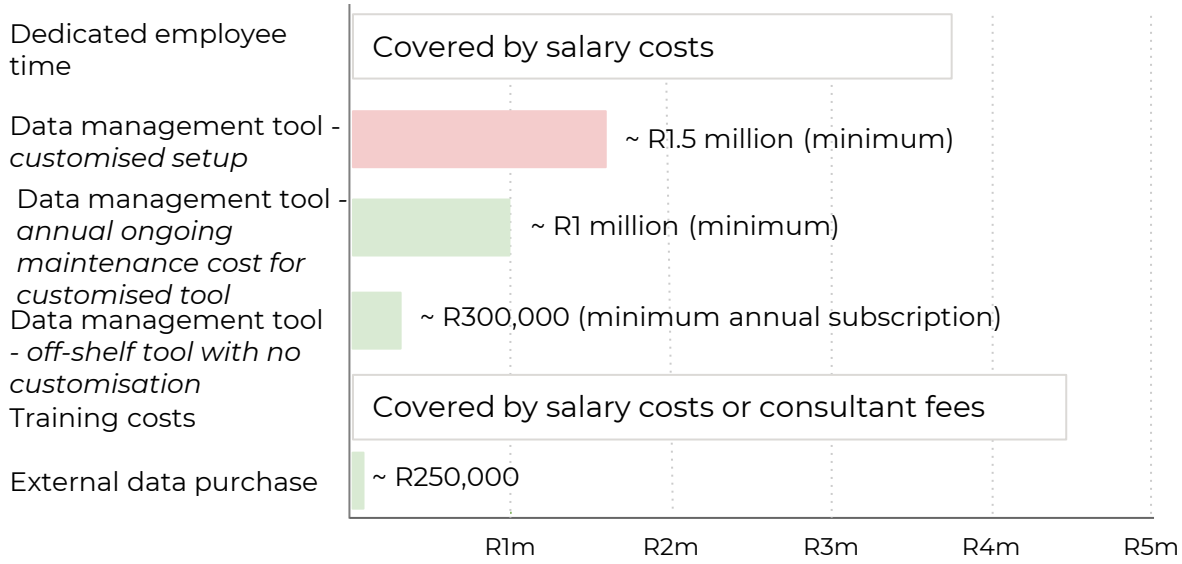
Summary: The full suite of costs can be estimated as follows

Once-off cost | Annual costs | Similar cost

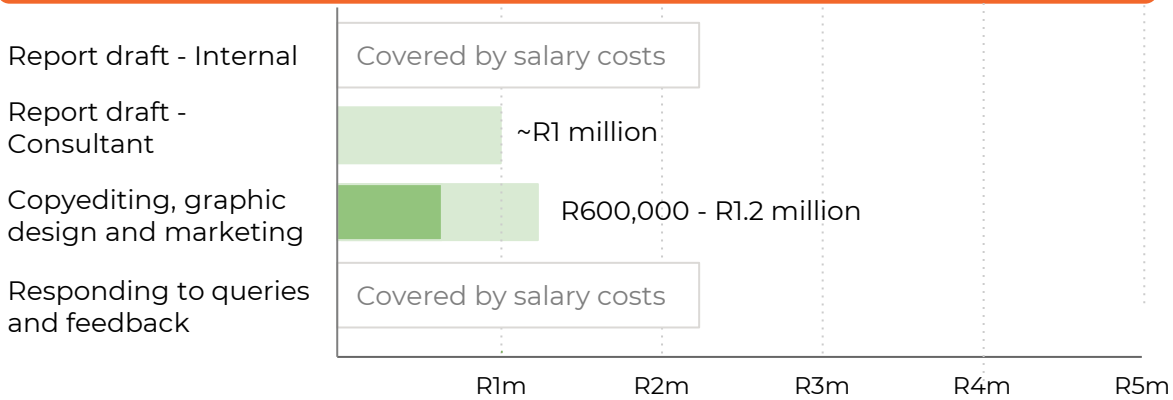
1. Sustainability framework and capacity



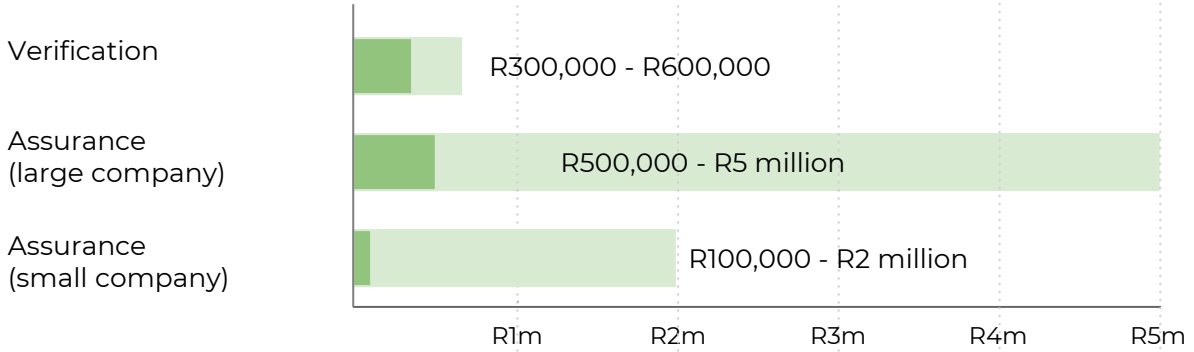
2. Data Collection and Management



3. Report preparation and calculation



4. Independent verification and assurance



*Since the costs of collecting specific metrics differ significantly based on company type, size and materiality, the data collection costs are assessed at a high level (in relation to employee time, data management tools, training and external data purchasing) rather than in relation to specific metrics.

Archetype cost calculations

Drawing on the costs identified in the main report, the costs per archetype have been calculated as follows:

	Sustainability Framework		Data collection		Report production		TOTAL (excl. assurance)	
	MIN	MAX	MIN	MAX	MIN	MAX	MIN	MAX
Beginners	R1,200,000	R5,100,000	R1,100,000	R3,000,000	R0	R2,000,000	R2,300,000	R10,100,000
	One mid-level manager x2 years	*One senior manager, one mid-level manager, one analyst x2 years*	Off-shelf data management tool annual subscription x2 years + external data purchase x2 years	Once-off customised tool setup and 1x year of ongoing management + external data purchase x2 years	No additional costs (covered by employee costs)	External consultant cost to draft report x2 years		
Budding	R900,000	R5,100,000	R500,000	R3,000,000	R0	R2,000,000	R1,400,000	R10,100,000
	One analyst x2 years	*One senior manager, one mid-level manager, one analyst x2 years*	External data purchase x2 years	Once-off customised tool setup and 1x year of ongoing management + external data purchase x2 years	No additional costs (covered by employee costs)	External consultant cost to draft report x2 years		
Established	R0	R800,000	R0	R500,000	R0	R0	R0	R1,300,000
	No new employees	*External consultants x1 year to update framework*	No new data collection costs	External data purchase x2 years	No additional costs (covered by employee costs)	No additional costs (covered by employee costs)		
Advanced	R0	R800,000	R0	R0	R0	R0	R0	R800,000
	No new employees	*External consultants x1 year to update framework*	No new data collection costs	No new data collection costs	No additional costs (covered by employee costs)	No additional costs (covered by employee costs)		

The costs of adopting the JSE Disclosure Guides will vary per archetype

The summary below represents ranges for the minimum costs

Total costs over the first two years of adoption (accounting for both setup and maintenance costs) **exclude the costs of independent verification or assurance** as those are optional under the Guidance.

Costs of collecting specific metrics differ significantly based on company type, size and materiality. Hence, data collection costs for the purpose of this study are assessed at a high level rather than per metric.

Beginners - approximately R2.3 million to R10.1 million in first two years
-face the largest upfront costs for prioritising sustainability, establishing new data collection systems, and publishing a sustainability report
-the vast majority are likely to start with simpler reporting frameworks with fewer metrics, which will drive down costs. .

Budding reporters - approximately R1.4 to R10.1 million in first two years
-have the basics in place but would face additional costs in defining and collecting new data points, and publishing a sustainability report that shows clear alignment with the JSE's Guides.

Established reporters - approximately R0 to R1.3 million in first two years
-only need to make minor modifications to sustainability frameworks and data collection systems, which can largely be covered by existing internal capacity.
-potential additional costs relate to support from external consultants in adapting sustainability frameworks and collecting new, costlier data (such as related to the company's carbon footprint.)

Advanced reporters - approximately R0 to R800,000 in first two years
-will face the lowest costs in adopting the JSE Guidance as comprehensive data collection and reporting systems are already in place.
-potential additional cost relates to external consulting fees to support adoption of the JSE Guides in the organisation's sustainability framework.

In reality, the **costs for companies are likely to be greater** than those presented above because the **significant costs of measuring particular metrics or implementing particular policies/procedures has not been included in the analysis.**

Data collection and management: Overview

Specific information on the extent of data collected by interviewees was not collected during the interview process.

Data collection and management in the context of sustainability reporting refers to the **systematic gathering, organising, and analysis of relevant environmental, social and economic information** to assess and communicate an organisation's sustainability performance.

The process of data collection varies between companies and industries, but the typical process of collecting and managing data falls into three broad steps:[1,2]

First, the data collection process requires companies to evaluate what information is already collected by the organisation and to **identify data gaps**. The data gap analysis guides the formation of a data collection and management plan.

Second, companies likely enter into a process of **internal capacity-building** to meet the unique company-specific goals related to data management and collection strategy. The capacity-building process is typically characterised by providing company-wide discussions on the data strategy, building capacity around specific data collection points and training for the use of data management tools.

Third, companies will have to manage their **ongoing data management** requirements as outlined in a data collection plan.

JSE

The JSE's Disclosure Guides do not specify how data should be collected, but states that "it is important to have the right internal systems in place to collect and disseminate concise, reliable, and complete data. Rather than creating entirely new channels, organisations should seek as far as possible to use existing internal management and systems."

Main insights from the interviews

- **Data collection is considered to be the greatest challenge for companies embarking on a reporting journey.** Additionally, companies consider data collection to be more constrained in emerging markets because of the lack of national information against which to evaluate impact.
- **Most companies use Excel spreadsheets to collect sustainability information.** Where some companies are piloting automated data collection and visualisation systems, these systems tend to be tools developed in-house or external tools that have been customised to meet the companies needs. Only one company reported using an off-the-shelf Software-As-A-Service (Saas) product that streamlines data collection and visualises the information.
- **The hardest type of data to collect is value chain data from suppliers.** Some large companies have supplier engagement platforms to collect supplier information on emissions and gender pay gaps, for instance. In other cases, companies need to pay third-party providers, such as S&P or Sustainalytics, for value chain information.
- **Companies are increasingly being asked by investors for more complex data points and supporting data for reported claims.** The benefit of having a strong data collection system is therefore increasing insofar as ad hoc requests for data by investors, regulators and/or rating agencies can be met more seamlessly.

"So those are the two big surprises: You can't get the data, *so you're going to be running around and that is what you're going to spend most of your time and money doing - trying to find the data. And the other big surprise is* ***when you actually get to report on this information, you just don't want to*** *because it's just too bad." - Interviewee*

Sources: 1. PwC (2021). *Building a sustainable path to cleaner ESG data*. | 2. Deloitte (2021). *The importance of ESG Data Management Challenges and opportunities for the real estate ecosystem*.

Step 2: Data collection and management: Costs

Costs of collecting specific metrics differ significantly based on company type, size and materiality. Hence, data collection costs for the purpose of this study are assessed at a high level rather than per metric.

The costs of collecting and managing sustainability data in a company encompass **investments in data collection systems, personnel training, technology infrastructure, data storage, analysis tools and ongoing maintenance**, which can vary depending on the scale, complexity, and scope of data collection efforts.

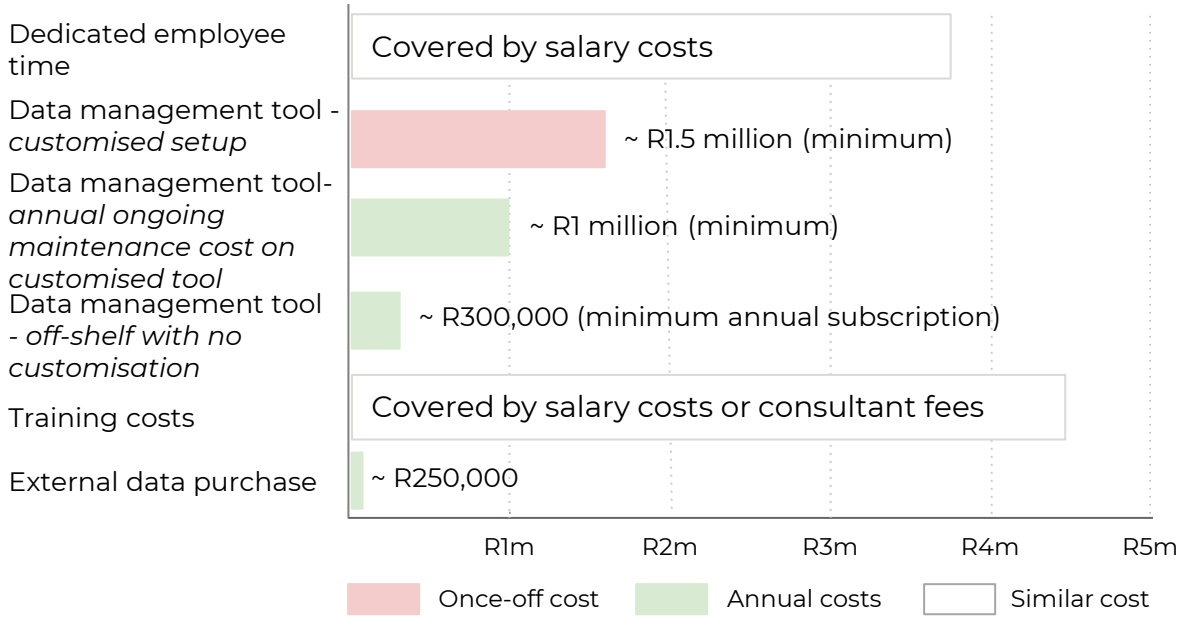
Pricing the costs

1. **Employee time** (measured in terms of salaries paid and opportunity cost of time spent) related to auditing data gaps, creating and implementing a data collection and management plan, and being trained on the data collection and management process
    - Most interviewed companies noted that data collection is typically conducted alongside existing employee's day-to-day tasks and so is covered by salary costs.

2. **Costs of data management tools**, including Excel spreadsheets and dashboards, digital off-the-shelf data management tools, and customised tools created by contracted service providers
    - Off-the-shelf data management tools and customised tools are **R1.5 million setup, with ~R1 million p.a. in annual ongoing maintenance costs.** The customised tools are preferably set up by the developers of the tool in collaboration with internal staff to ensure to maximise the efficacy of the tool.
3. **Training costs**, where data collection and management training for employees and supply chain companies is provided by external service providers.
    - We assume that these are covered by salaries or consultant fees.

4. **External data costs**, where relevant sustainability data is purchased through sustainability data providers (such as Scope 3 GHG emissions suggested for reporting in the E1.1 environmental disclosure metrics in the JSE's Sustainability Disclosure Guidance)
    - Larger interviewed companies reported collecting most data internally or directly from suppliers - the costs of which are absorbed in salaries and training.
    - However, climate data is reportedly the most expensive data to collect and typically requires external providers.[1] Estimates for collecting climate data through external sources provided in interviews ranged from **R80,000-R250,000 for carbon footprint assessments, R130,000-R400,000 for carbon footprint certification and R350,000-R550,000 for a full climate risk assessment**.

Summary of costs



> "If you have ever been involved in data collection, you will know what a pain it is trying to get information from companies. It's a big challenge because **your data is only as good as what has been put in and its accuracy.**"
> *- Interviewee*

Sources: 1. European Financial Reporting Advisory Group (EFRAG). (2022). *Cost-benefit analysis of the First Set of Draft European Sustainability Reporting Standards*.

Step 2: Data collection and management

The costs of collecting and managing sustainability data in a company encompass **investments in data collection systems, personnel training, technology infrastructure, data storage, analysis tools and ongoing maintenance**, which can vary depending on the scale, complexity, and scope of data collection efforts.

EFRAG
European Financial Reporting Advisory Group

The EFRAG cost-benefit analysis of companies reporting in line with ESRS noted that the costs of data collection and management differ by:[1]

- **The type of company:** The costs are greatest for companies whose products affect biodiversity and GHG emissions, thereby requiring inputs from many customers, and lowest for companies that operate in the IT and telecommunications sectors where products/services have a lower environmental footprint, value chains are shorter and employee sizes are smaller; and
- **The type of data that needs to be collected** (based on materiality and reporting framework): EFRAG notes that GHG emissions data (which requires technical expertise and value chain inputs) are the costliest to collect.

A similar cost-benefit analysis of disclosure activities by corporate issuers and institutional investors in the US also noted the high costs associated with collecting climate-related data:[2]

"Twenty-nine of the 35 investor respondents, or almost 83 percent, reported spending **an average of $257,000 per year on collecting climate data** related to assets. This category included all costs associated with collecting and ensuring the accuracy of climate-related data for analysis related to any managed or owned assets, including that associated with internal staff time and external consultants to ensure accuracy of climate-related data."

Main takeaways for the archetypes

- **Advanced and established reporters** would incur lower costs for data collection and management since they already have established systems in place, and any additional data collection can be integrated into their existing plans and tools. The focus would likely be on expanding metrics related to environmental and climate targets, particularly in the areas of supply chain and materials, as well as greenhouse gas emissions, as outlined under the E5 Sustainability Disclosures in the JSE Sustainability Disclosure Guidance, given the low reporting rates for these among JSE-listed companies. The 2022 IRAS report shows that five (25%) of the top 20 largest emitters of carbon in South Africa did not report Scope 3 carbon emissions in 2021,[2] **indicating that collection of Scope 3 emissions data would be difficult for companies that have the top emitters in their value chains.**
- **Beginners and budding reporters would** incur substantial costs during the data collection and management phase of sustainability reporting, involving the establishment of data collection plans, company-wide rollout, ongoing maintenance, and training systems, potentially requiring consultant expertise for beginners. Additionally, budding reporters must expand their capabilities in establishing a clear data collection plan, enhancing capacity building, and aligning with sustainability strategy and requirements across departments, with higher maintenance costs particularly at the early stages. As per the EFRAS study, the costs will be lower for smaller companies and specific sectors with small supply chains and less exposure to issues that require costly data collection.

Sources: 1. European Financial Reporting Advisory Group (EFRAG). (2022). *Cost-benefit analysis of the First Set of Draft European Sustainability Reporting Standards*. | 2. The Sustainability Institute by ERM (2022). *Costs and Benefits of Climate-Related Disclosure Activities by Corporate Issuers and Institutional Investors*. | 3. Integrated Reporting and Assurance Services (IRAS). (2022). *Sustainability Data Transparency Index (SDTI): A 2022 review of environmental, social and governance (ESG) reporting in South Africa.*

Archetype cost calculations

Drawing on the costs identified in the main report, the costs per archetype have been calculated as follows:

	Sustainability Framework		Data collection		Report production		TOTAL (excl. assurance)	
	MIN	MAX	MIN	MAX	MIN	MAX	MIN	MAX
Beginners	R1,200,000	R5,100,000	R1,100,000	R3,000,000	R0	R2,000,000	R2,300,000	R10,100,000
Budding	R900,000	R5,100,000	R500,000	R3,000,000	R0	R2,000,000	R1,400,000	R10,100,000
Established	R0	R800,000	R0	R500,000	R0	R0	R0	R1,300,000
Advanced	R0	R800,000	R0	R0	R0	R0	R0	R800,000

Step 4 (optional): Independent verification or assurance:

The costs of obtaining independent verification or assurance of sustainability information include expenses related to **engaging external providers, conducting thorough evaluations, and potentially implementing recommendations,** which can vary based on the scope, complexity, and level of assurance required.

Pricing the costs

Third-party assurance or verification costs are determined by interviews with service providers and reporting companies.

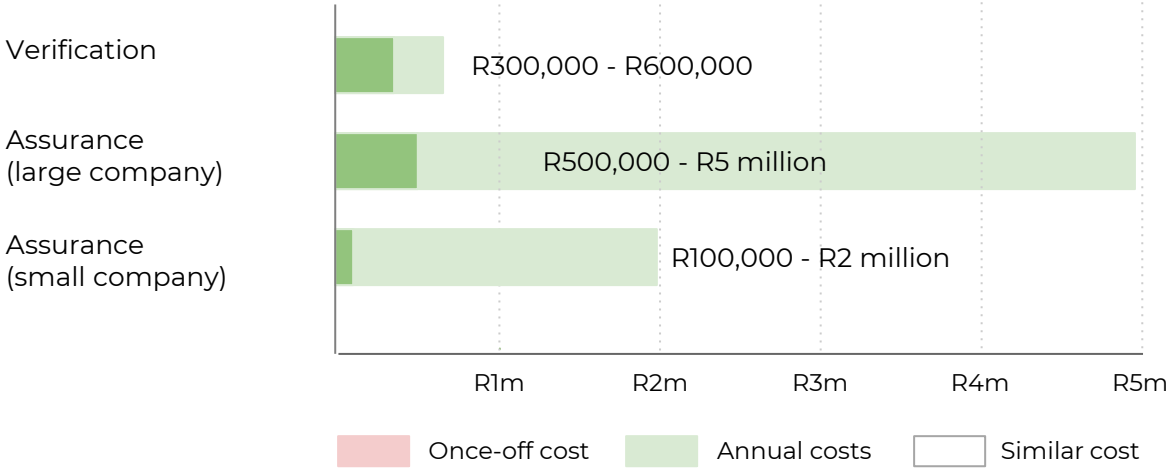
- Large companies spend **~R500,000 to R1.2 million on limited assurance** and **up to R5 million on reasonable assurance** of a sustainability report
- For smaller, less sophisticated businesses, service providers may charge anywhere from **R100,000 to R2 million** for independent assurance of a sustainability report
- The maximum level of verification costs are generally less than assurance. Large companies indicated that external verification costs **~R300,000 to R600,000** for companies wanting to verify particular data points

One interviewee noted that the cost incurred by a company for verification/assurance will likely change throughout their reporting journey as they are likely to **engage in more or more detailed assurance as their reporting matures**.

Moreover, as sustainability and ESG reporting becomes more widespread, another interviewee remarked that they've noted the marked increase in the cost associated with assurance:

> *"I think of our [assurance] fee **started at R500,000 four years** ago or three years ago and it's **now sitting at R5 million**. So that is definitely an **unexpected cost** [...] And it's not just the physical cost of paying, **it's also the time**" - Interviewee*

Summary of costs



The EFRAG cost-benefit analysis of companies reporting in line with ESRS noted the following about assurance:[1]

- **Assurance costs may be estimated as a proportion of current financial assurance costs** with limited sustainability assurance costing 20%-30% of the company's financial assurance and reasonable assurance costing 45%-75% of financial assurance.
- **First-time assurance is likely to cost more than subsequent assurances** as companies embarking on first time assurance will likely have less reliable reporting practices in place and assurance companies will need to expend additional resources understanding the organisation's processes.

Sources: 1. European Financial Reporting Advisory Group (EFRAG). (2022). *Cost-benefit analysis of the First Set of Draft European Sustainability Reporting Standards*.

Step 4 (optional): Independent verification or assurance: Benefits

Obtaining independent verification or assurance of sustainability information provides the benefits of increased credibility, trust and transparency for stakeholders, ensuring the accuracy, reliability and completeness of the reported data and **demonstrating a commitment to integrity in sustainability reporting**.

The benefits of verification or assurance [1]

1. **Enhanced trust and reputation** as verification and assurance of ESG/sustainability reports demonstrate the company's commitment to transparency and accuracy, which enhances the general benefits of report writing (e.g., access to capital, market share);
2. **Confirmed reliable data for decision-making** that is available to all stakeholders including executives, board members, investors, and regulators;
3. **An objective assessment of the company's performance** from the information gathered in the verification and assurance processes provides an unbiased evaluation of the company's performance, enabling stakeholders to benchmark the company against industry peers and best practices;
4. **Increased credibility and comparability** with other firms, which allows the organisation to reliably benchmark performance against other organisations; and
5. **Ensured compliance with standards and regulations** since independent verification and assurance help ensure compliance with reporting standards and regulations.

Sources: 1. BDO (2023) ESG Assurance: A Competitive Differentiator | BDO |

Summary: The benefits of adopting the JSE's Sustainability and Climate Disclosure Guidance

Strong benefit | Slight benefit | No new benefit

The following benefits of adopting the JSE's Disclosure Guides accrue differently to each archetype:

Benefit	Beginner	Budding	Established	Advanced
Developing a reporting framework				
It becomes easier for companies to **report and collect relevant data** (replicability)				
Knowledge and skills in climate and sustainability reporting grows, with some ripple effects on data-driven decision-making, operational efficiency and long-term resilience				
Companies **perform better** (financially and non-financially) when sustainability metrics are tracked				
Data collection				
Better sustainability management information to manage risks and opportunities				
Stakeholders buy into engaging and supporting the company's sustainability initiatives, leading to increased trust, reputation and long-term partnerships				
Efficiency in responding to data requests since comprehensive data collection and streamlined processes reduce the need for ad hoc information requests				
Improved coordination and awareness of the organisation's sustainability strategy among different business units that participate in data collection processes				
Report publication				
Reputational benefits when stakeholders better understand the company's sustainability efforts				
Competitive advantage by appealing to sustainability-conscious consumers and buyers				
Improved risk management since companies are held accountable for reported sustainability outcomes				
Potential for access to **cheaper and sustainability-focused capital**				
Capacitating rating agencies by providing standardised and comparable information, reducing their costs for data collection and verification				
Miscellaneous				
Consistent reporting with other adopting companies making it easier for stakeholders to compare and understand sustainability reports across companies				

CONCLUSION ON BENEFITS

Established and advanced reporters have extensive reporting experience and therefore less to gain from adopting the JSE's Disclosure Guides. However, thanks to their established track record in good ESG performance and disclosure, minor improvements to align with leading aspects of the JSE Guides may assist in attracting international capital seeking assets aligned with best practice in climate and impact-focused disclosure.

Meanwhile, **beginner and budding archetypes** with less established (if any) reporting practices in place stand to gain the largest benefits, most notably through improved internal systems and data, as well as increased competitiveness alongside their peers. This balances out their higher costs of adoption.

Step 3: Report drafting and publication: Benefits

Publishing a sustainability report provides the benefits of **enhanced transparency, credibility, accountability, stakeholder engagement, and reputation.**

The potential benefits of drafting and publishing sustainability information

Potential for access to cheaper capital as financial institutions and investors have already started offering investment programmes with more favorable terms (e.g. interest rates) that are linked to a company's ESG or sustainability performances.[2]

In addition to this, having a clear sustainability report may come to be viewed by investors as a less risky and more competitive investment option for the reasons outlined above which, in turn, may increase access to capital and academic studies support a link between high ESG factors and a lower cost of capital.[2,3]

Capacitating rating agencies by providing standardised and comparable information, reducing their costs for data collection and verification. It also allows them to include a broader range of companies, including smaller firms and SMEs, in their assessments, resulting in more comprehensive sustainability evaluations.[4]

CAVEAT: In a survey conducted as part of a cost-benefit analysis of climate-related disclosures in the United States, respondents were heavily **polarised on whether improved sustainability reporting was related to lower costs of capital**.

However, a correlation was found between overall spending on climate-related disclosure and the stated benefit of lower cost of capital.[5] This suggests that the benefit is not uniform across businesses and may suggest that higher spending is needed to access this benefit or be associated with a specific insurance provider or investor preferences.

Sources: 2. KPMG (2023). *Why ESG performance will affect companies' access to capital* | 3. Fulton, M., Khan, B. & Sharples, C. (2012). *Sustainable Investing: Establishing Long-Term Value and Performance* | 4 . European Financial Reporting Advisory Group (EFRAG). (2022). *Cost-benefit analysis of the First Set of Draft European Sustainability Reporting Standards*. | 5. The Sustainability Institute by ERM (2022). *Costs and Benefits of Climate-Related Disclosure Activities by Corporate Issuers and Institutional Investors*.

Step 3: Report drafting and publication: Benefits

Publishing a sustainability report provides the benefits of **enhanced transparency, credibility, accountability, stakeholder engagement, and reputation.**

Conclusion about benefits

- **The benefits of reporting are often intangible and hard to quantify.** Sustainability reporting offers various benefits that extend beyond financial gains, such as enhanced reputation, improved stakeholder relationships, and increased transparency. However, these benefits are often intangible and challenging to quantify in monetary terms.
- **Improved risk management and strategic decision is a benefit derived through deliberate executive effort.** Improved data can help organisations to proactively identify and mitigate ESG risks, capitalise on emerging opportunities, and align their sustainability efforts with long-term business objectives. This benefit scales with the quantity and quality of disclosure but is reliant on proactive engagement by the executive team with the reporting process, which is not guaranteed.
- **The marginal benefit of additional reporting will have fewer benefits than for a first-time reporter, particularly in terms of reputational gains.[2]** Sustainability reporting establishes a baseline for stakeholders to assess an organisation's commitment to sustainability practices and may generate more significant positive perceptions and reputational enhancements initially, compared to subsequent additions or improvements in reporting.
- **Access to capital is a benefit that is dependent on the expectations and interests of capital providers** and, therefore, likely differs between companies in terms of size and industry. Moreover, the level of reporting will likely be dictated by the expectations of capital providers.

Note: The benefits of reporting are, by their nature, more difficult to quantify than costs, and will vary by company. Some involve new access to sustainable finance, which is an emerging landscape, while other benefits will be operational and reputational.
The JSE is encouraged to adopt a systematic approach to capturing benefits directly from listed companies going forward.

Sources: 1. Borkowski, Welsh & Wentzel (2010). *Johnson & Johnson: A Case Study in Sustainability Reporting*. | 2.. European Financial Reporting Advisory Group (EFRAG). (2022). *Cost-benefit analysis of the First Set of Draft European Sustainability Reporting Standards*.

Useful future research agenda

Based on the analysis above, the JSE and IFC may want to consider the following areas for future research:

1. **Archetype survey:** The JSE could consider surveying member companies to assess the archetypes in which most listed companies fall. This information can be used according to the costs and benefits associated with prevalent archetypes as to where the above support efforts can be directed.

2. **Net cost/benefit to the economy:** With more information on existing company reporting practices, the costs and benefits per archetype could be rolled out into a broader analysis of the costs and benefits to the national economy. A high-level net view could be helpful for garnering support and finding partners in the rollout of the JSE's Disclosure Guides and position the JSE as a market leader in understanding the costs and benefits of rolling out new guidelines.

3. **Deeper data collection cost-benefit analysis:** An important limitation of this study is that the study does not quantify the costs of collecting data on specific indicators and/or introducing new policies or practices within reporting organisations. However, as discussed by consulted stakeholders and other cost-benefits analyses (such as the EFRAG study),[1] data collection is the costliest part of the reporting process, particularly where certain metrics (such as GHG emissions) require significant technical expertise. Further research could deep-dive into the costs associated with collecting specific data points suggested by the JSE's Disclosure Guides to highlight areas where greater data collection guidance could be provided.

4. **Sector analysis:** This study approaches the cost-benefit analysis through the lens of reporting company archetypes that cut across different sectors. Further research may want to consider the costs and benefits of sustainability reporting for particular sectors given that different regulatory requirements, value chain complexity, social and environmental impact potential, and other factors across sectors, would change the costs and benefits experienced. Sector analysis could help the JSE target guidance and training towards particular sectors and crowd in industry associations as partners to support the application of the JSE's Disclosure Guides.

5. **Benefits quantification survey:** Once a sample of companies have adopted the JSE's Disclosure Guides, the JSE could survey the companies to collect quantitative estimates and anecdotal evidence of the benefits experienced to add to the limited knowledge base on the benefits of sustainability reporting. For example, survey questions could cover additional finance received, improved customer satisfaction, and costs saved from mitigating sustainability risks.

6. **Future study on SMEs:** The analysis in this study draws largely on information about JSE-listed companies. A future study could assess the costs and benefits of reporting for unlisted SMEs in a more nuanced way.

Sources: 1. European Financial Reporting Advisory Group (EFRAG). (2022). *Cost-benefit analysis of the First Set of Draft European Sustainability Reporting Standards*.

Recommendations to reduce costs and enhance benefits of sustainability disclosures

1. Reducing data collection costs
For most companies, the largest costs of disclosure relate to data collection given the lack of available data (such as from value chains) and the technical processes required for collecting certain data points (such as greenhouse gas emissions). Assistance could be provided to help reduce data collection costs by providing more specific guidance on data collection processes for various data points (similarly to the draft European Sustainability Reporting Standards)[1] and organise public forums or knowledge-sharing reports where reporting companies can share their most effective methods of collecting data.

2. Sustainability reporting training for companies
Rolling out training sessions could improve the quantity and quality of uptake by companies of the JSE's Sustainability and Climate Disclosure Guidance. The JSE already offers this kind of training, but future training could focus more specifically on addressing the costs and benefits raised in this study.

3. Machine readable reports
A number of interviewed stakeholders mentioned that electronic sustainability reports should be machine-readable to make it easier for investors, rating agencies and other stakeholders to extract relevant data. The Guidance could be supplemented with templates or support on how best to structure and publish reports for machine readability (also so that companies do not need to reinvent the wheel).

4. Optional independent verification or assurance
Independent verification and assurance are important for ensuring sustainability information is credible but are costly and not widely undertaken by listed companies Hence, in line with most stock exchanges in other jurisdictions, the JSE could maintain the position of not mandating that sustainability information is independently verified/assured and/or provide more specific guidance on what types of verification/assurance are the most cost-effective and value-adding.

5. Communication of the benefits of sustainability reporting to executives
The cost-benefit analysis e shows that disclosure is a costly process, particularly for newer reporters. To encourage uptake of the JSE's Disclosure Guides, the JSE should clearly communicate the benefits of reporting by leveraging the results of this study, as well as any future studies that arise showing the benefits of reporting.

Sources: 1. European Financial Reporting Advisory Group (EFRAG). (2021). *First Set of draft ESRS*. |