

Environmental, Social, Governance (ESG) and Sustainability Reporting Best Practices and Challenges of Renewable Energy Companies

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ABSTRACT: *The renewable energy industry is in the forefront towards the energy transition. Environmental, Social and Governance and Sustainability Reporting plays a crucial role in supporting the industry in reaching this goal.*

In the Philippines, the Securities and Exchange Commission has issued Circular No. 4 series of 2019 as the foundation for the mandatory ESG and Sustainability Reporting for listed companies in the Philippine Stock Exchange).

The study utilized a qualitative design framework to gain a deep understating of the ESG and Sustainability Reporting best practices and challenges. The study used primary data from an interview of relevant experts who are knowledgeable on the field while a combination of content and thematic analysis was used to study the secondary data from the ESG and Sustainability reports.

The study identified key best practices related to ESG and Sustainability where major corporations are now going beyond compliance and now using ESG as a strategic tool to lower financing cost of projects while also uncovering challenges such as the lack of specialized experts, data verification and the complexity of regulations.

The study proposed a framework that is designed for the renewable energy companies and similar industries to support their ESG and Sustainability Reporting journey.

KEYWORDS - Renewable Energy, ESG Reporting, Sustainability Reporting, Energy Transition, Philippine Stock Exchange

I. INTRODUCTION

The renewable energy sector stands at the forefront of global efforts to combat climate change and transition towards sustainable energy sources. In this rapidly evolving landscape, managing the environmental, social and governance (ESG) and sustainability reporting aspects are crucial in navigating these complex challenges [1].

Sustainability reporting is an essential element of the renewable energy sector and this entails the need to disclose non-financial information in the areas of environmental, social and governance [2].

The Securities and Exchange Commission (SEC) through the release of Circular No.4 Series of 2019 provides sustainability reporting guidelines for all publicly listed companies and corporations in the Philippine Stock Exchange (PSE). The guideline aimed to promote sustainability reporting and assist the companies in baselining, assessing, and managing their performance in the aspects of environmental, social and governance.

ESG management and sustainability reporting has been a common practice among companies worldwide [3] but is still a relatively new practice in the Philippines [4].

There are currently few researches on the ESG and sustainability reporting in the Philippines and it is highly recommended that more research be done on the status of sustainability reporting in the renewable energy sector in the Philippines. A deep dive on the frameworks being used, the best practices and the challenges as discussed by [5] of ESG and sustainability reporting would be a good starting point to benchmark the status of the industry.

This study aimed to do a breakdown on the environmental, social, governance and sustainability reporting of renewable energy companies and corporations operating plants listed in the Philippine Stock Exchange (PSE), since they are the leaders towards pushing for a sustainable energy transition and driving climate change mitigation initiatives. The goal is to extract the best practices and challenges faced and to capture the recommendations to current regulations.

II. STATEMENT OF THE PROBLEM

The study aimed to do a deep dive on the ESG and sustainability reporting of renewable energy companies (RE) directly or indirectly operating plants listed in the Philippine Stock Exchange (PSE). Specifically, it seeks to answer the following questions:

1. What are the best practices being implemented by the renewable energy companies listed in the PSE in relation to ESG and sustainability in terms of environmental, social, governance and reporting?
2. What are the challenges encountered by the renewable energy companies listed in the PSE in relation to ESG and sustainability in terms of environmental, social, governance and reporting?
3. What are the recommendations by the renewable energy companies listed in the PSE to the current laws and regulations governing ESG and Sustainability Reporting in the country?

III. RESEARCH DESIGN

The study utilized a qualitative design framework and is exploratory and descriptive in nature to gain a deep understanding of the ESG and sustainability reporting best practices and challenges in the renewable energy industry in the Philippines.

The research instrument was designed based on the SEC Memorandum Circular No. 4 Series of 2019. It was further refined based on the current state of ESG and sustainability reporting as applied to the Philippine context.

A combination of content analysis and thematic analysis was used to study the secondary data from the ESG and sustainability disclosures and reports uploaded to the Philippine Stock Exchange Edge platform and the official websites of the identified companies.

IV. PRESENTATION, ANALYSIS AND INTERPRETATION OF DATA

Best Practices by Renewable Energy Companies

Environmental

As the researcher, I observed after the comprehensive analysis of both the primary data from the interviews and secondary data from the different ESG and Sustainability reports that there is a two-tiered

system of best practices on the environmental aspect, on one side are innovative site-specific solutions from renewable energy companies such as the integrated land use to balance solar development and crop production, the protection of birds for wind plants and the watershed preservation for hydro plants while on the other side are comprehensive, long term and financially integrated strategies such as science based net zero targets, real time digital monitoring, active emissions reduction and carbon footprint programs.

Social

In evaluating the social dimension, I gather that the most effective best practice is the evolution of the corporate social responsibility (CSR) from one off donations and projects to a sustainable and structured partnership between the renewable energy companies and the community. From my perspective, this partnership will build greater trust and can help align CSR projects to the achievement of the UN Sustainable Development Goals (SDGs). This ensures that the social benefits of renewable energy projects are both measurable and sustainable over the life of the project.

Governance

As the researcher, after my analysis of corporate governance structures I found that the best practice of renewable energy companies is making sure that ESG and Sustainability Reporting is institutionalized at the board level. This involved establishing dedicated ESG and Sustainability committees and linking compensation directly to the ESG key performance indicators. Companies now treat ESG not as a marketing function but as part of the core strategy.

Reporting

On the matter of reporting, I found that the best practice is the voluntary and transparent reporting coupled by the external assurance and audit being done by renewable energy companies. This combination ensures credibility and gives confidence to the intended readers such as government agencies, regulatory bodies, financial institutions and the host communities.

Challenges by Renewable Energy Companies

Environmental

Despite technological and social advancements, my findings highlight a persistent struggle with balancing land use for solar and hydro powerplants this speaks of the tight rope between energy security and food security. Each type of renewable energy resource also has technology specific challenges that are now being mitigated by various engineering and social solutions.

Social

Based on the alignment of the primary and secondary data, my finding is that social acceptance is the primary challenge of all renewable energy plants. This is even more critical for companies whose renewable energy developments are located in remote, often ancestral domains which often results to complex stakeholder engagement and permitting process.

Governance

My research finding is that the regulatory and political uncertainty is the major challenge for governance of renewable energy companies. As aligned to the study of [6] and [7] regulatory uncertainty is the main challenge of governance along with inconsistencies driven by political shifts and lobbying efforts. The instability creates a difficult environment for long term planning especially for capital intensive industries such as the renewable energy industry.

Reporting

As the researcher, I found that the biggest hurdle is data collection and management, a lot of companies lack standardized procedures, digitized and automated collection and the data pipeline infrastructure. The completeness of the data is the backbone of the ESG and Sustainability Reporting.

Recommendations to Current Laws and Regulations

Based on my research, I found that the companies are calling for a more specific sector-based guideline for reporting especially for high impact industries such as renewable energy. This would make disclosures more relevant and comparable. They also recommend better alignment between the ESG goals of the Philippines and that international organizations to reduce reporting complexity and the burden of reporting against multiple and overlapping regulations. Renewable energy companies prefer stable, predictable, and long-term policies to help derisk the massive investments needed for renewable energy development. This also includes a call to harmonize local and global reporting standard to reduce the reporting burden to comply on the different requirements.

V. CONCLUSION

First, the researcher concludes that the ESG and Sustainability Reporting has transitioned from a discretionary marketing activity to a core strategic board mandated activity that directly influences the access of renewable energy companies to local and international green financing, close to zero interest rates and lower insurance premiums.

Secondly, the researcher concludes that the renewable energy companies are implementing sustainable best practices directed to the environmental, social and governance aspects but gaps still exist between high level corporate sustainability narratives and the on the ground challenges of data collection and management.

Finally, the researcher concludes that the maturity of the ESG and Sustainability Reporting in the Philippines is heavily dependent on a regulatory environment that is stable and supportive in balancing mandatory requirements and providing significant compliance incentives.

For renewable energy companies, it is recommended to invest in the digitization of data gathering and management to replace manual process and train more in house ESG experts to reduce reliance to external consultants.

For the government regulators, it is recommended to use the results of this study as an added information in developing future guidelines and laws related to ESG and Sustainability Reporting. The results are especially variable should the government decides to make a sector specific ESG guideline for the renewable energy sector.

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