



**Federation of
Uganda Employers**
The Voice of Employers



**International
Labour
Organization**

Environmental, Social and Governance (ESG) State of Play in Uganda: Awareness, Practices, Risks and Opportunities



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LIST OF ABBREVIATIONS

ADR	:	Alternative Dispute Resolution
B2B	:	Business to Business
BSS	:	Business Support Services
CEO's	:	Chief Executive Officers
CMA	:	Capital Markets Authority
CSDDD	:	Corporate Sustainability Due Diligence Directive
CSR	:	Corporate Social Responsibility
CSRD	:	Corporate Sustainability Reporting Directive
EAEU	:	East African Employers Organization
ESG	:	Environmental Social Governance
EUDR	:	European Union Deforestation Regulations
FSP	:	Financial Services Providers
FUE	:	Federation of Uganda Employers
G2G	:	Government to Government
GHGs	:	Green House Gases
GRI	:	Global Reporting Standards
ICT	:	Information Communication Technology
IFC	:	International Finance Corporation
IFRS	:	International Financial Reporting Standards
ILO	:	International Labour Organization
IOE	:	International Organization of Employers
ISO	:	International Standards Organization
ISS	:	Institutional Shareholders Services
ISSB	:	International Sustainability Standards Board
KCCA	:	Kampala Capital City Authority
KPI	:	Key Performance Indicators
MoGLSD	:	Ministry of Gender Labour and Social Development
MSCI	:	Morgan Stanley Capital International
MSMEs	:	Micro Small Medium Enterprises
NDC	:	Nationally Determined Contribution
NDP	:	National Development Programme
NGO's	:	Non-Governmental Organization
NSSF	:	National Social Security Fund
OCA	:	Organizational Capacity Assessment
PCF	:	Presidential CEO Forum
PDM	:	Parish Development Model
PwC	:	Price Waterhouse and Coopers
SDGs	:	Sustainable Development Goals
SDR	:	Sustainable Development Report
SFDR	:	Sustainable Finance Disclosure Regulation
SSASB	:	Sustainability Accounting Standards Board
TCFD	:	Taskforce on Climate related Finance Disclosure
UBA	:	Uganda Bankers Association
UBOS	:	Uganda Bureau of Statistics
UNFCCC	:	United Nations Framework Convention on Climate Change
UNOC	:	Uganda National Oil Company
URSB	:	Uganda Registration Services Bureau
USE	:	Uganda Securities Exchange
UWEP	:	Uganda Women Entrepreneurship Programme
WEF	:	World Economic Forum
YLP	:	Youth Livelihood Programme

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EXECUTIVE SUMMARY

The Federation of Uganda Employers conducted this survey to ascertain ESG state of play in Uganda. The survey provided key insights regarding the ESG landscape in Uganda with strategic focus on ESG regulatory framework, perspectives of employers on ESG risks and opportunities, what pressures Ugandan firms feel about ESG, whether financial institutions are offering better terms to firms with reduced ESG risk profiles, the current potential needs of FUE members to respond to ESG and how ILO ACCEL and PROSPECTS projects can support Ugandan firms decrease ESG risks and promote opportunities for positive impact. The survey adopted qualitative research methods which included use of extensive desk research on related ESG existing information, online survey questionnaire through Qualtrics, and semi-structured key informant interviews administered to FUE targeted members. The respondents were top Chief Executive Officer's, board members or senior business leaders from within the FUE membership, key sectoral associations, current ESG services providers, financial lenders and banks, banking association, impact investors, Uganda Security Exchange, Senior Ministry Officials, academia and think tanks. Data was analyzed using both qualitative and quantitative techniques, identifying trends, patterns, themes and key insights on ESG within the Uganda business landscape.

According to the Sustainable Development Report of 2024, it was established that Uganda's SDG performance is at 56.1 percent, slightly above the regional average at 53.7 percent, and that Uganda is ranked number 142 out of 167 countries in Sub Saharan Africa. Thus, this survey observed a rapidly evolving ESG landscape in Uganda, driven by domestic and international commitments and that ESG is becoming a major force that is shaping business decision making. However, ESG awareness and understanding remained low among businesses, only 27 percent of the respondents had a good understanding of ESG. The survey recognized that while Uganda has existing planning and policy frameworks that support implementation of ESG pillars, there was limited trace of sector specific ESG frameworks except for the banking sector. Nearly all production and services sectors were noted to face ESG associated risks that could result into legal liabilities, financial losses, supply chain vulnerabilities, reputational damage, business disruptions, regulatory fines, climate change, and, loss of talents. 8 percent of the firms surveyed experienced high ESG pressures from suppliers and customers and 79 percent of the ESG connected pressure was due to demand for social responsibility. The study observed almost no better terms from financial institutions in Uganda for firms that currently demonstrate reduced ESG risk profile, as many financial institutions focused more on collateral security, revenue and profitability as major determinants for credit assessment.

The study suggests for the development of an ESG policy and strategy framework to guide decisions on ESG services among Ugandan entities. Understanding sector specific ESG needs, leveraging on distinct FUE competencies of research, advocacy, training and wide multi-sector membership, adoption of value based ESG marketing approach and collaboration with ILO ACCEL and PROSPECTS towards ESG research, policy, and education are additional strategic actions to increase ESG services in Uganda. This report is expected to contribute informative and valuable ESG insights to FUE, businesses, policymakers, and investors for enhanced ESG services and business sustainability in Uganda.

CHAPTER ONE: INTRODUCTION AND BACKGROUND

1.1 Introduction

Environmental, Social, and Governance (ESG) issues are becoming a critical factor for business attention in Uganda just like in other parts of the world. Corporate ESG policies and practices must be closely watched by governments, investors, employees, customers and stakeholders. This makes an effective ESG strategy important for long term business success and sustainability in Uganda. With a growing economy and population, the country is vulnerable to climate change and its anticipated impacts across all sectors such as agriculture, water, wild life resources, energy and minerals among others. Therefore, the need to strengthen Uganda's environmental and social protection systems is on the rise so as to reduce climate change, poverty and inequality gaps, maintain fundamental human rights, promote economic prosperity and high quality of life. This report delves into the ESG landscape in Uganda, assessing the current state of awareness, practices, challenges and opportunities. By examining the perspectives of businesses, policymakers, and other stakeholders, we aimed to provide insights into the opportunities and risks associated with ESG within the Ugandan context.

1.2 Background on ESG and its Importance

Environmental, Social and Governance (or ESG) frameworks are intended to provide standards and guidance on how companies should integrate the consideration of risks and opportunities arising from environmental, social and governance factors into their practices at all levels. ESG aims to promote the achievement of the 17 sustainable Development Goals and the ESG standards provides a means on how we measure sustainability as we do business."ESG" (Environmental, Social, and Governance) has arguably become the most popular acronym in corporate boardrooms around the world: ESG goals; ESG strategies; ESG opportunities and ESG risks. As governments, investors, consumers, and regulators increasingly prioritize sustainability, companies worldwide are under pressure to demonstrate their commitment to responsible and sustainable business practices. All businesses are being advised to promote brands that are ESG compliant and therefore reinforcing the need for ESG to become part of institutional corporate strategy. However, while the concept of ESG is gaining traction globally, its adoption in Uganda is perceived to be at its early stages.

In Uganda, many domestic businesses do not view ESG as an immediate or near-future concern. This is partly because ESG presently has no specific binding framework and, from a cursory glance, appears to provide no contribution to their profit margin¹. However, this is short-sighted. With the increasing global pressure on companies to commit to responsible business practices, there is need to understand ESG and analyse its relevance to the Ugandan market as well as the effect on Ugandan companies' competitiveness in foreign markets².

A notable result of the sustainability agenda is that companies globally are increasingly required through international instruments and domestic statutes to consider climate change as part of their corporate governance. In 2021, Uganda enacted the Climate Change Act to govern the national response to climate change and to give effect to the UN Framework Convention on Climate Change (UNFCCC), the Kyoto Protocol, and the Paris Agreement. Importantly, the Act codifies a statutory right of litigation against the government, an individual, or private entities "whose action or omission threatens or is likely to threaten efforts towards adaptation to or mitigation of climate change". This means that project developers will need to incorporate climate change mitigation measures in projects to avert the risk of litigation. Under the National Environment

¹Client Digest: Doing business in Uganda, ESG concerns for your business, by S&L Advocates: Available at: https://www.dlapiperafrica.com/export/sites/africa/uganda/insights/2023/Downloads/Doing-Business-in-Uganda.pdf_2063069299.pdf

²Paul Mbuga and Barnabas Tumusingize (2023), S & L Associates: Doing business in Uganda: ESG concerns.

Act, 2019, all qualifying projects in Uganda are now required to undertake environmental and social impact assessments prior to approval by the environmental authority. It is at this stage that a project developer is required to demonstrate that a project has environmental sustainability and natural resource protection measures in place.

Another key concern for employers is the “social” arm of ESG which measures how employers treat employees and the extent to which employers pay attention to the social well-being of their workforce. In Uganda’s case, the “social” aspects of ESG have their foundation in existing legal frameworks such as the Employment Act, 2006, the Occupational Health and Safety Act 2006, and relevant international instruments on labour relations which set the minimum obligations of employers towards their employees and other stakeholders.

Some of the greatest ESG risks to a project arise through its supply chain. A common example is the reputational damage suffered when a supplier is accused of using child labour, engaging in other human rights abuses or failing to comply with product regulation requirements. This is especially relevant for Uganda’s important coffee sector³.

Large infrastructure and energy projects in sectors such as construction, transport, mining, electricity, and oil and gas have significant environmental and social potential risks. In all these cases, the need for strategies to minimise the adverse effect of potential risks cannot be over-emphasised.

As noted in FUE’s National Business Agenda 2023-2025, access to finance is a number one concern of Uganda Small Medium Enterprises (SMEs). Increasingly, financial institutions and lenders are seeking ESG guarantees from firms. Various voluntary industry codes and standards such as the International Finance Corporation (IFC), Performance Standards and the Equator Principles have already been developed to provide for eligibility criteria and considerations for ESG-led funding. Despite having no force of law, these codes represent public commitments by major financial institutions to grant eligible projects access to funding. This has implications all the way down the supply chain. Michael Atingi-Ego Deputy Governor of the Bank of Uganda has been pushing Ugandan firms to embrace ESG frameworks⁴. The Uganda Securities Exchange (USE) has set ESG guidelines for its listed companies and has recently organized ESG training in partnership with the Nairobi Securities Exchange for listed companies.

ESG risk⁵ is highly prevalent in Uganda, but opportunities are present for Ugandan firms. Active sustainability efforts can provide a competitive edge in their own right. Branding a positive social or environmental contribution can put a business in the shop window of global supply chains and new export markets, and domestically create a positive image. Being smart about environmental footprint and integrating leaner, more environmentally friendly business practices can be good for business bottom line. Uganda has a highly progressive approach to refugees and houses the second highest proportion of refugees globally. FUE and Ugandan businesses have been very active in this space through their collaboration with ILO Prospects.

The direction of travel is clear. Expectations on Ugandan businesses in terms of their Environmental, Social and Governance (ESG) footprints will increase. Through a mixture of national and international mandatory and voluntary measures, large companies operating in most countries are now required to report on their sustainability policy and performance. The European Union’s Corporate Sustainability Reporting Directive

³The Coffee sector in Uganda struggles with [deficiencies](#) across areas covered by core labour standards – [child labour](#), discrimination, FoA/CB, OSH trafficking and [bonded labour](#). This poses serious [reputational risks](#) to Companies operating in the sector and to the wider growth of the sector and will they struggle with the new upcoming supply chain/due diligence regulations too (Also in terms of traceability). Large brands have [auditing infrastructure](#) but its inadequate. The disaggregated nature of the supply chain increases risks and the big Coffee Brands struggle to maintain integrity across such a wide range of actors.

⁴Speech and remarks [link](#)

⁵The rise of ESG fraud by PwC: Available at: <https://www.pwc.com/ug/en/press-room/the-rise-of-esg-fraud.html>.

⁶The United Kingdom introduced legislation the Modern Slavery Act in 2015 makes companies accountable for slavery and labour abuses occurring along their whole chain of operations and it has a range of provisions to increase transparency in supply chains. Many other countries have followed with similar legislation including France, Australia, Germany, Switzerland.

(CSRD) – operational from January 2024 - aims to ensure that EU companies publicly disclose adequate information about the sustainability risks and opportunities they face, as well as the impacts they have on people and the environment. Equally the EU Deforestation Regulation (EUDR) and the Corporate Sustainability Due Diligence Directive (CSDDD) will have deep impact⁶. To fulfill their due diligence obligations, companies will need comprehensive and relevant data concerning their supply chains. The scope of human rights impacts within the CSDDD is quite broad and encompasses, the right to a living wage. A proposed EU Regulation banning any products manufactured through forced labour is also likely. All of this has direct implications for Ugandan companies trading with EU companies. If a Ugandan business wants to access the commercial opportunities afforded by global supply chains, then they need to be proactive in providing these companies with ESG assurances.

To this end FUE developed a “ESG State of Play” Report that identifies the key issues, perspectives and needs from within the membership.

1.3 Role of FUE in the Ugandan Business Landscape

The Federation of Uganda Employers (FUE) is an umbrella body for employers, formed in 1960 by an Act of Parliament to protect and promote the interest of employers in Uganda. FUE has diverse membership across private and public sectors, profit and not for profit organizations, individual organizations, and sectoral associations. The membership of FUE has been increasing over time and currently, it has 693 members and 27 sectoral associations. The vision of FUE is to become a leading organization in serving employers’ interest and needs. To achieve this vision, FUE works with many stakeholders including government, development partners, private sector, and academic institutions in the areas of promoting policy and research, lobbying and advocacy, employment relations and Business Support Services (BSS). Given that employers in Uganda are at the forefront of promoting sustainable and responsible businesses, FUE recognizes the growing importance of ESG and aims to support its members in navigating this evolving landscape.

Uganda’s unique context presents both challenges and opportunities for ESG implementation. The country’s rich biodiversity, wide ecosystems, and growing population necessitate a strong focus on environmental and social protection. Moreover, addressing social issues such as poverty, inequality⁷, and labor rights is crucial for sustainable development. While the government of Uganda has taken steps to address environmental and social concerns through legislation such as the Climate Change Act and the National Environment Act, the effective implementation of these laws remains a challenge. Therefore, this report assesses the current state of ESG in Uganda, with a focus to identify key challenges and opportunities, and provide recommendations for FUE and its members.

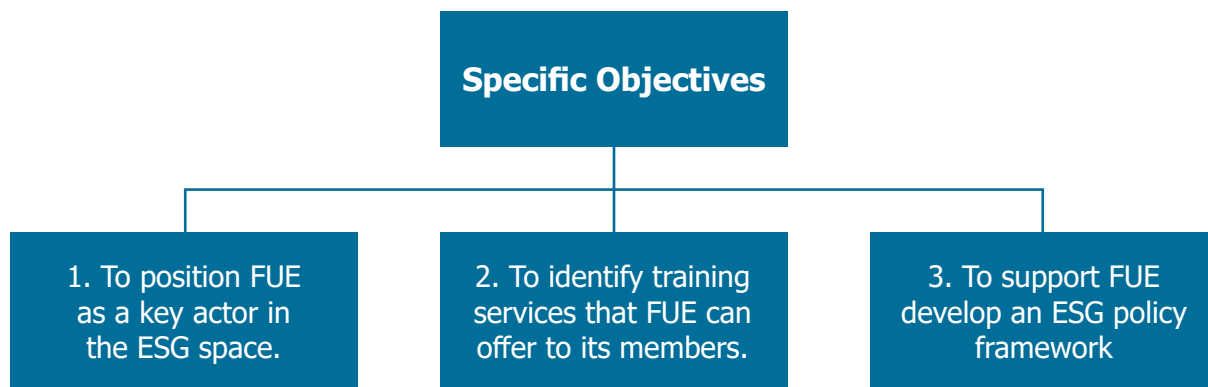
1.4 Objectives of the Survey

The survey aimed to develop an understanding of ESG regulatory framework in Uganda with a target of getting the perspective of employers on ESG risks and opportunities and what pressures Ugandan firms feel about ESG.

Furthermore, the survey aimed to understand the potential needs of FUE members to respond to ESG pressures and opportunities and whether financial institutions are providing better terms to companies who demonstrate reduced ESG risk profile.

The survey will thus help to address the following specific objectives:

⁷Reducing inequality within and among countries by UNDP: Available at: https://www.undp.org/sites/g/files/zskgke326/files/publications/10_Reducing_Inequality_Jan15_digital.pdf



1.5 Scope and Key Issues of the Survey

This study focused on ESG within the Ugandan business landscape, with a particular emphasis on FUE members. It examined ESG practices across various sectors, including but not limited to agriculture, manufacturing, mining, and services. The report assessed the following key issues:

- i. The current planned ESG regulatory frameworks in place in Uganda
- ii. The sectors that are most exposed to ESG risks and what initiatives are in place
- iii. The perception of ESG by Ugandan firms in terms of the pressure they feel and the most prominent sectors
- iv. Financial institutions that are providing better terms to firms with reduced ESG risk profiles
- v. The current potential needs of FUE members to respond to ESG pressures and opportunities; and
- vi. The supporting role that other ILO projects such as ACEL, EU Child Labour project and Prospects can play in supporting Ugandan firms decrease ESG risks and promote opportunities for positive impact.

1.6 Methodology

The overall methodology for this study is based on qualitative research methods. This includes extensive desk research of existing information, online survey questionnaire, and semi-structured and key informant interviews with employers in the target groups.

1.6.1 Desk Research of Existing ESG Related Information

Extensive online research and various information sources were reviewed to obtain information on ESG at global, national, and at organization/company level. For example, a review of the Sustainable Development Report for 2024 was conducted to understand the overall performance of Uganda in meeting the SDG goals. A review of the national level planning frameworks and policies, and relevant laws and regulations in Uganda was carried out to assess integration of sustainability objectives in these documents. The research further involved a review of available ESG reports for companies and organizations that are producing ESG reports to understand the reported ESG achievements, challenges and recommendations. Government sector specific reports, industry reports, academic studies were reviewed to validate information obtained through interviews. Statistical data was obtained through reports that are published by the Uganda Bureau of Statistics (UBOS).

1.6.2 Online Questionnaire

A survey of members of the Federation of Uganda Employers was carried out to 120 respondents using online questionnaires. The questionnaire was adapted from the Tanzania ESG study and covered the key

areas of interest in line with the objectives and scope of the research. This survey was administered using the Qualtrics online tool provided by the International Labour Organization (ILO). The survey link was shared with respondents from different production and service sectors via email or WhatsApp.

Figure 1: provides details of the online survey respondent per sector.

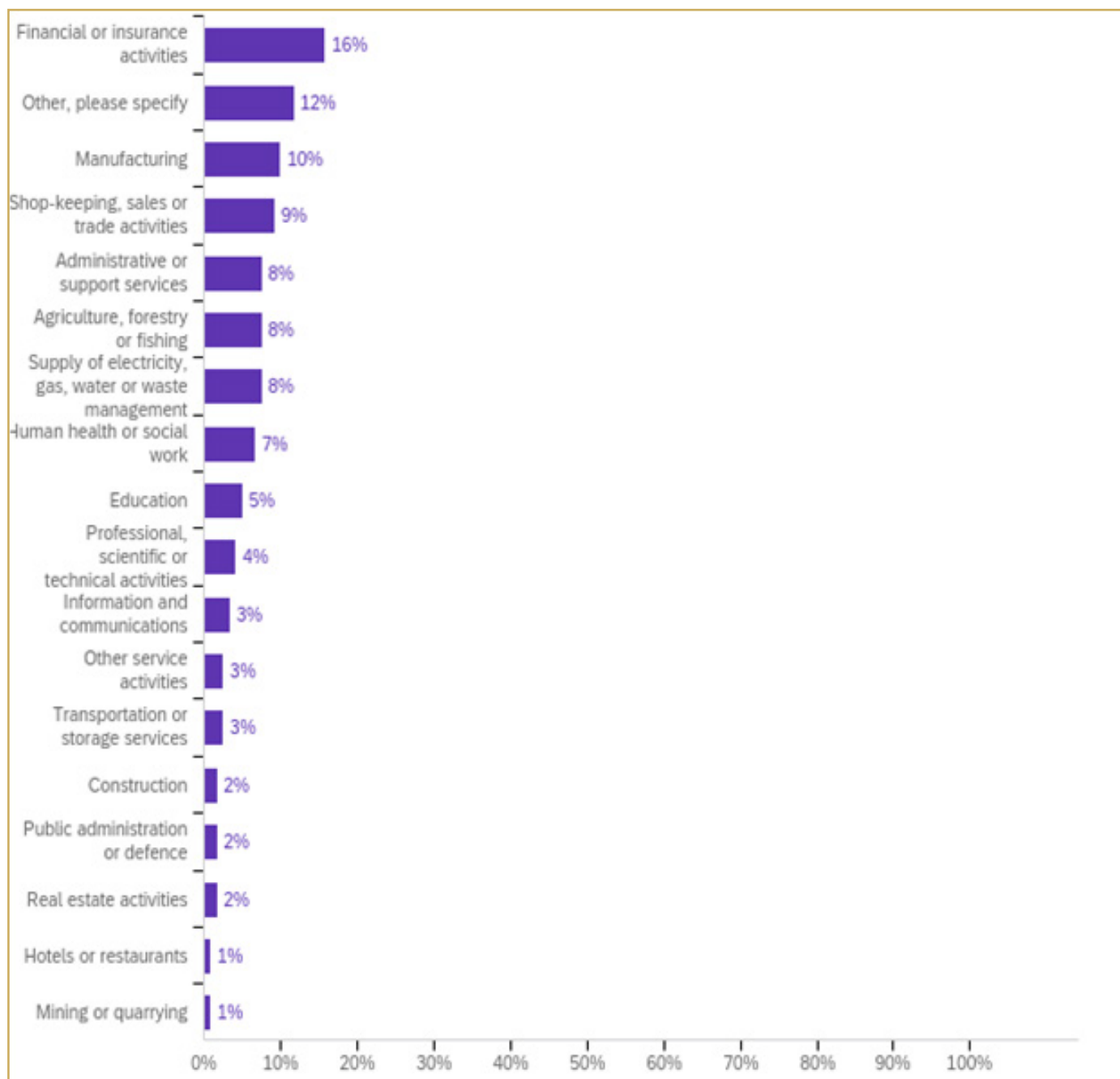


Figure 1: Respondents per sector

1.6.3 Key Informant Interviews

Semi- structured key informant interview guidelines were used to compile in-depth interviews and to understand the target areas. Interviews were either done one on one or through phone depending on the availability and convenience of the respondents. The categories of respondents interviewed included Chief Executive Officers (CEO's) or senior business leaders, key sectoral associations, current ESG providers, financial institutions, senior ministry officials from different ministries, academics, journalist, think tanks, European Union and leaders of ILO projects in Uganda. The interviews helped to obtain independent opinion from 22 respondents on the main areas of focus.

1.6.4 Interview Respondent Categories and Numbers

The respondents for the study comprised a diverse group of stakeholders involved in the Ugandan business landscape as indicated below.

Categories	Respondents	Number
Group 1	CEOs or senior business leaders from within the FUE membership from different sectors; FUE Board members.	5
Group 2	Key sectoral associations (tourism, mining, manufacturing)	5
Group 3	Key current ESG services providers	2
Group 4	Financial lenders and banks, Uganda banking association, impact investors, Uganda Securities Exchange (USE), ESG rating agencies	5
Group 5	Senior Ministry officials from different ministries, EU embassy, Academics, journalists, trade unions, think tanks	5
Total		22

1.6.5 Sample Size and Selection Criteria

To ensure a representative sample, the researcher applied purposive sampling techniques to determine FUE members, sectoral associations, key government officials, financial institutions and other stakeholders, A snowball technique was used to identify relevant ESG services providers. The specific sample size for each group was determined based on availability of resources, the principle of diversity and heterogeneity, data saturation and the sample size guidelines for qualitative research which directs that the sample size for qualitative interviews should be between 15-30 respondents. This technique enabled achievement of in-depth and rich information about ESG state of play in Uganda.

1.6.6 Data Analysis Techniques

Data was analyzed using both qualitative and quantitative techniques. Quantitative technique was used to analyze survey data, identifying trends, and patterns. Qualitative technique was applied to interview transcripts to extract key themes and insights. Triangulation was thereafter applied to integrate findings from both quantitative and qualitative data to provide a comprehensive understanding of the ESG landscape in Uganda. By combining these methodologies, the study aimed at providing a robust and nuanced assessment of ESG in Uganda.

1.7 Justification of the Survey

By understanding the ESG landscape in Uganda, FUE can better support its members in addressing sustainability challenges and seizing emerging opportunities. This report provides valuable insights for businesses, policymakers, and investors for enhanced business competitiveness, improved risk management, compliance with the ESG International standards, increased attraction of new investments, brand reputation, increased business growth and contributes to achievement of Sustainable Development Goals (SDGs).

CHAPTER TWO: ESG AWARENESS, POLICY FRAMEWORK AND PERCEPTION OF RISK IN UGANDA

2.0 Introduction

Uganda’s Employers consist of Government Institutions, Non-Governmental Organizations (NGO’s), Private Sector Organizations, Civil Society Organizations, and Industry Associations. These organizations work in various economic sectors such as agriculture, manufacturing, tourism, mining, finance and insurance, health, forestry, electricity, communication, construction, transportation, education, hotels, retail trading and public administration among others. As per the 2024, National Population Census, the total population of Uganda is estimated at 45.9 million⁸ and about 23 percent of the population are formally employed and 77 percent employed in the informal sector. According to the National Labour Survey report of 2021⁹, about 23.5 million people constitute the working population (ages 14-64 years) of which 88 percent are informally employed and 22 percent formally employed. The informal sector is dominated by the private sector players with Micro Small and Medium Enterprises (MSME’s) dominating the various productive sectors. The agriculture sector employs close to 68 percent of the working population. Dominance of a large informal sector, MSMEs and agriculture as the main employing sector raises both ESG risks and opportunities among businesses in Uganda.

2.1 ESG Awareness and Understanding in Uganda

The result of the Uganda ESG survey conducted across various formal industry organizations, taking a random sample of 120 respondents in top management positions indicated that 51% of the respondents had moderate/little understanding on ESG, 27 percent had a good understanding on ESG and 23 percent had limited or no understanding on ESG as indicated on figure 2.

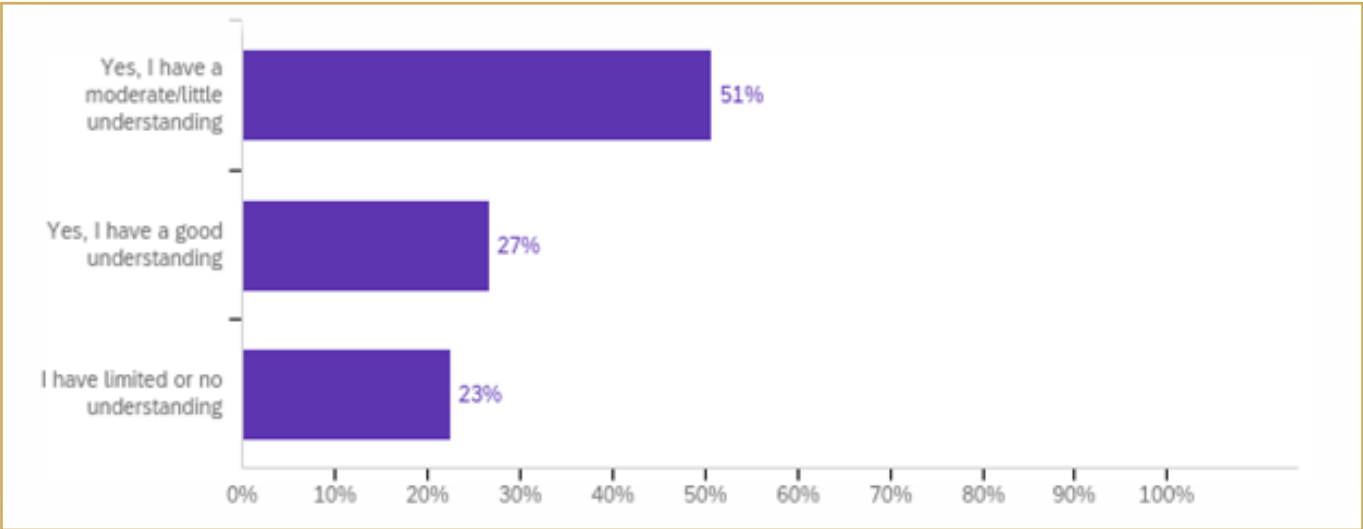


Figure 2: Understanding of ESG applicable industry regulations in Uganda.

Comparatively, the Uganda Sustainable Development Report (SDR), 2024¹⁰ scores Uganda SDG performance at 56.1 percent among Sub Saharan Africa, slightly below the regional average at 53.7 percent and the country is ranked at 142 out of 167 Countries. These results indicate that Uganda is averagely performing in terms of meeting the criteria for Sustainable Development. Average ESG awareness and understanding could

⁸Uganda Bureau of Statistics, National Population and Housing Census 2024, Preliminary Results.
⁹Uganda Bureau of Statistics, National Labour Survey Report 2021
¹⁰Sustainability Development Report 2024: Available at: <https://dashboards.sdgindex.org/profiles/uganda>

partially be contributing to the average SDG performance in Uganda. Respondents observed that, ESG is a new concept and most people do not yet fully understand it.

“ESG understanding is still very poor because of little awareness on the importance of ESG in our country, the economy, and our livelihoods. People do not know the effect of ESG yet this is a critical aspect right now. People do not know that most of their actions affect the environment, for example over using electricity, use of cars with high fuel consumption and emission, and use of paper among others have negative influence on the environment”. Key Informant Interview.

The outcome of the key informant interviews as carried out with selected top management leaders indicated a mixed feeling about ESG awareness in Uganda with a majority of the respondent demonstrating that ESG awareness and understanding is low. The large corporate institutions in Uganda such as Bank of Uganda, Uganda National Oil Company, National Social Security Fund (NSSF), Uganda Bankers Association, and Commercial Banks among others demonstrated a relatively good ESG awareness and understanding compared to respondents from Micro Small Medium Enterprises who had limited knowledge on the ESG topic. Some of the Large entities such as NSSF, Stanbic Bank, and UNOC had fully embraced the ESG standards and practices and adopted the Global ESG reporting Framework. The study established that most of the business organizations were more focused on revenue and profitability and with minimal attention to ESG standards while doing business.

2.2 ESG Regulatory Framework in Uganda

ESG regulatory framework provides a set of principles, guidance and standards which are usually issued internationally or locally to guide an organizations operation while taking into consideration values that the business generates to all its stakeholders including customers, employees, suppliers, financiers, community and finally the climate. ESG regulatory framework helps investors, stakeholders, and organizations assess non-financial performance, potential risks and opportunities.

Uganda has made notable strides in recognizing the significance of ESG as part of its broader development agenda and towards establishing various policies and regulatory framework that address ESG related issues. The existing planning frameworks and regulatory policies support implementation of ESG practices. For instance, the Uganda’s National Development Plan (NDPIII) 2020/21-2024/25 incorporates commitments to regional and international development frameworks, including ESG. The second Nationally Determined Contribution (NDC)¹¹ further outlines ambitious targets of achieving a 24.7 percent reduction of natural GHG emissions by 2030, and this is aligned with the Uganda Vision 2040 strategy and the National Climate Change Act of 2021. The National Climate Finance Strategy, aims to mobilize the necessary financial resources for managing climate change initiatives¹². Existing laws and legislations, policies, regulatory institutions, standards and guidelines, licensing, and compliance enforcement guide different industry and sector practices to ensure sustainability compliance by businesses operating in Uganda.

The current policies and regulatory frameworks in Uganda establish a range of policies regulations aimed at promoting ESG practices. However, the study suggests for a need to develop a national ESG regulatory framework such as the one similar to the banking sector.

¹¹Nationally Determined Contribution. Ministry of Water and Environment (2022): Available at: https://unfccc.int/sites/default/files/NDC/2022-09/Updated%20NDC%20Uganda_2022%20Final.pdf

¹²Climate Finance, by MFPED: Available at: <https://climate.finance.go.ug/>

Currently, the major aspects of the regulatory framework include;

- i. Environmental Regulations:** Uganda has laws such as the National Environment Act, which aims to safeguard the environment and ensure sustainable natural resource management. These regulations mandate environmental impact assessments for new projects and promote the conservation of biodiversity, which is crucial for both local communities and the broader ecosystem.
- ii. Labour and Employment Laws:** The Employment Act, alongside regulations addressing issues such as sexual harassment, child labour, provides a foundation for protecting workers' rights. These frameworks are essential for promoting decent work conditions, social protection, adherence to ethical practices and that workers receive fair treatment.
- iii. Corporate Governance Standards:** The Companies Act¹³, and related legislation outline requirements for transparency and accountability within businesses. This promotes good governance practices, which are vital for fostering investor confidence and sustainable economic growth.

Although these numerous regulatory policies and legislations exists, the survey observed that there that there are challenges around effective policy communication, implementation, and evaluation. Adoption and implementation of policies and regulatory framework by businesses could be linked to limited awareness, sector coordination, compliance enforcement, importance attached to ESG and lack of clarity on the ESG regulatory environment.

"Basically, ESG awareness and framework is very low and it is not appreciated by most people and thus, need for massive sensitization. The existing ESG frameworks are unfortunately not coordinated and with each institution running ESG independently" Key Informant

Appendix 2 provides some of the regulatory framework in Uganda that currently guides companies on the way they should conduct business.

Regarding understanding on ESG compliance requirements, this survey indicates that 38 percent of the respondents understand compliance requirements, 31 percent have a moderate understanding, 20 percent have a good understanding and 11 percent have limited or no understanding of the compliance requirements. From this result, it implies that close to 80 percent of respondents admitted that they had limited, moderate or no understanding of ESG compliance requirements and this raises an opportunity to increase ESG compliance information to companies in Uganda.

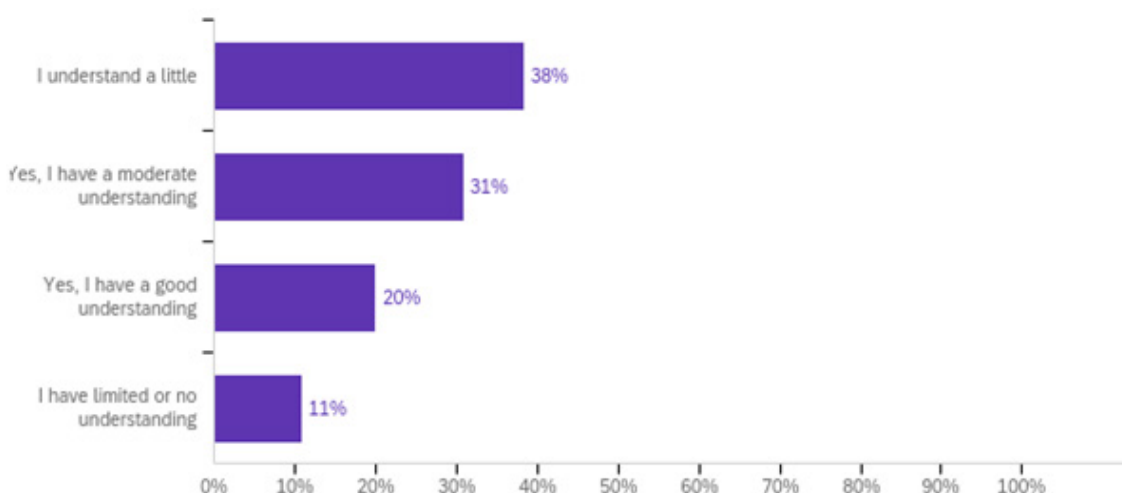


Figure 3: Understanding on ESG compliance requirements

¹³Companies Act 2012: Available at: https://www.ngobureau.go.ug/staging/sites/default/files/laws_regulations/2020/12/The%20Companies%20Act.pdf

Although having good understanding on ESG compliance requirements is observed to be relatively low at 20 percent, some employers have made commendable efforts to embrace ESG compliance by adopting sustainable business practices. A review of related ESG reports points that the good compliance practices adopted by such organizations includes setting ESG objectives in the overall organization strategic or business plan, having an ESG strategy in place, aligning business activities to SDG, conducting ESG staff training and development, streamlining processes and governance structures to support sustainability, putting in place a central team to coordinate and innovate sustainability initiatives, monitoring, evaluating and reporting ESG performance¹⁴. One organization that is worth mentioning which has adopted good ESG practices the National Social Security Fund (NSSF). To ensure ESG compliance, NSSF pointed in their 2024 ESG report that they were adhering to the Global ESG reporting framework, standards and protocols as established.

The commonly mentioned framework and standards that have been mentioned by most ESG exemplary organizations are; International Sustainability Standards Board (ISSB) – under IFRS, Sustainable Development Goals (SDGs), International Financial Reporting Standards (IFRS), The Integrated Reporting Framework, King IV Report on Corporate Governance for South Africa (King IV) and Global Reporting Initiative (GRI standards).

While close to a total of 89 percent of the respondents said they have little, moderate or good understanding of ESG compliance requirements as in figure 3, figure 4 illustrates that 27 percent had good understanding of the ESG regulatory requirements applicable to their industry. Otherwise, it was observed that 51 percent and 23 percent of the respondents had little/moderate and limited or no understanding of ESG regulatory environment applicable to their industry respectively. Little or no understanding of ESG regulatory requirement could increase ESG related risks among businesses. On the other hand, the high percentage of those with little or no understanding of ESG industry regulations could increase opportunities for ESG services providers such as FUE to intervene in order to increase the knowledge and understanding of ESG regulatory requirements.

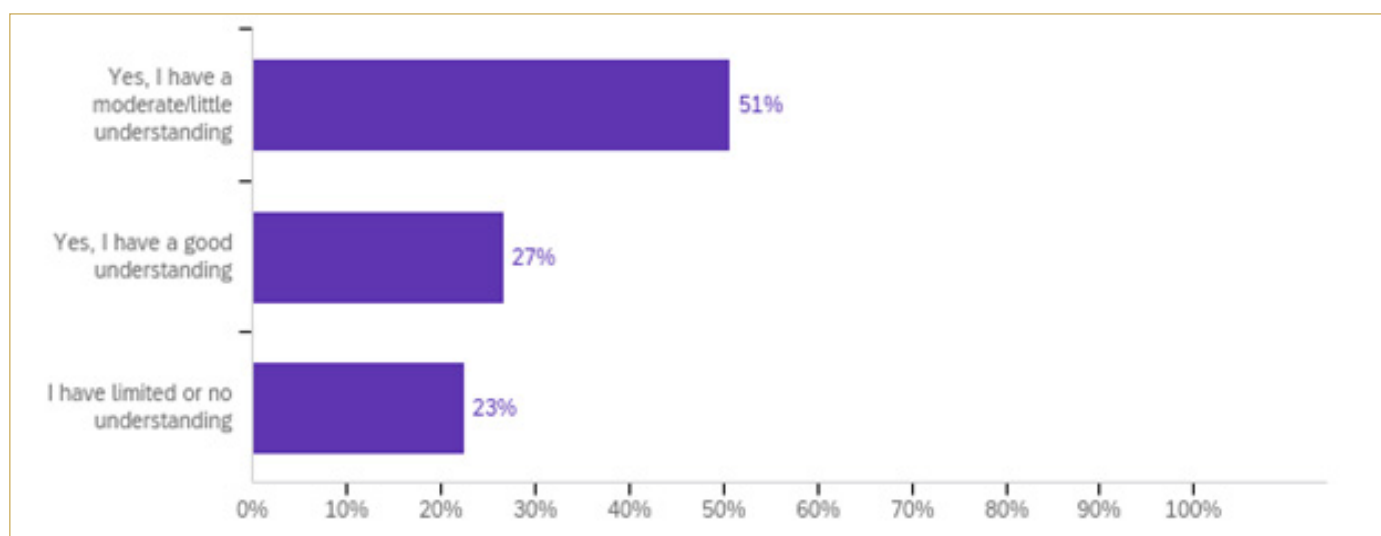


Figure 4: Understanding of ESG regulatory requirements applicable to industry

2.3 Understanding of the Three Pillars of ESG

ESG is a framework for evaluating an organization's impact on environment, society and its governance practices. While the acronym ESG signals the three areas of major focus namely, Environment, Social and Governance, there is currently no single definition of ESG locally or globally¹⁵. However, there are multiple ESG frameworks and some specific frameworks which address particular aspects such as climate. There

¹⁴NSSF ESG report 2024

¹⁵Southern Voice in ESG by David Porteous and Jesse Fripp (2022)

are also some frameworks such as the World Economic Forum (WEF) which have added the fourth Pillar as Economic to mean general economic prosperity. This section focuses primarily on assessing the understanding of the three pillars of ESG (Environment Social and Governance) pillars. These three pillars have also been considered under the International Sustainability Standards Board (ISSB), the Sustainable Finance Disclosure Regulation (SFDR), Securities and Exchange Commission and WEF among others.

Defining each of the ESG Pillars¹⁶

The environmental pillar evaluates a company's efforts to preserve the environment, including attempts to mitigate climate change and reduce carbon emissions, manage pollution and waste generated during the production process, utilize energy efficiently, and water and focusing on biodiversity and deforestation.

The social pillar summarizes how a company views people and connections, Customer satisfaction, upholding data privacy and security, taking into account gender and diversity, employee involvement, community relations, and human rights and labour standards.

The governance pillar provides guidelines for managing a business. It addresses board composition, audit committee structure, bribery and corruption prevention, executive remuneration, lobbying, political contributions, and whistle-blower programmers.

Figure 5 provides the three ESG pillars and scope under consideration for which understanding was sought in this survey.

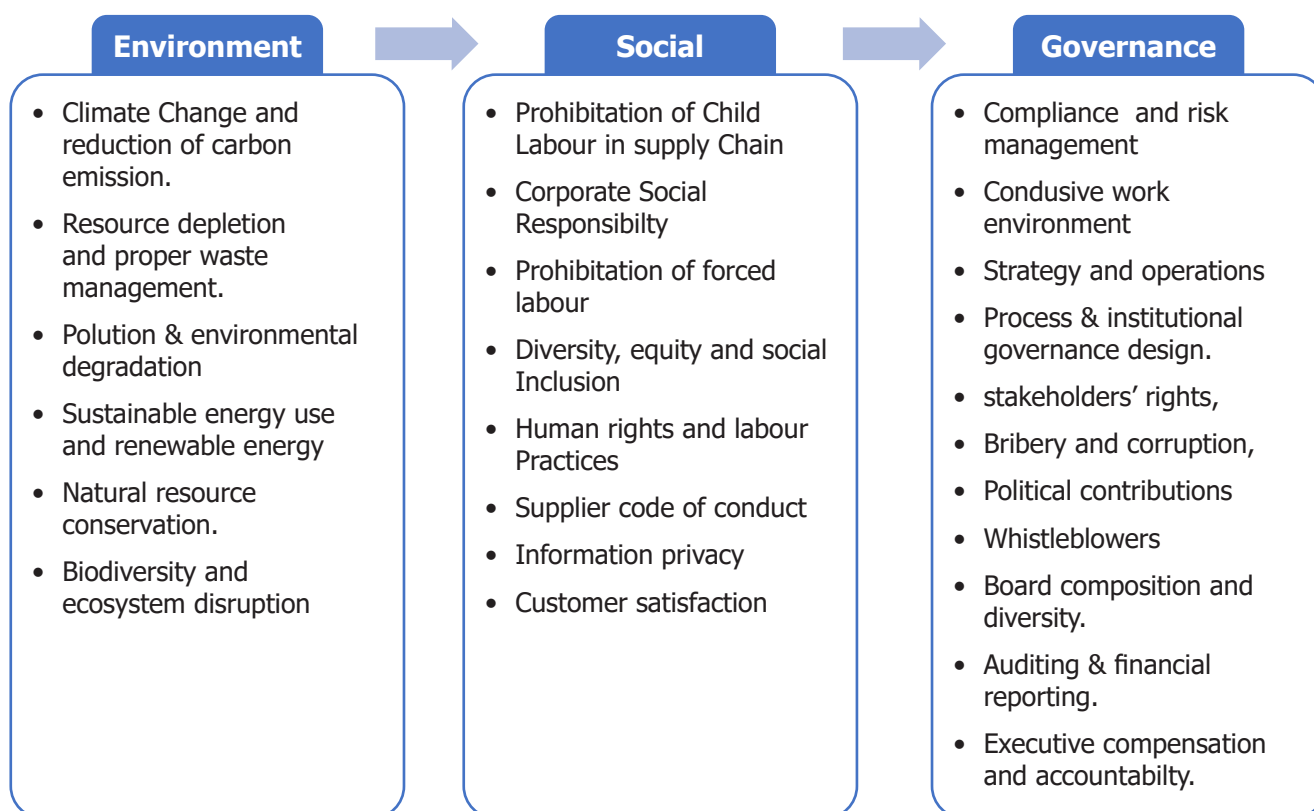


Figure 5: Scope of ESG pillars

The survey observed limited understanding of the three ESG pillars among the Employers in Uganda with the Social and Governance pillars not being well understood compared to the Environmental pillar.

¹⁶An overview of ESG, and company performance (2023) by Siti, Nadia,..etal: Available: https://www.researchgate.net/publication/375665001_An_Overview_Of_Environmental_Social_And_Governance_Esg_And_Company_Performance

“There is limited awareness on the governance pillar and in the absence of good governance, most individuals are working for themselves and people are not paying attention to the bigger picture, which is the negative impact of ESG years after”. Key informant

2.4 Perception of ESG as a Business Risk or Opportunity.

There is a general perception that the ESG landscape is rapidly evolving in Uganda, driven by domestic and international commitments and that ESG have positive impacts on driving long term business sustainability. ESG is currently viewed by companies as a dynamic and critical component of the country's and organization development strategy. Respondents feel the urgent need to support a robust regulatory framework, enhance stakeholder's capacity and promote sustainable and responsible business practices so as to contribute to a more resilient and equitable Country. Companies are beginning to appreciate ESG potential for enhancing revenue growth, building a company's reputation, minimizing cost on energy and waste reduction, accessing new markets, promoting better risk management and resilience, increasing innovation and competitiveness and improving long term business sustainability and growth. ESG is being viewed as an integral part of management and large-scale companies are appreciating the need to incorporate ESG in their operational framework and strategy.

As demonstrated by large local and international organizations operating in Uganda, ESG is now a major force that is shaping the landscape for decision making and doing business. The case of Enabel Uganda ESG practice and perception provided this study with a good insight on how the organization perceives ESG and the clear direction that they are taking to embrace ESG. The lessons learnt from Enable Uganda is worth reporting and replicating by other entities.

ESG as a Business Risk or Opportunity, Perception by Enabel Uganda.

We recognize that ESG is not just a compliance issue but a vital component of our commitment to sustainable development and social responsibility. Our approach to ESG aligns with the broader objectives of the 2030 Agenda for Sustainable Development and Uganda's National Development Plan, focusing on enhancing the wellbeing of individuals and communities we serve. There is a high level of awareness regarding ESG issues within our organization. Staff at all levels understand the significance of integrating ESG principles into our projects and partnerships. Enabel Uganda actively promotes a culture of sustainability, and our programs are designed to address critical ESG challenges, such as climate change, gender equality, labour rights, and good governance. This commitment is reflected in our ongoing initiatives and collaborations with various stakeholders, including the Ugandan government, local communities, and international partners.

Customers and Beneficiaries: We currently experience pressure regarding ESG from several key stakeholders such as the customers and beneficiaries, the communities and individuals we serve increasingly expect us to demonstrate a commitment to sustainable practices. They seek assurance that our interventions will lead to long-term social and environmental benefits.

Regulators: As we operate in a regulatory environment that emphasizes compliance with national and international standards, we face pressure from government agencies and regulators to ensure our projects align with ESG criteria. This includes adherence to labour laws, environmental regulations, and social impact assessments.

Donors and Funding Partners: Many of our funding partners, including the European Union, prioritize ESG criteria in their funding decisions. This necessitates our ongoing commitment to transparent reporting and effective management of ESG risks and opportunities within our projects.

Employees: Our staff are passionate about ESG issues and often advocate for more sustainable and equitable practices within our operations. They raise concerns about how our projects impact the environment and communities, pushing for more ambitious goals and actions.

Departments Involved: The Programs and Projects Department experience the most pressure regarding ESG considerations. The departments are at the forefront of implementing our initiatives, and staff members are constantly engaged with local communities, stakeholders, and regulatory bodies. They must ensure that all projects not only comply with ESG standards but also deliver meaningful outcomes in terms of sustainability and social impact. Additionally, the Human Resources and Administration Department plays a critical role in addressing social governance aspects, particularly in promoting workplace equity, diversity, and employee welfare. This Human Resource department also faces pressure to implement policies and practices that uphold our commitment to good governance and ethical behavior within the organization.

Conclusion: Enabel Uganda perceives ESG as a fundamental element of our mission and operations. While we face pressures from various stakeholders, we view these challenges as opportunities to enhance our impact and align our work with the principles of sustainability, equity, and good governance. By actively engaging with our stakeholders and continuously improving our ESG practices, we aim to contribute to Uganda's development in a responsible and sustainable manner.

Overall, respondents indicated that they viewed ESG as business risk and noted that nearly all production and service sectors faced ESG risk that must be planned for and mitigated. Respondents linked ESG risks to potential negative impacts of ESG factors on the financial performance of an organization, environmental impact, reputation, legal issues and long-term sustainability. Among the most notable ESG business risks that were cited by the respondents are disruptions in business operations, legal liabilities, financial losses, supply chain vulnerabilities, reputational damage, regulatory fines arising from non-compliance, climate change impacts, social unrest, cyber security threats and loss of talent and expertise among others. The findings of this survey points that all sectors are particularly exposed to ESG risks since each productive sector has a direct significance on the environment, labour conditions and governance practices.

Due to the perception of ESG as a risk, some large-scale organizations have started doing ESG materiality assessment, voluntarily adopted ESG practices and regular reporting, Although the assessment found that there was no clear industry specific ESG framework and regulation except for the banking sector as developed by the Uganda Bankers Association (UBA). A document review indicated that the banking sector ESG framework aimed at guiding the member banks of UBA in establishing a system approach towards managing risks and opportunities related to ESG criteria¹⁷ and that the framework clearly provided four major workstreams for addressing ESG risks and opportunities; these workstreams are; ESG Governance, sustainable finance, ESG risk management and finally ESG reporting and disclosures.

In this survey, the respondents recommended that each business sector should undertake measures that address ESG risks and opportunities in their sectors.

"All sectors are going to be exposed to ESG risks. If you are on planet earth, you are prone to different ESG risks depending on what your industry sector is. Each Sector should tailor initiatives to mitigate risks that they are likely to face. For example, the pharmaceutical risk of water usage and contamination can be mitigated by treating waste water as well as reducing consumption of water from the grid" Key informant.

¹⁷The Banking Sector ESG framework by UBA (2024)

2.4.1 ESG Sector Risk and Current Risk Mitigation Measures in Place

The survey identified some of the major ESG sector associated risks in Uganda and the current mitigation measures in place. The details of these risks are provided on table 1. Among the mentioned sectors with the most ESG risks were agriculture, tourism and hospitality, mining and natural resource extraction, construction and real estate, government services, financial services, transport, ICT and manufacturing. For instance, in the agriculture sector, it was pointed out that end users of agricultural technologies do not understand the implications of technological advancement on their environment and health and that most technologies by their design have limited social inclusion components. Furthermore, financial constraints limit ESG agro-research agenda and hence leading to design of agricultural technologies that constrain the environment and affects the social wellbeing.

The survey observed that the mitigation measures in place by companies and government were not adequate to deal with the ESG related risks. A case in point was cited on waste management, where respondents observed weak implementation of the risk mitigation measures by Kampala City Authority (KCCA) which could have led to the devastating incident of Kitezi landfill landslide of August 2024, that resulted to the loss of about 30 lives¹⁸.

"We are a small business producing 500 tonnes and over 51% wastes are not collected so we recycle less than 10%. As a country we are not doing much on waste management and this could have caused the Kitezi landslides" Key informant

On table 1, the respondents were able to subjectively identify some of the sector specific examples of ESG risks and current mitigation measures in place. The identified examples of ESG sector specific risks provided on table 1 are merely opinions of the respondents in line with how they viewed ESG risks and mitigation measures in each sector, this study suggests that an in-depth comprehensive analysis could be made to make conclusive statements regarding the mentioned examples of sector specific ESG risks and the effectiveness of current mitigation measures in place.

¹⁸Kitezi landfill: Available at: <https://www.ntv.co.ug/ug/news/national/kiteezi-landfill-collapse-death-toll-rises-to-30-39-still-missing-4725838>

Table 1: ESG sector risks and current mitigation measures

Sector	Examples of ESG Risks	Current Risk Mitigation Measures in Place
Agriculture	The agricultural sector faces significant environmental challenges, including deforestation, soil degradation, and water resource depletion being a sector that employs about 68 percent of the population. The sector is socially exposed to risk arising from child labour, unsafe working conditions and gender inequality. Farmers do not understand the environmental component and the negative impact of climate change. Farmers have no resources to install modern agriculture technologies such as solar water pumps hence lowering their productivity. Farmers cannot afford tree seedlings to plant on their farms or on the land boundaries to protect the environment and fields. The Social aspect of ESG affects farmers mostly because large scale agricultural companies rely on imported raw materials and hence, they do not buy from farmers. Even those who buy from farmers are not paying farmers well due to absence of a minimum wage policy. Agriculture sector is most at risk due to increasing population, climate change and inelastic land supply.	There are programs and projects that Support sustainable agricultural practices through initiatives that promote climate-smart agriculture. This includes training farmers on environmentally friendly practices, encouraging use of sustainable farm inputs, and implementing policies that protect the rights of agricultural workers. These programs are promoted by both Government, Civil Society Organizations, and private sector and universities/ research institutions. Example, Green financing Programs. Example, the aBi Green Growth Strategy 2020/21-2024/25 aims at fostering sustainable and equitable growth of Uganda's Agriculture and Agribusiness sector¹⁹. There are efforts by government to strengthen social protection systems. Some of these programs are the Parish Development Model (PDM), Emyoga, Financial inclusion programs, Youth Livelihood Fund (YLP), and Uganda Women Entrepreneurship programs (UWEP). The Ministry of Agriculture Animal Industry and Fisheries (MAAIF) has developed a process framework for Uganda Climate Smart Agriculture Transformation (UCSAT) which aims at strengthening climate smart agriculture research, seed and agro climatic information systems, adoption of climate smart agriculture technologies and market development among others²⁰.
Tourism and hospitality	The tourism sector is highly sensitive to environmental degradation and can also lead to exploitation of local communities. There is also high risk relating to how workers are treated in the tourism and hospitality sector.	Sustainable tourism practices are being promoted to benefit both the environment and local communities through supporting training for local businesses on responsible tourism, community engagement, and fair employment practices. Collaboration with stakeholders to develop policies that ensure the protection of natural resources and cultural heritage are being encouraged in the tourism sector.
Mining and natural resource extraction	The sector poses significant environmental risks, including habitat destruction, pollution, natural resource depletion, climate change, conflicts with local communities, occupational risks example, health and safety of workers, and labour exploitation. The most affected sector mentioned was oil and gas, the cement industry and other mining activities with high environmental impact arising from degradation and pollution.	The mining sector e.g. UNOC promotes responsible mining practices that minimize environmental impacts and respect community rights. There is also advocacy for strong governance frameworks and support initiatives aimed at improving the livelihoods of the affected mining communities including access to education and health services.
Construction and real estate	The construction sector has notable environmental impacts, including land degradation and direct natural resource consumption. There are also huge social risks related to abuse of labour rights and unfavorable working conditions at construction sites.	There is ongoing advocacy for the adoption of sustainable construction practices including the use of environmentally friendly materials and techniques and ensuring facilities that promote access to buildings by People with Disability. There is also promotion of regulatory compliance regarding labour rights and safety standards on construction sites ensuring that workers are treated fairly and work in safe conditions.

¹⁹aBi Green Growth Strategy 2020/21-2024/25: Available at: https://www.abi.co.ug/wp-content/uploads/2022/05/aBi_GG_strategy_final.pdf

²⁰UCASAT, by MAAIF (2022): Available at: <https://www.agriculture.go.ug/wp-content/uploads/2022/10/Draft-UCSATP-Process-Framework.pdf>

Government Services	Government services sectors such as procurement, police and prisons were cited to be having ESG risks. For instance, prison was mentioned as the most exposed to ESG risks because there are currently almost no clear ESG initiatives in place, however there are suggestions that court could give non-custodial services e.g. community service to avoid overcrowding, carry out sensitization about non-custodial sentences. Corruption was pointed to be a big risk affecting efficient service delivery in Government institutions and hence leading to poor social services, low attraction and retention of competitive workers. Different pay structures for science and arts professionals e.g. higher salary structure for the Science teachers compared to Arts teachers was observed as an inequitable policy that favored one group and may in the long run affect retention of some staff in the teaching profession. Public Procurement and Disposal of Assets (PPDA) was observed as one agency that has ESG embedded risks such as too much paper consumption, long turnaround time in paying for supplies that affects private sector suppliers and in addition lacked clear guidelines on sustainable government procurement. In the case of URSB, a big data manager in Uganda, the Directorate of ICT, Internal Audit, Records Management Unit and Compliance and Enforcement Unit had caused the most ESG risks and pressure. URSB highlighted the risks of ICT waste and the disposal of physical records.	There are proposals to increase funding in government sectors to facilitate operations. There are also suggestions to include training on ESG framework on the national curriculum, and higher institutions such as the law school. There are efforts to promote green procurement, invest in climate resilient infrastructure, waste reduction and recycling, environmental education and awareness. There are efforts to promote service accessibility and inclusivity diversity and equity, uphold human rights in services delivery, foster on public participation, strengthen social protection systems through the decentralized government structures. There are efforts to promote transparency and accountability in service delivery, strengthen anti-corruption measures, citizen engagement in policy making, enforce implementation of codes of conduct for public officials through institutions like Inspectorate of Government, Investor Protection Unit, State House anti-corruption unit. The PPDA act has been amended to include sustainability objective and there is now a 5-year PPDA strategy that promotes sustainable procurement. Government is promoting electronic procurement and some government entities are embracing e-procurement which will reduce paper consumption, reduce turnaround time. e-procurement has been rolled out so far to 33 government entities, PPDA is increasing awareness on sustainable procurement and government is promoting purchase of locally produced products through Buy Uganda Build Uganda (BUBU). URSB's strategy of 'all digital all online' has contributed to ESG by reducing the paper used in the registration process of companies, business names and intellectual property rights. This is because the registration process is an end-to-end online process with minimal use of paper.
Financial Services	The ESG risks includes financing investments in environmentally harmful activities such as pollution, deforestation, lending to carbon intensive industries, non-climate smart agriculture activities, financing illegal activities. The social risks include data breaches and information privacy, financial exclusion, product mis selling and consumer protection, anti-money laundering, corruption and bribery, risky mortgaging lending, and minimal ESG due diligence. Credit assessments by financial institutions are not so much based on ESG compliance but based on collateral security, revenue and profitability only. Even if some financial services providers speak of climate related financing, they do not really focus so much on ESG when it comes to ESG practices by a company. Current financing terms are not better even when a company demonstrates reduced ESG risk profile.	Financial institutions are being encouraged to assess environmental impact of investments, comply with climate related disclosure, carry out social impact assessment, establish robust risk management framework, promote ESG training among staff and customers, publish ESG regular reports and carry out continuous monitoring and evaluation. There is in place an ESG framework in place for the banking sector and adoption which is hoped to change credit and banking services considerations in the near future. Banks are beginning to adopt sustainable operations processes, e.g. through adoption of paperless banking which is both costs saving and environmentally sustainable, and adoption of digital financial inclusion services. Uganda has set up the Financial Intelligence Authority to monitor issues around Anti- Money Laundering, there are several banking regulatory policies managed by Bank of Uganda to ensure ESG compliance.

Transport, ICT and Manufacturing	The transport, ICT and manufacturing sector cause multiple ESG risks such as Green House Emissions (GHGs), fuel spills and accidents, air pollution, worker safety and health, passenger safety, E-waste generation, energy consumption, resource extraction, data privacy security breaches, intellectual property infringement, cyber security threats, climate change impacts, manufactured product safety and quality, community disruptions and health impacts. Data protection and privacy risks have also been highlighted therefore, the need for an ESG framework and mitigation strategies were indicated.	Electric cars are being promoted in Uganda with Kira motors taking lead in the manufacturing of electric cars in Uganda. There is tax exemption on charging of electric car batteries. Ministry of ICT is guiding the public on e-waste management, and ministry of energy is promoting procurement of energy saving equipment among others. Other risk mitigation measures being promoted includes adoption to use of fuel efficient technologies, training and use of protective equipment, human rights impact assessment, use of solar power, ESG risk assessment audit by large companies, transparent supply chain, data protection information privacy, cyber security protocols, investment in clean technologies, labour standards, environmental impact assessment.
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2.4.2 ESG Pressures

The survey assessed the level of ESG related pressures from local suppliers, customers, international suppliers from UK, US and EU. It also considered whether there were pressure arising from stakeholders for corporate Social Responsibility (CSR). 8 percent of the respondents pointed that they had high ESG related pressures from suppliers, 17 percent had very low pressures, 34 percent said they had low pressures and 41 percent had moderate ESG related pressures as indicated on figure 6.

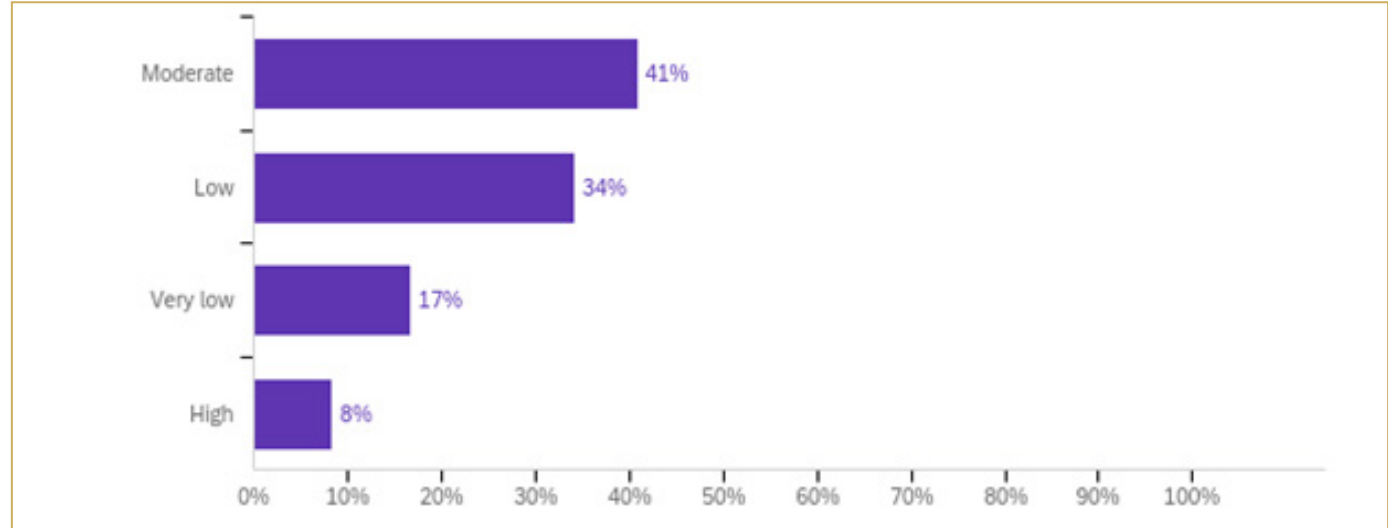


Figure 6: ESG related pressure from suppliers

As observed in figure 7, significant ESG pressures from suppliers and customers was commonly due to demands for social responsibility. 79 percent of the respondents were getting ESG pressures from suppliers and customers because of social responsibly, 46 percent said ESG pressures from suppliers and customers was due to Governance practices, and 42 percent of the respondents said the ESG pressure from suppliers and customers was due to environmental sustainability.

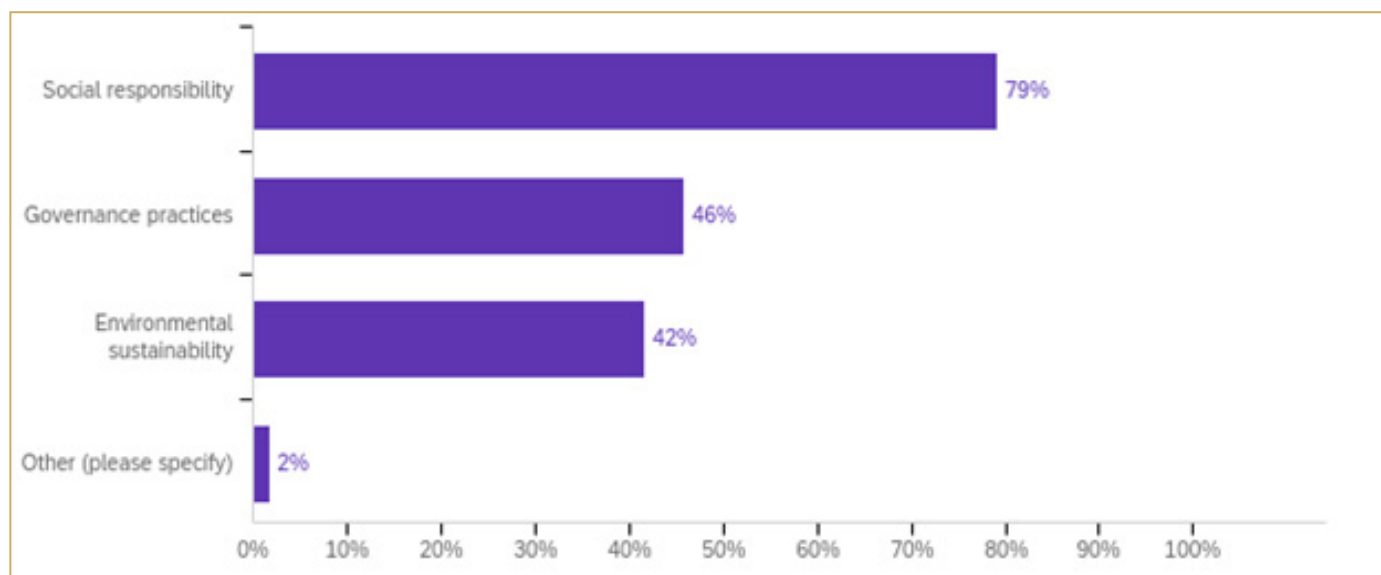


Figure 7: Key areas causing ESG pressures from suppliers and customers

Although some companies face ESG pressures from suppliers and customers in the three key ESG pillars, the survey observed that, the companies were less exposed to ESG legislation through suppliers from external countries such as US, UK and EU. Only 15 percent of the respondents said they were exposed to ESG legislations from external countries, 20 percent said they have some exposure, 28 percent were not exposed at all and 37 percent had limited exposure to ESG legislation from external companies as indicated on figure 8.

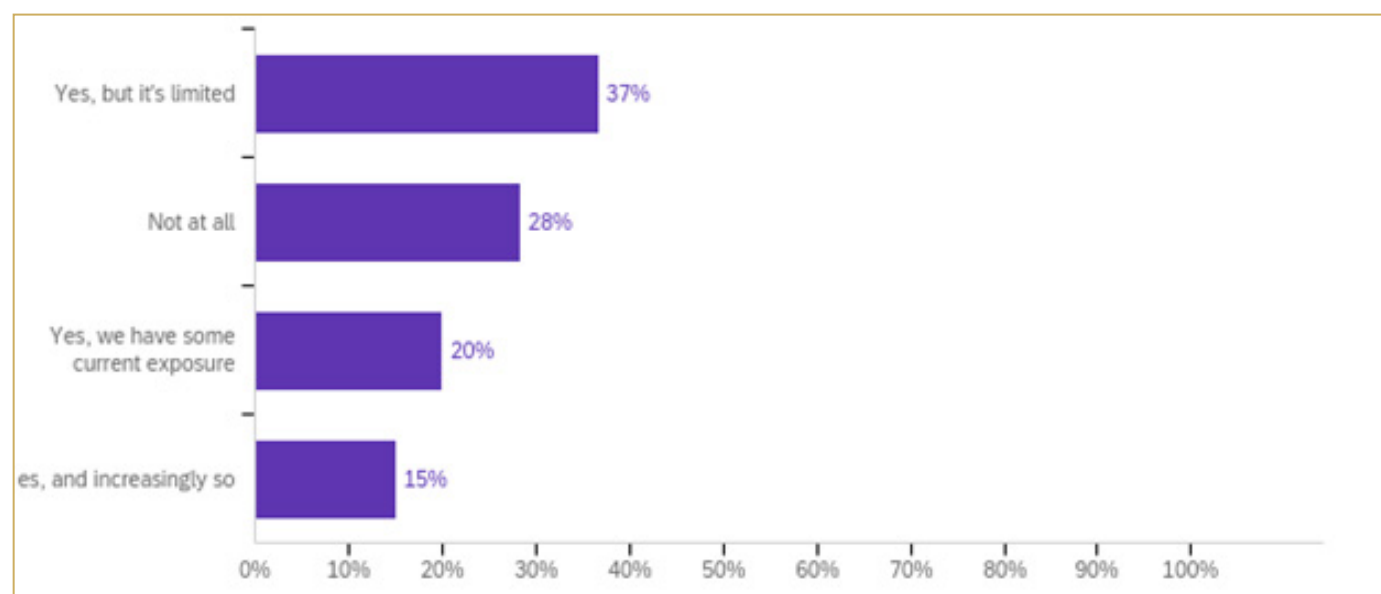


Figure 8: Exposure to ESG legislation through suppliers from external countries

While there is ESG pressures for social responsibility, the survey observed that very few companies in Uganda have been engaged by suppliers from the EU concerning the new Corporate Social Responsibility Directive (CSRD). See figure 9.

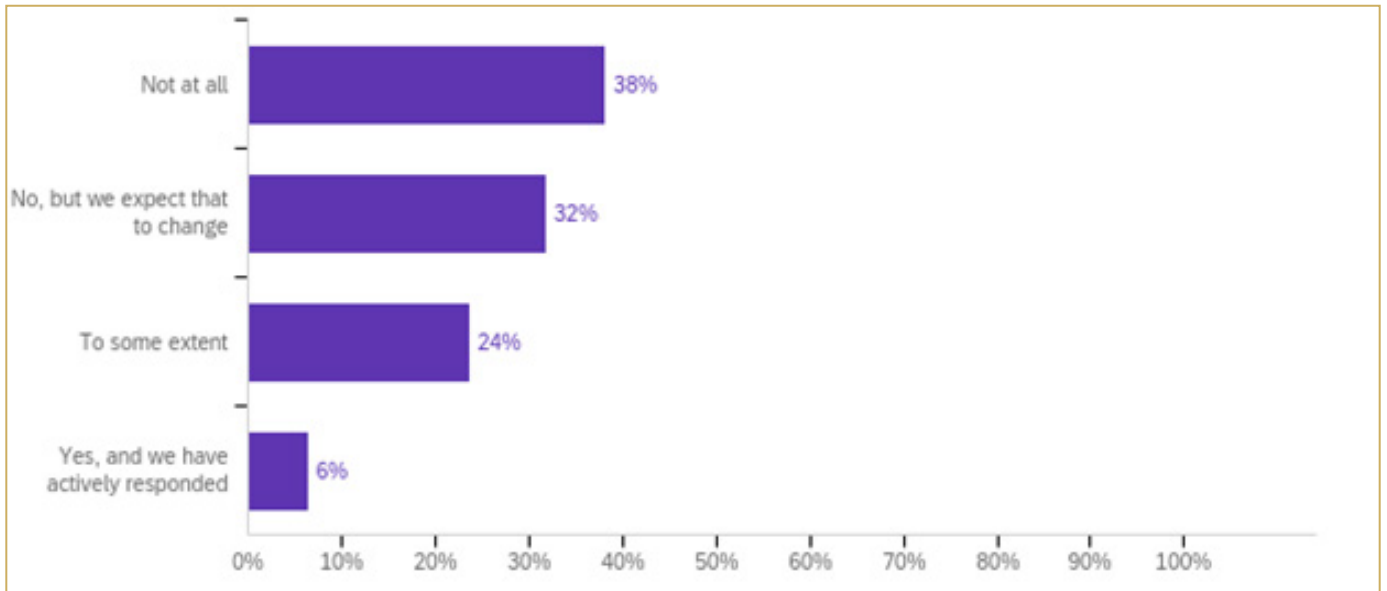


Figure 9: Engagement of respondents by suppliers from EU concerning the new CSRD

These various results confirm that there are currently very few companies in Uganda who are experiencing ESG related pressures. This could be explained by the fact that ESG awareness is still low with a weak compliance enforcement environment.

CHAPTER THREE: ESG PRACTICES AND CHALLENGES

3.1 Current ESG Practices

The survey observed ESG practices among the companies and organizations who are involved in different services and production sectors of the Uganda economy. Out of the 120 respondents surveyed, 29 percent employed between 0-10 employees, 41 percent employed 11-100 employees, 8 percent employed 101 to 250 employees and 22 percent employed more than 250 employees. This means that the surveyed was comprehensive across Micro Small Medium and Large Enterprises and hence giving a fair view of current ESG practices in Uganda.

The survey discovered that the current ESG and sustainability practices among the surveyed companies is both voluntary and mandatory but both remained low. Low ESG practices could in the medium to long term lead to increased ESG risks if not timely addressed. The companies that were adhering to ESG practices were mostly large-scale companies compared to small and medium enterprises. According to UBOS statistics, large scale enterprises make up only 10 percent of the entire private sector companies meaning that about 90 percent of the Micro Small Medium Enterprises (MSMEs) are more exposed to ESG risks compared to large enterprises. Relatedly, a document review and interviews with selected key informants indicated that Bank of Uganda through the Uganda Bankers Association (UBA) developed the ESG framework for Uganda's Banking sector²¹ and that all banks are now required to set up the sustainability department to promote sustainable business practices in the banks.

Embracing ESG by the banking sector could change the story of ESG practices among many MSMEs and large enterprises if access to credit and other banking services are attached to good ESG practices by borrowers and depositors going forward. Banks have adopted paperless banking, a positive effort towards cutting cost on use of paper and a contribution towards reduced environmental deforestation. The ESG good practices in banks is partially driven by pressure from commitment by banks to the ESG framework and regulations. Additionally, demand for convenient banking services by customers and suppliers is driving technological innovation in the financial services sector and hence this could be contributing to improved ESG practices in the banking sector. Digital Financial Services are not only helping to extend financial services to the financially excluded population but they are becoming more convenient, cost effective and environmentally sustainable.

Although the banking sector is cited as taking positive steps towards adopting good ESG practices, it is observed that ESG practices are also gradually gaining momentum in other large enterprises, driven by stakeholders' expectations, regulations and the growing awareness about sustainability. Other sectors such as the oil and gas, tourism and agriculture sectors among others are making efforts towards improving ESG practices. However, due to limitations in the scope of this study, the survey was not able to establish the extent to which the ESG practices in each sector is contributing to the overall sustainability outcome in Uganda.

A review of the Sustainable Development Report (SDR) for 2024 indicates that Uganda has achieved in SDG 12 (responsible consumption and production), SDG 13 (climate action), and the country is moderately improving in SDG 2 (zero hunger), SDG 7 (affordable and clean energy), and SDG 3 (good health and wellbeing). However, other SDGs were either stagnating, decreasing or had major challenges around sustainability achievement. At the global level, SDG progress has been stagnant since 2020 with SDG 2 (Zero Hunger), SDG 11 (Sustainable Cities and Communities), SDG 14 (Life Below Water), SDG 15 (Life on Land) and SDG 16 (Peace, Justice and Strong Institutions) particularly off track. On average, only 16 percent of the global SDGs are on track to be met by 2030²².

²¹ESG Framework for Uganda's Banking Sector, Uganda Bankers Association. Available at: <https://ugandabankers.org/UBA%20ESG%20Framework%20for%20the%20Banking%20Sector.pdf>

²²Sustainable Development Report 2024: Available at: <https://edepositireland.ie/handle/2262/108572>

3.2 ESG Risk Profiles and Financial Services

ESG risk profiles are assessments of an organization's exposure to potential risks and opportunities arising from ESG factors. These profiles help identify, prioritize and manage ESG related risks. The survey aimed at assessing whether companies include ESG as part of their risk assessment, for example, reputational risk among others.

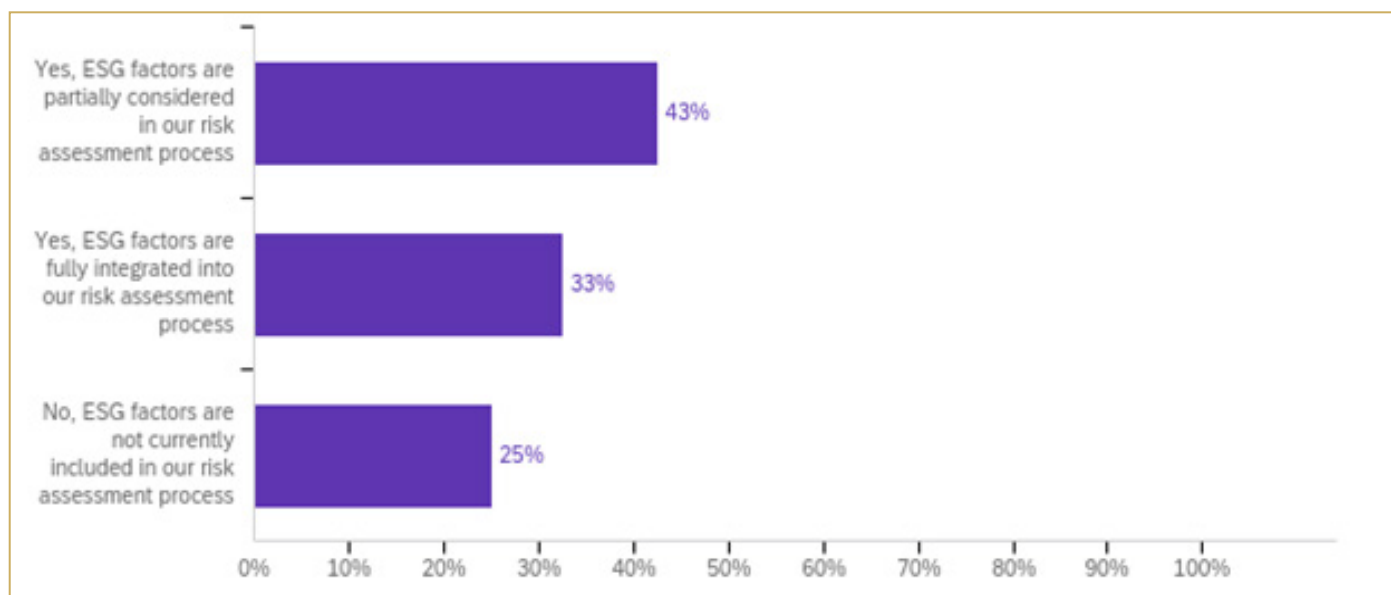


Figure 10: Companies that include ESG as part of risk assessment

From the survey results, 33 percent of the respondents indicated that ESG factors are fully integrated into their risk assessment process, 43 percent said ESG factors are partially considered in their risk assessment process while 25 percent said that ESG factors are not currently included in their risk assessment process. Considering the percentage of respondents who have fully integrated ESG reporting and those who have partially considered ESG in their risk assessment, it implies that about 76 percent of the respondents somehow view ESG as a business risk. Therefore, strengthening ESG as part of risk assessment could further contribute to a more significant outcome in addressing business sustainability issues in the present and future.

Although companies are making significant efforts to include ESG as part of their risk assessment, an interview with most companies indicated that there were no better financial services offers to companies with reduced ESG risk profile.

"When it comes to loan assessment, banks majorly focus on revenue, profitability, collateral and capacity to manage business and little attention is given to ESG risk profile of a company"

However, following the recently launched ESG framework for the banking sector and with supervision and enforcement from Bank of Uganda, the situation is expected to get better in the near future. The ESG framework for the banking sector now provides for four important work streams, these are²³;

- i. **ESG Governance**, which guides banks to align their ESG governance framework to the strategic objectives.
- ii. **Sustainable Finance Framework**, which guides on formulation of robust finance framework for green, social and sustainable bonds covering process for project evaluation and selection, use of proceeds, management of proceeds and reporting.

²³ESG Framework for the bank sector, Uganda Bankers Association (2024)

iii. ESG Risk Management, which guides on identification and management of potential sources of ESG and climate related risk.

iv. ESG Reporting, which guides on ESG reporting from the comprehensive ESG framework.

If businesses adopt responsible and sustainable practices, the ESG risk profiles and terms for financial services could change in the Uganda's financial services sector in the near future.

3.3 Key Challenges in Implementing ESG Initiatives

Implementing ESG initiatives in Uganda is critical for promoting sustainable development, mitigating business risks and enhancing the country's competitiveness. However, the survey observed that there are key challenges that are affecting implementation of ESG initiatives, these challenges exist both at institutional and regulatory levels. The commonly mentioned challenges in implementing ESG initiatives that were observed during the assessment are; limited awareness and information about ESG, negative perception about ESG as a requirement for only large companies, perception that ESG is for companies trading in international markets, limited or no budget for ESG activities by companies, lack of a clear national ESG framework, limited trained personnel in areas of sustainability, challenges around ESG policy formulation, implementation and evaluation.

The available international ESG framework such as the ISSB (IFRS1 and IFRS 2), and Task Force on Climate related Financial Disclosure (TCFD), have not gained the much-needed popularity in most organizations. The ESG reporting challenge is worsened by lack of uniform sector specific tools and methodologies for measurement and monitoring ESG performance which raises a big challenge for companies to track and manage sustainability performance indicators. As observed in the Uganda survey, only 33 percent of the companies indicated that they have integrated ESG in their risk assessment process. The challenges around ESG performance measurement is linked to absence of a dedicated ESG team within the organizations surveyed, and hence leaving each functional business unit to continue with their normal routine and business as usual.

In addition, most companies have not integrated ESG objectives in their strategy, business or project plans. Without clear ESG objectives, companies operate blindly with no defined ESG targets in mind. It was observed that while some companies have made efforts to incorporate ESG in their processes, there remain no clear ESG modules for training staff to improve their knowledge, skills and behavior towards efficient ESG management. The need to incorporate ESG in governance, product strategy, operations, policies, procedure and as part of human capital development is more emphasized if the challenges in implementing ESG initiatives are to be addressed.

3.4 Gaps in ESG Knowledge and Resources

The gaps in ESG knowledge have been identified in the major areas of:

- i. Governance, Policies and Processes.** Most companies do not have adequate knowledge on how to align ESG to governance and management structures, develop ESG business strategy and objectives to meet the business sustainability targets. This challenge is made worse by the limited understanding on ESG concepts and frameworks, risks and opportunities.
- ii. Integration of ESG into Operational Processes.** Different companies carry out different operations processes and each operation process must be ESG sensitive. However, there are still limited expertise and knowledge gap for in integrating ESG in operations processes.
- iii. ESG Measurement and Reporting.** There are challenges around knowing the right tools, methods and framework for monitoring, evaluation and limited understanding on ESG reporting and disclosure.

- iv. ESG Digitization.** There is limited knowledge on technologies that can support companies to undertake ESG performance measurement by use of digital technologies.
- v. Planning for ESG Risk Mitigation Measures.** Most companies are not well versed with designing ESG risk mitigation measures.
- vi. Integration of ESG in Programs and Project Design.** Most respondents do not understand on how best they can integrate ESG in programs and project design. The understanding on sustainable project financing remains low.
- vii. ESG Budget Planning.** There is knowledge gap on how to allocate budgets for ESG for each cost Centre.

Regarding the challenges around ESG resources, the survey observed that companies rely on industry publications, consultancy firms, professional associations, Government websites among others for ESG regulatory/compliance information sources. Figure 10 provides details of the survey results obtained regarding use of the different sources of ESG information.

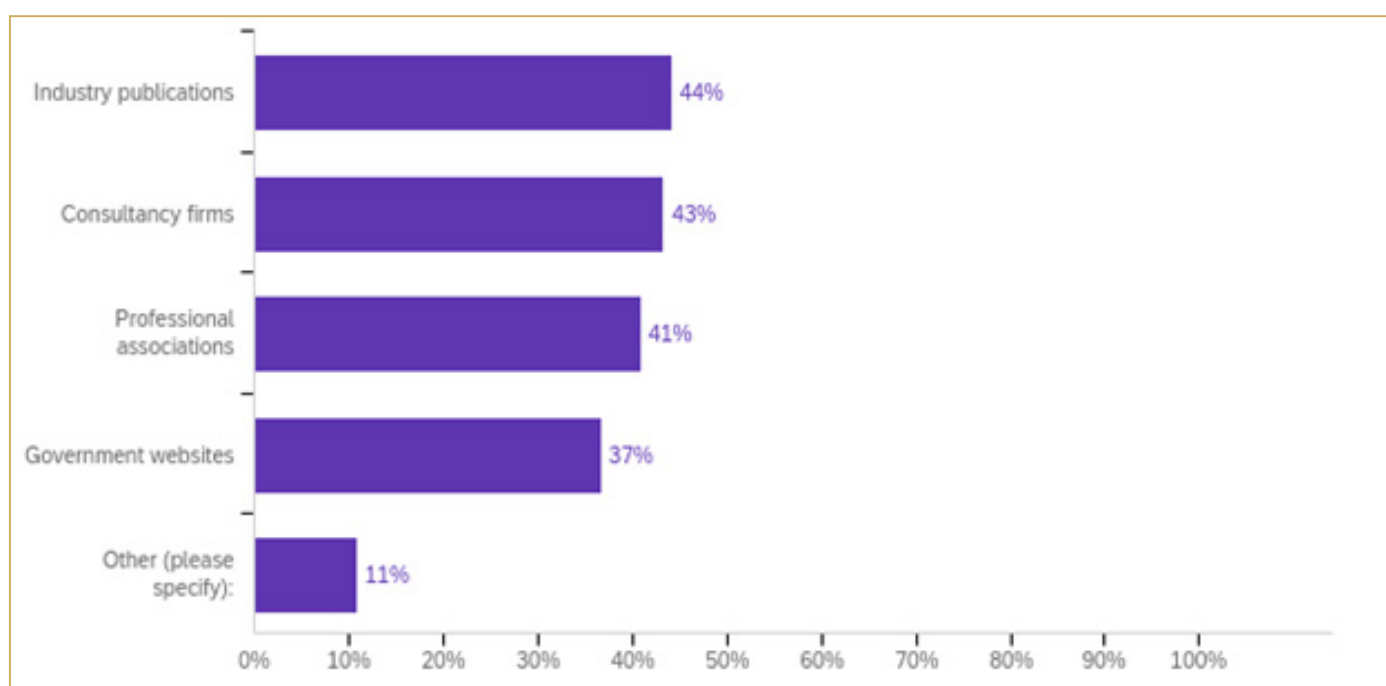


Figure 11: Primary ESG regulatory/compliance information source

The survey identified other ESG resource gaps such as limited ESG related research information, very few ESG consultants, limited access to ESG data analytics, technology and infrastructure, insufficient ESG focused networking events, limited funding for ESG and limited government support and regulations. The ESG knowledge and resource gaps are evident in private sector companies, public sector institutions civil society organizations, academic institutions, and media among others and all these institutions constitute the membership of the Federation of Uganda Employers. Addressing these various ESG resources gaps raises opportunities for ESG services providers.

3.5 External Support Needs for ESG Implementation

The external support needs for ESG implementation in Uganda may be broadly grouped under three major priority needs, namely;

- i. Technical support
- ii. Financial support, collaboration and partnership
- iii. Knowledge sharing, ESG tools, research and reporting

Addressing the external support needs for ESG implementation could require a combination of intervention that targets minimizing both the internal and external bottlenecks that are hindering the effective ESG implementation in Uganda. The internal bottlenecks may arise from within the company or organization that is responsible for implementing ESG practices. Some of these internal bottlenecks includes, lack of clear ESG strategy and vision, insufficient budget and expertise, ineffective stakeholder engagement, poor integration of ESG into operations processes and departmental performance target setting, inadequate supply chain and risk management, inadequate employee engagement, staff and board training, limited board oversight and accountability among others.

On the other hand, some of the external bottlenecks may include insufficient ESG sector specific guidelines and regulations, limited availability of ESG information and data, limited government incentives, and limited ESG networking forums among others. The linkage between external support needs for ESG implementation is demonstrated on figure 12 for ease of planning intervention measures.

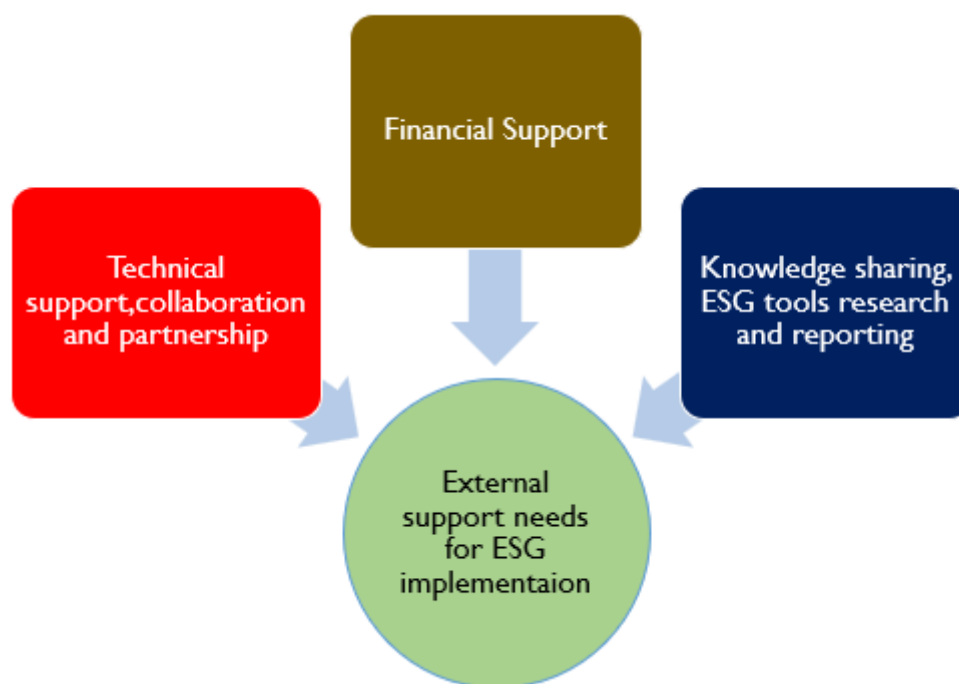


Figure 12: External support needs for ESG implementation

Figure 13, provides the scope for possible intervention measures that may be undertaken in order to address the external support needs for ESG implementation in Uganda. The combination of these several interventions are expected to contribute significantly to enhancing effective ESG implementation in companies and organizations operating in Uganda.

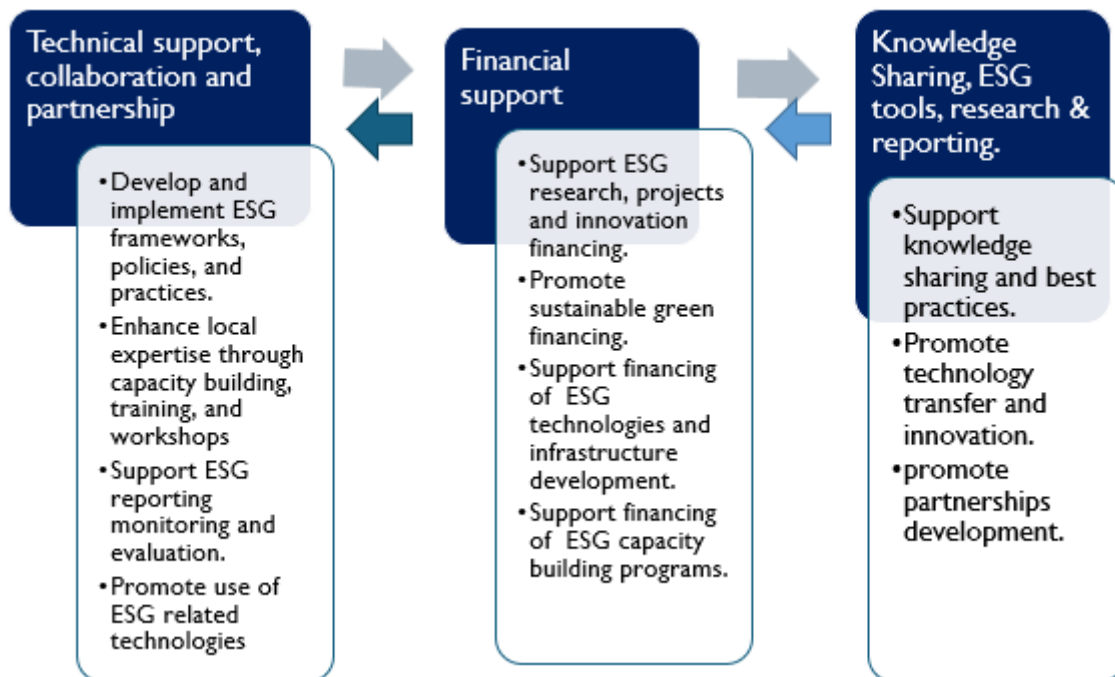


Figure 13: Addressing external support needs for ESG implementation

3.6 ESG Reporting and Disclosure

ESG reporting and disclosure is about communicating a company's or an organization sustainability ESG performance in order to improve transparency, accountability, risk management, brand reputation and compliance requirements. According to ILO, 2022 report²⁴, ESG reporting is an organization's practice of reporting publicly on its economic, environmental, and/ or social impacts, and hence its contributions – positive or negative – towards the goal of sustainable development. Through ESG reporting and disclosure process, an organization identifies its significant impacts on the economy, the environment, and/or society, and discloses them in accordance with a globally accepted standard. Legislation requires in most jurisdiction listed companies to 'disclose' their ESG footprint in the form of ESG disclosure reports.

Although ESG reporting should be on a materiality basis, in this survey, ESG reporting and disclosure was observed by looking at the percentage of entities that are producing ESG reports or similar reports to make conclusions about ESG reporting and disclosure practices. However, the Sustainability Accounting Standards Board (SSASB) identifies the materials issues to be reported on, and industry level Key performance Indicators (KPI's), however due to limitation in the scope and resources for this study, an analysis on the extent to which companies are complying to these KPIs was not investigated. As ESG compliance requirements evolves, companies will be expected to adhere to industry KPI's by showing the correlation between its financial performance and the industry ESG KPI's.

This survey investigated on the percentage of respondents who were producing ESG reports or similar reports and it was found that 18 percent of the respondents had ESG reports or similar reports, 21 percent did not have ESG reports but said they usually highlight ESG issues, 22 percent did not have ESG reports and did not expect that to change and finally 40 percent of the respondents did not have the report but expected to change, see figure 14.

²⁴ESG and its implication for medium sized enterprises in Africa, ILO (2022)

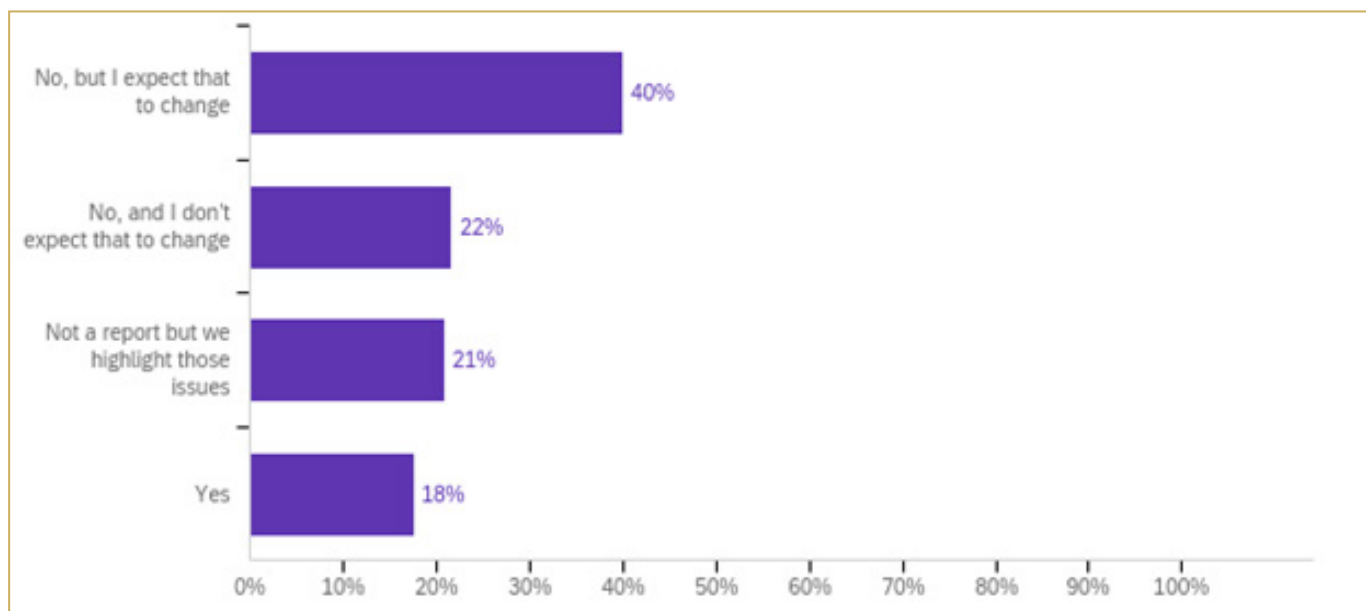


Figure 14: Percentage of respondents producing ESG reports or similar reports

While only 8 percent of the respondents are currently actively facing ESG pressures as explained in section 2.4.2, this finding observes that 40 percent of the respondents are keen to embrace ESG reporting in the foreseeable future, and since only 22 percent do not expect to change their behavior regarding producing ESG reports, this implies that 78 percent are potential companies for ESG reporting and disclosure and hence giving a significant opportunity for FUE to develop and market ESG related services.

3.7 Current ESG Reporting Practices

The current ESG reporting practices in Uganda involve integrating environmental, social and governance metrics into an annual report. Companies report on their social impact, customer satisfaction, employee wellness, environmental stewardship, and leadership. The ESG reports are submitted according to regulatory guidelines for some sectors while it is voluntary in most sectors. For instance, banks submit the ESG reports to Bank of Uganda, Uganda Bankers Association and Uganda Securities Exchange with copies published online. ESG reporting practices are evolving and is seen to be adopting from the international reporting frameworks such as the ISSB (IFRS1 and IFRS 2).

The survey noted that some companies (39 percent) had so far produced between 2-3 annual ESG or related reports which indicates that current reporting practice is still at its early stages. A scan through some of the existing ESG reports further observed that some of the ESG reports are not yet fully structured and standardized in line with the global reporting metrics usually sought by investors. These metrics are; presence of an overarching ESG policy, assignment of ESG management responsibility, presence of litigation, corporate code of ethics, net employee composition, people diversity, environmental policy, estimation of carbon footprint, health and safety events and finally, data and cyber security incidents. For instance, it was not very clear to understand from the reports how different companies were estimating and reporting on the carbon footprint as most reports were produced subjectively. ESG service providers therefore need to pay attention to the issue of supporting companies to standardize their ESG reporting practices in line with the international guidelines and metrics.

3.8 Challenges in ESG reporting

In Uganda, there is still a considerable gap between demand and supply for ESG reports. We noticed that there is voluntary ESG reporting running alongside the mandatory reporting. The challenges in ESG reporting

spins around the issues of lack of standards and frameworks, non-mandatory ESG reporting rules, personnel expertise and high cost associated with collection and reporting of data. Figure 13 provides a summary of the major factors contributing to challenges in ESG reporting among the surveyed companies and organizations in Uganda.

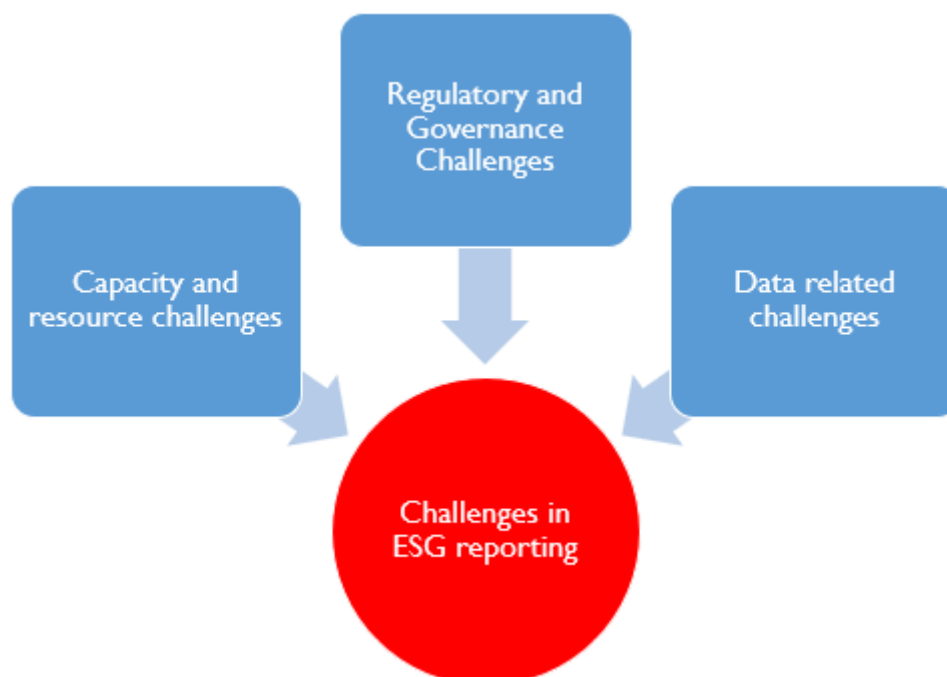


Figure 15: Challenges in ESG reporting

Regulatory and Governance Challenges. Although ESG reporting in Uganda is relatively new but gradually being adopted by the large companies, there are still challenges around ESG regulations and governance, data availability, capacity and resources. The ESG reports tend to focus ESG reporting in the key areas of business, customer and people. However, as analyzed from the reviewed ESG reports, companies have committed to continuously improve their corporate governance design and practices for better ESG reporting. The issues of limited regulatory framework for ESG reporting, insufficient guidance on ESG reporting standards and lack of enforcement for ESG disclosures are cited among the top regulatory and governance challenges affecting ESG reporting in Uganda.

Data Related Challenges. There are challenges relating to ESG data collection, analysis and reporting due to insufficient ESG data collection and management tools and systems in place. Most companies have faced major challenges around integrating ESG into operational processes and hence making it difficult to assess ESG critical process risks and opportunities. From the survey, only 33 percent of the respondents had fully integrated ESG assessment into their processes and hence this confirmed the issues around ESG data reporting. The challenges of reliable ESG data collections, analysis and reporting tools raised issues around completeness and accuracy of ESG reports and this if not addressed could have significant impact on effective ESG reporting and decision making by businesses in Uganda.

Capacity and Resource Challenges. Limited training and capacity building on ESG are major challenges affecting ESG reporting in Uganda. Most companies lacked budgets and expertise to carry out ESG assessment and reporting and this is worsened by limited stakeholder engagement, feedback and awareness about ESG. Uganda is also culturally diverse, with over 56 indigenous tribes each with unique language, customs and cultural values. Therefore, harmonizing cultural values towards a common social and environmental practices becomes a big challenge without extensive sensitization and capacity building. For instance, child labour

is visibly predominant in some cultures with justification of training children in socio-economic activities. Hence, there are continuous concerns on child labour in some value chains, deforestation, labour rights and standards across different cultures which all require resources for sensitization and capacity building in order to improve ESG reporting.

3.9 Demand for ESG Reporting Standards and Frameworks

The demand for ESG reporting standards and frameworks in Uganda is increasing, and is being driven by the need for social accountability, transparency and sustainability. There is increasing pressure for organizations to adopt and report their ESG disclosure. Currently, the most demanded ESG reporting frameworks is the Global Reporting Initiative (GRI) standards which is already being used by large organizations like NSSF. The International Sustainability Standards Board (ISSB) is another reporting framework that is being adopted by companies in Uganda.

In addition, the banking sector has developed an industry specific ESG framework for the banking sector, although an ESG training modules is currently work in progress by UBA. The Uganda Securities Exchange (USE) and Capital Markets Authority (CMA) are also pushing for ESG disclosure. Investors and international development partners such as the Netherlands Investment Forum, Enabel Uganda, and United States Agency for International Development (USAID) demand and verify information on ESG performance of companies for them to make investment decisions. There is increasing demand for Corporate Social Responsibility and Social Business Enterprises models which further intensify demand for ESG reporting standards and frameworks. Customers, communities and employees are demanding for businesses that cause positive social impact in the communities in which they do business. In the medium to long term, all companies and organizations may be expected to report on their ESG exposures and hence this will lead to more demand for ESG reporting standards and frameworks.

3.10 Role of External ESG Assurance Providers

External ESG assurance providers are playing significant roles in standardizing the ESG reporting Standards and data analysis. The World Economic Forum (WEF), the International Business Council, and the Big Four accounting firms (Deloitte, PwC, KPMG, and EY) are developing a set of standardized measurements of 22 specific metrics (34 non-core) built around the SDGs. Therefore, this underlines that the SDGs will become the main framework for ESG reporting. The International Financial Reporting Standards Foundation (IFRS) has been working to provide guidelines on worldwide sustainability reporting standards. The IFRS works collaboratively with the Climate Disclosure Standards Board (CDSB)²⁵, GRI, SASB, International Integrated Reporting Council (IIRC) and Carbon Disclosure Project (CDP)²⁶. There are also ESG data providers such as sustainalytics, Morgan Stanley Capital International (MSCI)²⁷, and Institutional Shareholder Services (ISS)²⁸ among others who get information from voluntary company self-disclosures, mandatory company disclosures, and media to determine an organization's ESG scores. SGS²⁹ academy in Switzerland offers ESG training from introduction to topic specific levels to help improve overall ESG performance and compliance and mitigate operational and reputational risks. There are also institutions that support in providing ESG research such as Earnest and Young, and PricewaterhouseCoopers (PWC) among others.

²⁵CDSB: Available at: <https://www.cdsb.net/our-story>

²⁶ESG reporting Standards: Available at: <https://www.ifrs.org/groups/international-sustainability-standards-board/>

²⁷MSCI: Available at: <https://www.msci.com/who-we-are/about-us>

²⁸ISS: Available at: <https://www.issgovernance.com/about/about-iss/>

²⁹SGS Academy: Available at: <https://www.sgs.com/en/services/esg-training>

3.11 Perception of ESG Service Providers

ESG services providers in Uganda are still relatively few. The few institutions that are providing ESG services includes Earnest and Young, PwC, UBA, Uganda Securities Exchange (USE), Capital Markets Authority (CMA), and Bank of Uganda among others. These institutions extend ESG services to their clients and sectors in form of promoting ESG education and awareness, setting ESG guidelines and supporting ESG strategy planning.

USE, a pivotal player in the Uganda's financial market has been at the forefront of promoting ESG in Uganda and USE perception is that listed companies have adopted responsible financial reporting and that if this is combined with continuous ESG education, the Uganda's financial ecosystem will grow into a more sustainable and responsible sector³⁰.

CMA, perception is that partnership and collaboration will play critical role in promoting ESG in Uganda and that investors, stakeholders and the public are increasingly interested in how organizations contribute to sustainable future, treat their employees and how they uphold ethical governance.

UBA's perception is that embracing ESG is more than a regulatory requirement, but a strategic move towards enduring sustainability and resilience in a dynamic business environment³¹. Despite the positive perceptions, UBA notes that there are still challenges related to ESG and these includes; assessing and mitigating ESG risks, varying ESG reporting frameworks across the world, production of easy to interpret ESG reports with clear communication, accurate and reliable ESG data, balancing short term financial objectives with long term ESG objectives, integrating ESG into business strategy, resource constraints, balancing and addressing ESG concerns of different stakeholders.

According to a study conducted that was conducted by PWC, it is observed that despite investments and focus by leadership on ESG, the perceived value of these to employees may not be tangible or significant. The results show that employees are not sufficiently engaged on sustainability and ESG to make positive and meaningful organization change³². Therefore, understanding the various perception of ESG service providers is important for FUE when planning ESG intervention.

3.12 Need for ESG Consulting and Advisory Services

The survey observed high need for ESG consulting and advisory services. As per the findings, only 18 percent of the respondent provided internal training on ESG compliance for their relevant staff members. There is an opportunity of about 75 percent of the respondents for training and advisory services as shown in figure 16 for those who expect the situation to change (43 percent) and those who said to some extent the situation will change (32 percent).

³⁰USE: Available at: <https://www.icpau.co.ug/news/uganda-securities-exchange-ceo-mr-paul-bwiso-applauds-listed-companies-esg-initiatives-fire>

³¹Navigating the future of banking, ESG, sustainability and digital banking by UBA: Available at: <https://ugandabankers.org/wp-content/uploads/2024/06/ABC-Magazine-2024.pdf>

³²PWC Global workforce ESG preference study 2024: Available at: <https://www.pwc.com.tr/global-workforce-sustainability-study-2024>

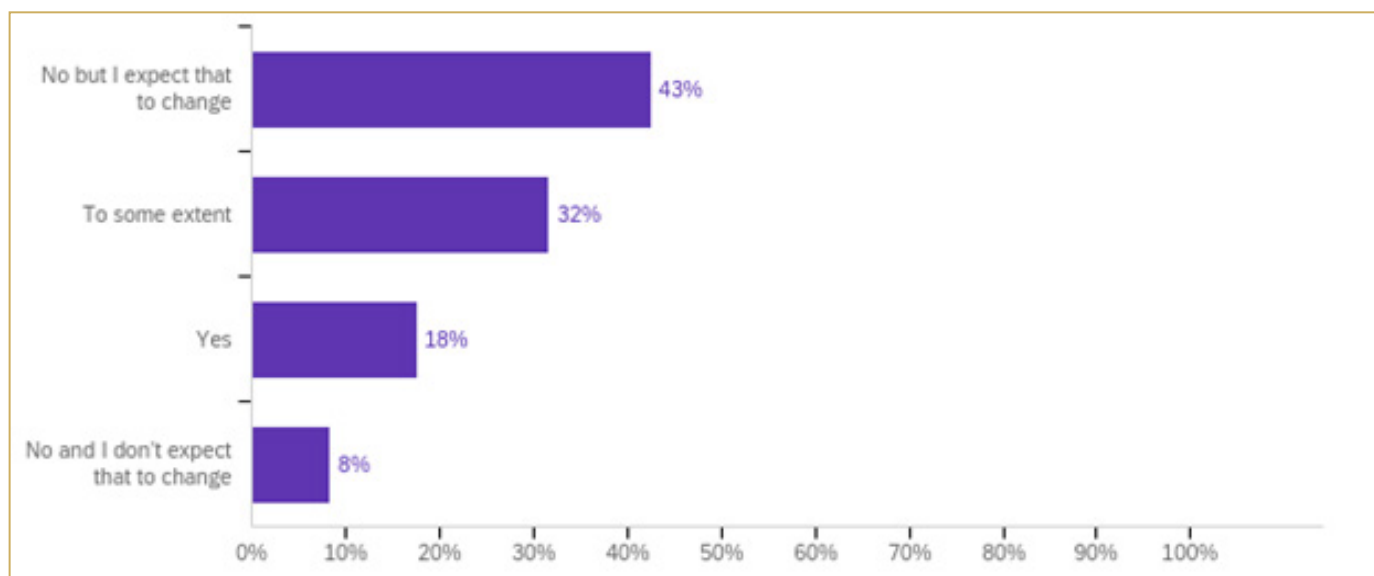


Figure 16: Provision of internal training on ESG compliance to relevant staff members

In order to further understand the need for ESG consulting services, the survey assessed whether there are adequate resources and training providers to meet ESG training needs. 19 percent of the respondents said that there are adequate resources and training providers to meet training needs, 41 percent said there are limited training providers to meet their training needs, 30 percent said there are no ESG training providers and 10 percent did not know. This results definitely speaks to the need to increase resources and training providers to meet ESG training needs and hence confirming that ESG consulting services could be a viable opportunity for FUE.

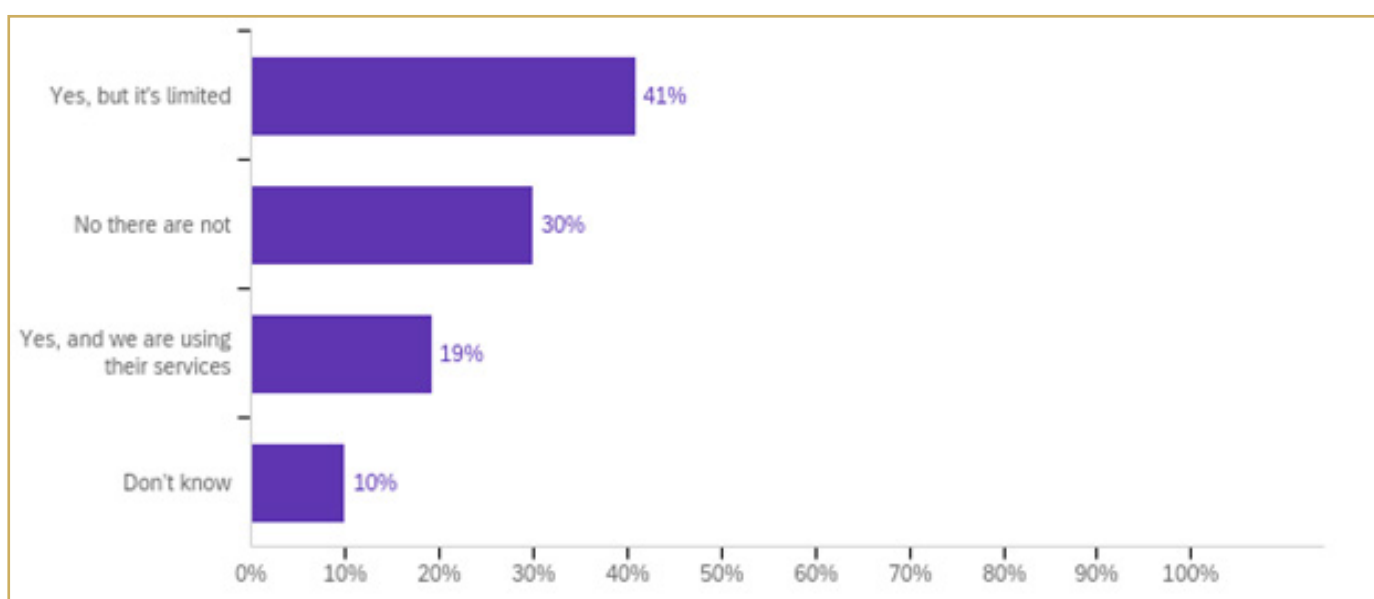


Figure 17: Adequacy of resources and training providers to meet ESG training needs

Furthermore, in order to conclude on the need for ESG consulting and advisory services, the survey assessed how employers rated their current level of training or knowledge on ESG related topics. 4 percent of the respondents rated themselves as having excellent level of training and knowledge on ESG knowledge related topics, see figure 18. This result indicates that there is a 94 percent need for ESG consulting and advisory services if you sum up the 53, 22, 18 and 13 percentages of the respondents who had average, good, poor and terrible level of training or knowledge on ESG related topics respectively.

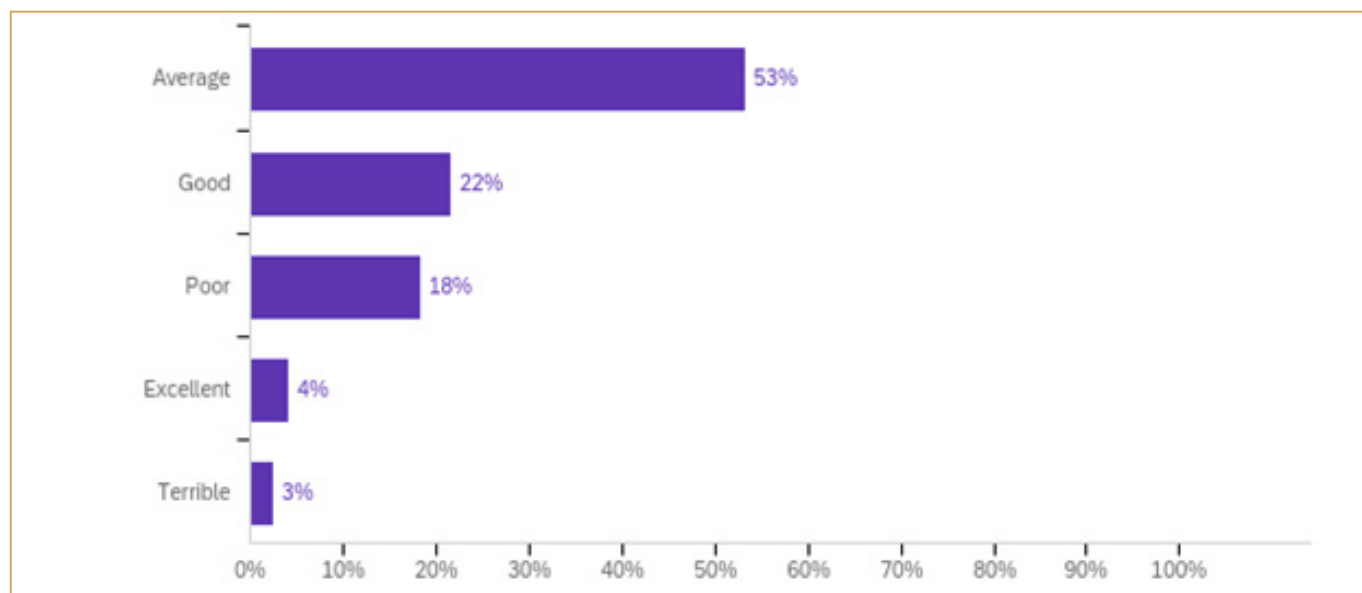


Figure 18: Rating on current level of training or knowledge on ESG related topics

3.13 Desired Characteristics of an ESG Service Provider

The ESG Uganda scan reveals low adoption of ESG practices citing key challenges around, ESG governance, policies, and process integration. There are also challenges around ESG measurements, data and technologies. Therefore, it is recommended that an ESG provider should have capabilities to address the mentioned challenges directly as a service provider or in collaborations and partnerships with other ESG services providers.

- **ESG Reporting Knowledge.** To address the issues on ESG reporting, the ESG service provider should be well versed with ESG reporting framework, ESG data analysis and verification, social impact assessment, governance risks and as well as climate change and carbon management. The insights for the reporting knowledge are highlighted in section 3.7 of this report.
- **ESG Technologies and Infrastructure.** Secondly, the issues of ESG technologies and infrastructure requires that the service provider should invest in ESG software, data management systems and artificial intelligence-driven technologies which can be used for demonstration trainings and or support link companies to the services. A combination of appropriate ESG technologies and expertise will make clients to realize optimal benefits from the ESG services provider.
- **Flexibility in ESG Services Delivery.** Thirdly, as observed from the survey results, 61 percent of the respondents preferred online webinars, 53 percent preferred in person workshops, 51 percent preferred printed materials/handbooks and 31 percent preferred self-paced e-learning modules. This result indicates that the ESG service provider should be flexible to provide both physical and online platforms for training. The ESG services provider should further be well experienced with the skills of writing and making relevant publications that increase knowledge and information for ESG.
- **Sector Knowledge.** Fourthly, it is recommended that an ESG service provider should possess a good knowledge and understanding of clients' sector and regulatory environment so as to customize the training contents and smoothly facilitate knowledge sharing and transfer that meets the needs of the client.
- **ESG Certification.** Fifthly, the ESG service provider needs to be a member of the GRI, ISO and SASB so that it can be able to certify clients who have completed ESG trainings. The service provider may also belong to other industry associations such as the World Business Council for Sustainable Development³² or as may be found necessary.

³³World Council for Sustainable Development: Available at: <https://www.wbcsd.org/>

- **Partnership and Collaboration.** An ESG service provider should be capable of fostering collaborations and partnerships between stakeholders to promote ESG information, technology and resource sharing among the collaborating partners.
- **Technical Support.** An ESG services provider should be able to provide technical support needed for best ESG practices.
- **Financial Strength.** An ESG services provider should be able to have financial strength to deliver timely ESG services as most contracts may opt to pay after services delivery or the service provider should be able to subsidize ESG services for clients who may not fully meet the costs of ESG services.
- **ESG Sales and Marketing.** Lastly, given that ESG is an intangible service, the ESG services provider should have good skills in marketing of services. Marketing of services requires high level of integrity, transparency, professionalism and communication skills.

3.14 Willingness to Engage with ESG Services Providers

The survey noted that there is high willingness by companies (78%) to engage with ESG services providers, and this is driven by need for sustainable businesses and brand reputation. Some respondents pointed that their willingness to engage is being driven by the fast rate at which regulations or laws in line with ESG are coming up in the European Union (EU) as their major trading partner. Respondents expressed willingness to engage through trainings specifically to understand the ESG concepts, framework, reporting, governance, environmental sustainability, and how their businesses can make money through ESG. Below are some of the statements that respondents made in appreciation and expression of their willingness to engage.

"This survey is appreciated. It would be helpful for us as an organization to obtain reports from the survey. I recommend that all participants in the survey should be put on a mailing list, to receive the report".

"ESG means different things to different people, and there seems to be no anchoring competent ESG authority and FUE should spearheaded ESG for standardization in the country and best build capacity for different entities in different industries"

"We would need additional training on governance and specifically sustainability reporting"

"I would like to thank FUE for such a great initiative to ensure that companies are encouraged to do practices that ensure sustainability of our environment for our future generation".

3.15 Role of ILO Uganda Projects in ESG Risks and Opportunities

Since 1963, Uganda is an ILO member and the ILO supports Uganda through numerous initiatives aimed at promoting decent work and enhancing labour standards³⁴. The ILO projects target strengthening national employment policies, social protection systems, workers' rights and aligning the Uganda labour policies and laws to international standards. The ILO have a strong experience in social and labour policies, advocacy and evaluation which makes ILO a strategic partner for the promotion of ESG in Uganda. The ILO is highly visible locally and internationally with positive reputational values that FUE may benefit from to become a recognized ESG service provider in Uganda. For instance, the ILO is currently running the ACCEL and PROSPECTS Projects in Uganda. Whereas ACCEL and PROSPECTS are not necessarily projects focused on ESG, the projects have components that address ESG related issues like child labour, livelihood and responsible business conduct.

The ACCEL Programme aim at elimination of child labour across the coffee and tea value chains through strengthening existing systems to address the root causes of child labour. Therefore, the Federation of

³⁴ILO Uganda: Available at: <https://www.ilo.org/uganda>

Uganda Employers could strategically collaborate and partner with ILO ACCEL Projects to increase ESG related researches, policy lobbying and education in the coffee and tea value chains and may thereafter replicate learning and approaches in other agriculture value chains such as livestock farming where child labour is visibly common.

Similarly, the ILO PROSPECTS Project aims at enhancing the socio-economic inclusion of refugees in Uganda through promoting education and learning, private sector and decent work³⁵ among others. In the past ILO and the Federation of Uganda Employers held roundtable meetings with private sector to promote investment opportunities in refugee hosting districts. FUE and ILO PROSPECTS could build on this past working relationship to organize and promote ESG training to private sector investors in the refugee host districts.

³⁵Prospects in Uganda at a glance, ILO (2022)

CHAPTER FOUR: FEDERATION OF UGANDA EMPLOYERS AS AN ESG SERVICES PROVIDER

4.1 Brief about FUE

The Federation of Uganda Employers is the premier 'Voice of Employers' on social, economic and governance issues. It is recognized both locally and internationally as a top-notch employers' organization in Uganda for the last 62 years. Since its establishment by Act of Parliament in 1960, the Federation has undertaken a number of initiatives to enhance employers' competitiveness through policy advocacy, fostering best employment relations and provision of business support services.

FUE has organized several executive trainings and business support services for small medium and large enterprises aimed at strengthening human resource management, governance, dispute handling, employee wellbeing, labour laws and legislations. FUE uses adult learning methodologies to deliver its training through online or physical forums. The organization has supported policy research, and lobbying to create a conducive work environment for employers in Uganda.

Through organizing events such as the Annual General Meeting (AGM), FUE CEO meetings, Employer of the Year Award events, the Annual Women Leadership Conference, the Employment Relations Conference, FUE Policy dialogues, FUE promotional events, FUE Workplace Health promotion events, Global Compact outreach events and the International Labour Organization (ILO) Conference, FUE has promoted beneficial networking and knowledge sharing forums among employers in Uganda³⁶.

In addition, FUE is affiliated to the International Organization of Employers (IOE), Business Africa and East African Employers Organization (EAEO). It is the recognized organization that represents Ugandan Employers under the tri-partite arrangement and represents employers at the International Labour Conference (ILC). By its mandate, FUE is a member of several Boards for National level apex organizations such as the National Social Security Fund board, the Presidential CEO Forum (PCF) and FUE is always invited in high level international, national and local level dialogue that increases opportunities for knowledge and information sharing. Over time, FUE has created beneficial relationships and networks with both local and international organizations which gives it competitive advantage to become the top provider of ESG across, private sector, government institutions, Civil Society Organizations, Cultural Institutions, universities, and sector associations among others.

Furthermore, FUE works closely with the Ministry of Gender Labour and Social Development (MoGLSD), the Ministry of Finance Planning and Economic Development, National Planning Authority (NPA), Office of the Prime Minister, Office of the President of Uganda, Kampala City Council Authority (KCCA), National Social Security Fund, Institute of Corporate Governance, Trade unions and several employers among others to promote and ensure the competitiveness of employers in Uganda. In FUE work, the employer plays a pivotal role in ensuring that the various social protections systems are enhanced, for the shareholders to realize economic value from their investments. FUE advocates for strengthening of governance systems so that companies and organizations in Uganda can remain sustainable both in the short and long run.

By leveraging its expertise, experience and network, FUE is well positioned to support Ugandan employers in enhancing ESG best sustainability practices for the achievement of Sustainable Development Goals.

³⁶FUE profile: Available at: <https://fuemployers.org/wp-content/uploads/2022/02/FUE-Company-Profile.pdf>

4.2 Analysis of the Potential of FUE to Offer ESG Services

FUE has huge potential to offer ESG services to its members based on its past experience in research and publications, policy advocacy, dispute resolution, training and capacity building. The organization has over 20 years of experience in facilitating impactful Business Support Services (BSS) to its members and the public. These BSS services includes labour laws and human rights, organization capacity building initiatives such as facilitating Strategic Planning Sessions, Business Planning, Project Planning, Financial Literacy Skills, Leadership development and entrepreneurship training among others. FUE has undertaken a number of researches and publications to continuously guide its members in areas of governance and social protection. Some of the FUE recent publications includes, a practical guide to Uganda's Labour Landscape, digital risk management, legal compliance and employee wellbeing for a thriving workplace, industrial relations clinic, social protection systems, child labour in the coffee and tea value chains, e.tc.

FUE has provided services to Small Medium and Large-Scale Enterprises in Uganda to build capacity of its members (employers) and their staff (employees) on various topical areas. Over the last 5 years, FUE has delivered training to over 600 people in Uganda. The institution has a team of professionally certified consultants with diverse areas of specialization across the three ESG pillars. FUE consultants are well versed with socio economic research methodologies and the methods for delivering adult oriented trainings through the online or physical platforms.

4.3 Identification of FUE Core Competencies and Service Offerings

Table 2: FUE core competencies and service offering

#	Core competency	Service offering
1	Research and publications	FUE conducts and publishes reports related to ESG that are relevant to employers. FUE can therefore build on its past work to enrich more ESG studies.
2	Advocacy	FUE advocates for favorable policies and regulations on behalf of employers. This gives FUE an advantage to lobby and advocate for better ESG framework in Uganda
3	Training and Capacity Building	FUE is very competent in providing trainings, mentorship and coaching. It organizes workshops, conferences and training to its members in all areas that aim to improve employers' businesses sustainably.
4	Networking, collaboration and partnership development	FUE creates forums for its members to network with multiple industry practitioners. FUE also supports the process for partnership development between Business to Government (B2G) and Business to Business (B2B).
5	Strong understanding of Labour Laws	FUE has a strong understanding of Labour Laws and has promoted Alternative Dispute Resolutions (ADR) between employers and employees.
6	Wide membership base	FUE has a wide membership base across all sectors of the economy and this can facilitate knowledge and information sharing on ESG across sectors.

4.4 Proposed ESG Training and Other Services

Based on the findings of this study, FUE proposes to strengthen ESG practices in Uganda through provision of ESG training and other services. The training will be conducted into modules and will target boards and top- senior level management such as the CEO's, Human Resource Managers, Strategy and sustainability

managers, risk and compliance managers, Finance Managers, Quality Assurance Managers and investment managers to mention but a few. The training modules and topics proposed here are general and not institution specific and is merely based on the key insights obtained from this survey.

Therefore, there is need for FUE to carry out institutional ESG Organizational Capacity Assessment (OCA) to have an in depth understanding of the training needs of each member so as to customize its training content and services to respond to the identified member training needs. It is expected that the proposed FUE ESG training and other services will enhance understanding on ESG principles and practices, build capacity for ESG reporting, promote ESG compliance and foster a culture of sustainability and responsibility. Table 2 gives details of the proposed training modules and topics. ESG training delivery methodologies and timeframe will be tailored according to the needs of the member. FUE will work with its internal experts and in collaboration with other ESG services providers and partners to ensure companies and organizations receive high quality ESG training and other services.

Table 3: Proposed ESG training Modules

Proposed Module	Proposed Topics
Introduction to SDGs & ESG	SDGs, and targets specific to the company or industry needs.
	Global ESG trends and framework
	Uganda ESG regulatory environment
	Business case for ESG
Environmental sustainability	Environmental policies and ESG reporting
	Sustainable production and consumption
	Green infrastructure and energy efficiency
	Climate change and carbon management
Social sustainability	Importance of Corporate Social Responsibility and development
	Social protection programs
	Diversity, equity and social inclusion
	Human rights, labour standards and dispute resolution
	Employee wellness and occupational health
Governance sustainability	Role of the board in ESG targeting and compliance
	Process and product risk management and internal controls
	ESG compliance and regulatory adherence
	Transparency and disclosures
ESG reporting and Assurance	ESG reporting frameworks
	ESG Data collection and analysis
	ESG assurance
	Stakeholder engagement, collaboration, and partnership
ESG in practice	ESG strategy formulation
	ESG performance monitoring tools
	ESG stakeholders profiling and engagement
	ESG central team selection, KPI setting and staff training
ESG and business growth	ESG and business resilience
	ESG and brand reputation
	ESG and investor relations
	ESG and access to sustainable financing

Other ESG services	ESG related research, and policy advocacy
	Quarterly ESG newsletter
	Annual national ESG reports and surveys
	Best ESG employer of the year

4.5 Market Positioning and Value Proposition

4.5.1 Market Positioning

Building a strong connection between ESG needs and FUE core competencies can ease market positioning and value proposition by FUE. Market positioning is expected to help FUE create a distinct perception, image, inclusivity and reputation in the market through defining and communicating its ESG services, brand, value and competitive advantage to the targeted customers.

In designing FUE market positioning and value proposition, it is suggested that FUE takes keen considerations on the various customer/member segments and what ESG value customers can derive by taking up FUE ESG services. It is also advisable that FUE designs and offer ESG services that capture customer value in relation to their identified ESG service needs. When making ESG pricing decisions, FUE needs to adopt value-based pricing models and could incorporate ESG services among the subsidized services that it extends to its members. In addition, FUE could consider designing effective ESG communication strategy that drive customers to choose FUE as the “go to provider for ESG services”.

Finally, continuous efforts to monitor and evaluate ESG services offering will enable FUE to reflect and what is working, learn and adapt to satisfactorily meet market needs. Figure 19 provides an insight to the proposed FUE ESG market positioning lens.

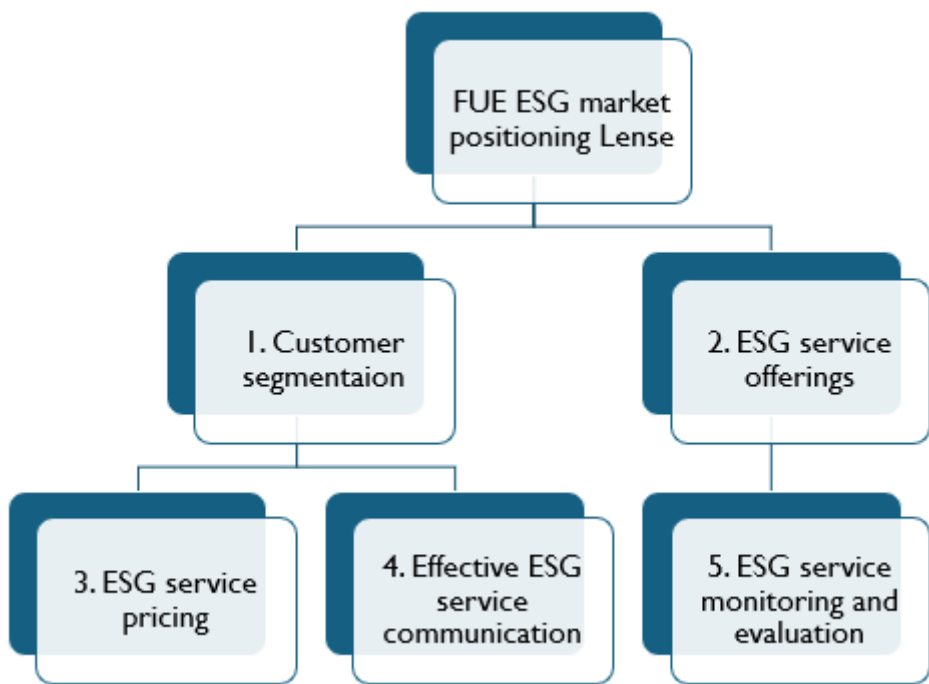


Figure 19: FUE proposed market positioning

4.5.2 Value proposition

This report proposes the need to create a comprehensive ESG value proposition by FUE through provision of efficient ESG services. A clear value proposition will enable clear communication of unique ESG services, their benefits and how they contribute to meeting customers, stakeholders and investor's needs. Therefore, it is important for FUE to pay attention to the ESG values it will bring to customers, internal operations, financial performance, employees learning and development and the shareholders of the organization through provisions of well-tailored ESG services.

Figure 16, proposes some of the values that FUE could strategically target to deliver to stakeholders and business functional units through ESG services. It is expected that the realization of these values will be a two-way effort and commitment from both FUE and the beneficiary client.

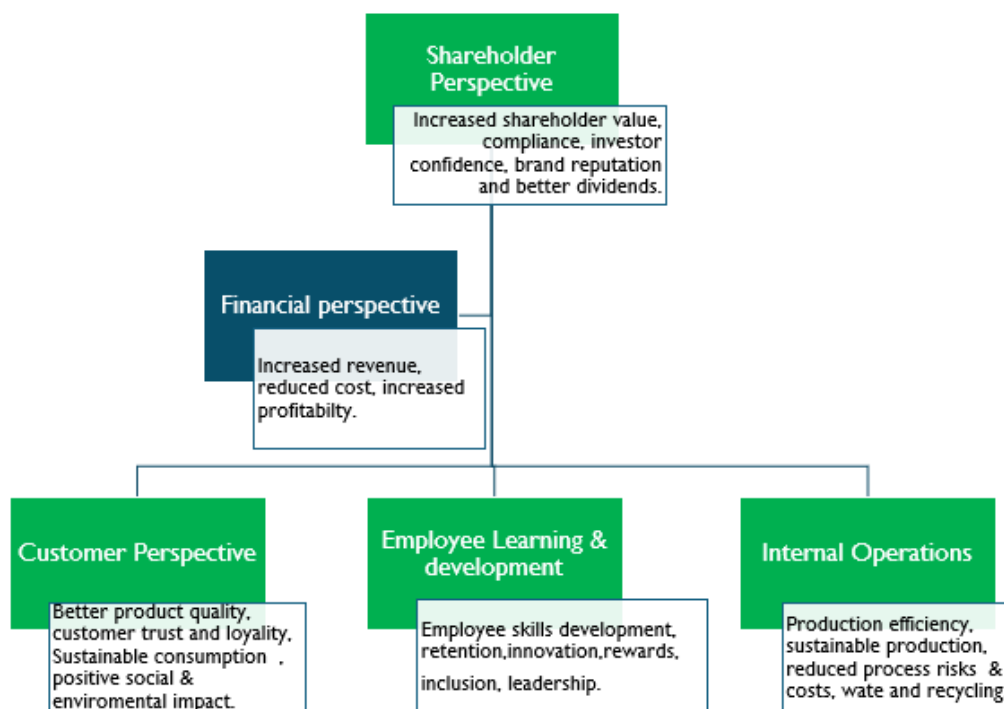


Figure 20: Proposed and expected FUE value proposition through ESG services

4.6 FUE ESG Policy Framework and Strategy

The Federation of Uganda Employers recognizes the importance of ESG in promoting and protecting its membership development through responsible investing and sustainable business practices. To enable FUE support its members to adopt ESG desired practices, this survey suggests for the development of an ESG policy framework and strategy that will guide FUE decisions to increase ESG services access to its members.

Based on the findings of this survey, the FUE ESG policy framework may focus on strategic areas that aim to comprehensively address the identified ESG risks and opportunities within the broad FUE membership base. The ESG strategy will provide a roadmap to implementation of FUE ESG services, setting out a vibrant ESG vision and objectives, theory of change with unique verifiable actions that will lead to sustainability impact among FUE members.

The ESG strategy will enable FUE to identify tools and resources that may be required for providing effective ESG training and services to FUE members. Given that there are gaps in understanding each Uganda's sector contribution to the national sustainability score, and given that FUE membership cuts across all sectors, FUE ESG strategy could significantly contribute to simplifying this problem through suggesting multi-variable sector-oriented ESG evaluation model that may be adopted for measuring national ESG performance.

CHAPTER FIVE: CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary of Key Findings

The ESG state of play in Uganda has provided good insights regarding the ESG landscape on Uganda with strategic focus on ESG regulatory framework, perspective of employers on ESG risks and opportunities, what pressures Ugandan firms feel about ESG, whether financial institutions are providing better terms to firms with reduced ESG risk profiles and the current potential needs of FUE members to respond to ESG. The study further provided insights on how ILO ACCEL projects can support Ugandan firms decrease ESG risks and promote opportunities for positive impact: The following are summaries of the key findings.

- **ESG Landscape:** There is a general perception that ESG landscape is rapidly evolving in Uganda although ESG awareness and understanding remains low in Uganda. Close to 73 percent of the respondents do not fully understand ESG.
- **Current/planned ESG Regulatory Frameworks.** The existing planning and policy frameworks in Uganda support implementation of ESG pillars and scope. Uganda's National Development Plan (NDPIII) 2020/21-2024/25 incorporates commitments to regional and international development frameworks, including ESG. The second Nationally Determined Contribution (NDC) further outlines ambitious targets for greenhouse gas emissions reduction, aligned with national policies like Vision 2040, the National Climate Change Act of 2021, the National Climate Finance Strategy, the National Social Protection Policy (2015) all promote sustainability. However, there is limited trace of ESG sector specific framework except for the confirmed banking sector ESG framework.
- Although there are policy guidelines that aim to address ESG related issues, there is limited awareness about these policies, hence raising challenges around effective policy communication and implementation. ESG reporting remains voluntary and is currently not strongly enforced across sectors.
- **Perspectives of Sector at Most Risks of ESG:** Respondents indicated that nearly all production and service sectors faced ESG risk that must be planned for and mitigated. These risks are legal liabilities, financial losses, supply chain vulnerabilities, reputational damage, business disruptions, regulatory fines, climate change, cyber security, loss of talents. The risk mitigation measures in place needs to involve adoption of sustainable business practices.
- **Pressure that Uganda Firms Feel about ESG.** There are few companies experiencing ESG related pressures with only 8 percent of the respondents experiencing such pressures. These few companies have started experiencing ESG pressures from suppliers and customers especially due to social responsibility. Most companies are less exposed to ESG legislative laws through suppliers from external companies such as US, UK and EU.
- **Financial Institutions Services.** The study noted that there are currently no better terms from financial institutions in Uganda because of reduced ESG risk profile. The assessment by financial institutions are not based on ESG compliance but based on collateral security, revenue and profitability only even if some financial services providers speak of climate related financing, they do not focus on ESG.
- **Potential Needs of FUE members to Respond to ESG Pressures and Opportunities.** The survey noted a weak potential by FUE members to respond to ESG pressures and that mitigation measures in place by members were not adequate to deal with the ESG related risks. The observed gaps were in the areas of ESG governance, policies, process integration, measurement and reporting, planning and financing.

5.2 Recommendations for FUE to Position itself as an ESG Service Provider

The following are the key recommendations for FUE to position itself as an ESG service provider in Uganda.

- i. Strengthen understanding on sector specific ESG needs.
- ii. Leverage on FUE distinct competencies in training, research, advocacy, networks and knowledge on labour policies to provide impactful ESG services.
- iii. Adapt value based ESG marketing and service provision.
- iv. Develop FUE ESG policy framework and strategy.
- v. Collaborate with industry associations, NGOs, media and government agencies.

5.3 Strategic Recommendations for Engaging with the Target Audience

The following are strategic recommendations for engaging with target audience.

- Establish FUE ESG committee or working group
- Conduct target audience stakeholder mapping per sector.
- Develop ESG informational materials and toolkits.
- Incorporate ESG compliance as a criterion for identifying the employer of the year.
- Organize sector specific ESG networking and dialogue forums.
- Carry out regular monitoring to get stakeholders feedback on engagement.
- Develop a clear ESG communication strategy.

APPENDICES

APPENDIX 1: KEY INFORMANT QUESTIONS

1. How do you see the ESG landscape in Uganda?
2. Which sectors do you think are most exposed to ESG risks and what initiatives are in place to mitigate ESG risks in these sectors?
3. What is the perception of ESG in your organization and do you currently feel any pressure e.g. from customers, suppliers, regulators or employees about ESG? Which department is giving you the most pressure about ESG?
4. Are any financial institutions providing better terms to you because of a reduced ESG risk profile?
5. Any other issue about ESG that you would like to bring to the attention of this study?
6. What role do you think ILO projects such as ACCEL and EU Child Labour project can do to support Ugandan Firms in decreasing ESG risks and promoting opportunities for ESG positive impacts? (Specific to ILO projects)

APPENDIX 2: REGULATORY FRAMEWORK IN UGANDA

Regulatory Framework	Scope
Environment	
Uganda National Climate Change Policy	Focuses on climate change mitigation and adaptation
National Environment Policy	Provides a framework for environmental management and conservation
National Forestry Policy	Aims to conserve and manage Uganda's forest resources
The National Environmental Act	Provides a framework of environmental management and establishes NEMA in Uganda
The Environmental Impact Assessment Regulations	Provides guidelines on regulations of projects that may have significant impact on the environment
Social Regulatory Framework	
Employment Act (2006)	Governs employment contracts, wages and benefits
Labour Act (2006)	Regulates employment, working conditions and labour relations
Occupational Safety and Health Act (2006)	Ensures workplace safety and health
National Social Security Fund (NSSF) Act (1995)	Manages social security for employees
Workers compensation Act (2006)	Provides compensation for work related injuries.
Health Act (2006)	Regulates healthcare services and facilities
National Health policy (2010)	Guides healthcare delivery and planning
National Health Insurance Scheme (NHIS) Act 2013	Provides health insurance
Uganda Medical and Dental Practitioners Council Act (1998)	Regulates medical practice
Child Act (2016)	Protects children's right and welfare
National child policy (2010)	Ensures children's wellbeing
Child protection policy (2014)	Guides child protection efforts.
Gender and Equity Compliance Act (2015)	Promotes gender equality
Domestic Violence Act (2010)	Protects against domestic violence
National Gender Policy (2007)	Guides Gender mainstreaming
Persons with Disability Act (2006)	Protects rights of persons with disabilities
National Disability Policy (2012)	Ensures inclusive development
Social protection policy (2015)	Guides social protection programs
National Social Security Program (NSPP) Act (2015)	Provides social assistance
Youth Council Act (1993)	Establishes youth councils
Uganda Retirement Regulatory Benefits Regulatory Act	Regulates the establishment, management and operations of retirement benefit schemes in Uganda
Governance Framework	
Constitution of the Republic of Uganda (1995)	Provides Uganda's supreme law. Recognizes the right to a clean and healthy environment, making environmental protection a fundamental right.
Public Procurement and Disposal Act 2023, amended	To promote to use of sustainable procurement as a social economic tool. All public procurement and disposal activities must be subjected to scrutiny for environmental, social and health safeguards (ESHS) and to simplify procurement and reduce the cost of doing business without compromising quality.
Public Finance Management Act (2015)	Regulates public financial management
National Audit Act (2008)	Establishes the Auditor's General Office
Human Rights Commission Act (2006)	Establishes the Uganda Humans Rights Commission
Anti-Torture Act (2012)	Prohibits torture
Local Government Act (2015)	Strengthen local government autonomy
Urban Authorities Act (2011)	Regulates urban authorities
Other Frameworks	
Vision 2040	Provides for Uganda's long-term development vision
National Development Plan (NDP) III (2020/21-2024/25)	Provides the framework for short-medium term planning
Sector Specific ESG Framework	
ESG Framework for Uganda's Banking Sector	To guide financial institutions in adopting sustainability practices thereby supporting Uganda's sustainable Development.

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