International Labour Organization

Environmental Social Governance (ESG) and its implications for medium-sized enterprises in Africa

Training guide

June 2022

Contents

Abbreviations and acronyms

CBK	Central Bank of Kenya
CDSB	Climate Disclosure Standards Board
CSR	Corporate Social Responsibility
DRC	Democratic Republic of the Congo
EBMO	Employers and Business Membership Organization
EGX	Egyptian Stock Exchange
EITI	Extractive Industries Transparency Initiative
ETI	Ethical Trading Initiative
FAST	Finance against Slavery and Trafficking
GDP	Gross Domestic Product
GRESB	Global Real Estate Sustainability Benchmark
GRI	Global Reporting Initiative
ICBC	Industrial and Commercial Bank of China
ICTI	The International Council of Toy Industries
IFC	International Finance Corporation
IFRS	International Financial Reporting Standards Foundation
IIRC	International Integrated Reporting Council
ILS	International Labour Standards
IPCC	International Panel on Climate Change
JSE	Johannesburg Stock Exchange
LEAD	Leadership in Environmental and Energy Design
MNE	Multinational Enterprise
NSE	Nairobi Securities Exchange
NPBs	Nature Performance Bonds
OECD	Organisation for Economic Co-operation and Development
OSH	Occupational Health and Safety
SASB	Sustainability Accounting Standards Board
SDGs	Sustainable Development Goals
SSE	Sustainable Stock Exchanges
SFDR	Sustainable Finance Disclosure Regulation
SFI	Sustainable Finance Initiative
SRI	Socially Responsible Investment
TCFD	Taskforce for Climate-related Financial Disclosures
UK	United Kingdom
UNGC	UN Global Compact
UNHRC	United Nations Human Rights Council
UNWTO	United Nations World Tourism Organization
US	United States
VPs	Voluntary Principles on Security and Human Rights
WEF	World Economic Forum

Glossary

Benchmarking	The practice of measuring how much of a utility or a building consumes (energy, water and other resources) or produces (waste and other by-products) and comparing that against other similar buildings.
Biofuel	Biofuel is a fuel produced from organic matter or waste through contemporary processes and is used as an alternative to fossil fuels.
Carbon fuel	A measure of the total greenhouse gas emissions produced by an individual, group, or company.
Carbon offset	Carbon offsets are reductions in CO_2 or other greenhouse gases (GHGs) made to compensate for emissions made elsewhere; they are measured in tonnes of carbon dioxide-equivalent (CO_2e).
Circular economy	A circular economy is a systematic approach to economic development with the goal of eliminating waste by focusing on a regenerative design and attempting to promote growth while reducing consumption of finite resources.
CDP	CDP (formerly known as the Carbon Disclosure Project) is an organization that supports companies and cities to disclose the environmental impact of major corporations. It aims to make environmental reporting and risk management a business norm, and drive disclosure, insight, and action towards a sustainable economy.
Disinvestment	The act of dissociating or selling assets and securities due to behaviour not aligned with ESG values, or to display a strong commitment to ESG and responsible investing practices.
GRI	The Global Reporting Initiative is an independent international organization that helps businesses and governments worldwide understand and communicate their impact on critical sustainability issues such as climate change, human rights, governance and social well-being. This enables real action to create social, environmental and economic benefits for everyone. GRI has pioneered sustainability reporting since the late 1990s, transforming it from a niche practice into one now adopted by a growing majority of organizations. The GRI reporting framework is the most trusted and widely used in the world.
Greenwashing	Promoting a product, service, or company as more environmentally friendly than it truly is by falsely advertising environmental benefits.
GHGs	Greenhouse gases are those gaseous constituents of the atmosphere, both natural and anthropogenic, that absorb and emit radiation at specific wavelengths within the spectrum of terrestrial radiation emitted by the Earth's surface, the atmosphere itself and by clouds. This property causes the greenhouse effect.
IPCC	The International Panel on Climate Change is a body created by the United Nations with the intention of providing scientific assessments on climate change, its impact, and future risks, as well as suggestions for mitigating impact and disruptions.
Listed company	A listed company issues shares of its stock for trading on a stock exchange. It is a public company. Companies that are listed are required to submit quarterly financial statements.

LEAD	Leadership in Energy and Environmental Design is a worldwide green building certification programme. It is applicable to all building types and phases.
Net zero	Net zero refers to buildings with zero net energy consumption, meaning the amount of energy used at the property is equal to the amount of renewable energy created on-site.
Scope I, II, or III emissions	Scope I emissions are GHG emissions that your company is directly responsible for, such as emissions from on-site burning of fossil fuels or emissions from fleet vehicles. Scope II emissions are GHG emissions from sources that your company owns or controls, such as the generation of electricity, heat, or steam purchased from a utility provider. Scope III emissions are GHG emissions from sources your company does not own or control but which are related to your operations, such as employee commuting or contracted solid waste and wastewater disposal.
Triple bottom line	Triple bottom line is an accounting framework with three main components: social, environmental, and financial. Companies incorporating this framework believe that instead of a single bottom line, there are three: people, planet, profit.
SSE	Sustainable Stock Exchanges
SDGs	The Sustainable Development Goals are a set of 17 goals agreed by governments (191 in total) to address the big development issues, such as poverty reduction, employment generation and climate change. The goals are to be achieved by 2030.
SDG washing	‘SDG washing’ is an evolution of the term, ‘greenwashing’, originally used to describe companies that portray themselves as environmentally friendly when in reality they are not. SDG washing refers to companies that use the SDGs as window dressing to present a deceptively positive picture of their environmental and social impacts.
Sustainability	The original definition of sustainable development, from the first Rio Earth Summit in 1992, focused on “meeting the needs of the present without compromising the ability of future generations to meet their own needs”. Business sustainability is therefore the ability of firms to respond to their short-term needs without compromising the ability to meet future needs.
TCFD	Taskforce for Climate-related Financial Disclosures’s focus is reporting on the impact an organization has on the global climate. It seeks to make firms’ climate-related disclosures more consistent and therefore more comparable.
UNGC	The UN Global Compact is a principle-based framework for businesses, stating ten principles in the areas of human rights, labor, the environment and anti-corruption.
UN Guiding Principles for Business and Human Rights	The UN Guiding Principles are non-binding and grounded in recognition of: (a) States’ existing obligations to respect, protect and fulfil human rights and fundamental freedoms; (b) The role of business enterprises as specialized organs of society performing specialized functions, required to comply with all applicable laws and to respect human rights; (c) The need for rights and obligations to be matched to appropriate and effective remedies when breached. The Guiding Principles apply to all states and to all business enterprises, both transnational and others, regardless of their size.
Zero waste	A set of principles that focus on preventing the generation of waste by redesigning products, rethinking how products are used, and reusing products with the goal that no waste is sent to landfills.

The 17 SDGs

Goal 1	End poverty in all its forms everywhere
Goal 2	End hunger, achieve food security and improved nutrition and promote sustainable agriculture
Goal 3	Ensure healthy lives and promote well-being for all at all ages
Goal 4	Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all
Goal 5	Achieve gender equality and empower all women and girls
Goal 6	Ensure availability and sustainable management of water and sanitation for all
Goal 7	Ensure access to affordable, reliable, sustainable and modern energy for all
Goal 8	Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all
Goal 9	Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation
Goal 10	Reduce inequality within and among countries
Goal 11	Make cities and human settlements inclusive, safe, resilient and sustainable
Goal 12	Ensure sustainable consumption and production patterns
Goal 13	Take urgent action to combat climate change and its impacts
Goal 14	Conserve and sustainably use the oceans, seas and marine resources for sustainable development
Goal 15	Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss
Goal 16	Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels
Goal 17	Strengthen the means of implementation and revitalize the Global Partnership for Sustainable Development

1. Background

Environmental, Social and Governance (ESG) investing has become increasingly mainstream in recent years.[1] ESG investing means investing in enterprises that have strong records on environmental issues (e.g. reducing carbon emissions, using resources more efficiently and cutting down waste production and complying with environmental regulations), on social issues (e.g. ensuring workplace safety, decent work, diversity and inclusion, and observing the data and privacy requirements for employees), and on governance issues (e.g. executives' salary levels, composition of the board, shareholder voting rights, the enterprise's stance on bribery and corruption). Globally this type of investing accounts for somewhere between one and two out of every four investment dollars. More than 2,250 money managers who collectively oversee US$80 trillion in assets have now signed on to the United Nations-backed Principles for Responsible Investment.

Across Africa it would be fair to say that ESG investing has not been at the top of the priority list for corporates and investors. However, that is changing and these issues will have an increasingly important impact on the investment landscape.[2] Sustainability in business is a megatrend and it will continue to grow. That cannot exclude small and medium-sized companies. Companies in Africa big and small will experience increased demands and expectations regarding how they conduct business. The smart will outgrow the slow.

The African reality is marked by the dominance of extractive industries, high exposure to climate change and pressing developmental needs. The dominance of extractive industries poses a clear obstacle to the rise of 'green' investment strategies on the continent. Sub-Saharan Africa is the world's most commodity-dependent region, and much of its income is a product of the export of petroleum products, coal, metals and minerals. Yet there are more opportunities in Africa for investors to make a positive environmental or social impact than in any other region in the world.[3]

This training guide will explain how trends and legislation in ESG issues have a direct relevance to enterprises throughout the continent and how employer and business membership organizations can support them.

[1] According to US SIF's 2018 Report on Sustainable, Responsible, and Impact Investing Trends, total SRI assets jumped 38% to $12 trillion since 2016 in the US alone. These assets represent 26% of the total US assets under management (US$1 in US$4). For perspective, when US SIF first measured the size of the market in 1995, it was US$639 billion; the area has increased 18-fold, and has since enjoyed a compound annual growth rate of 13.6%. By some estimates, it could reach US$50 trillion over the next two decades. According to predictions from Bank of America, another US$20 trillion is set to flow into ESG funds over the next two decades. For context, the entire S&P 500 is worth about $25.6 trillion.

[2] Among limited partnerships (LPs), more than 97% of respondents already believe it is important to consider ESG factors when making investment decisions, according to a 2021 industry survey by the African Private Equity and Venture Capital Association (AVCA)

[3] See article here

2. ESG Explained

2.1. ESG Frameworks and reporting mechanisms

In the 1970s frameworks started to evolve concerning the ethical behaviour of multinational enterprises (MNE). The 'social contract' introduced in the 1970s was developed by the Committee for Economic Development. The Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises was developed as a global instrument to guide the ethical behaviour of multinationals in 1976 (regularly revised). A year later in 1977 the ILO's Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (MNE Declaration) was launched. The ILO Declaration on Fundamental Principles and Rights at Work, adopted in 1998, brings freedom of association, the elimination of forced or compulsory labour, the abolition of child labour and the elimination of discrimination together into one vehicle.

On the environmental side, the Rio Earth Summit in 1992 was the first global summit focusing on environmental concerns.[4] The Kyoto Protocol followed a few years later. The UN Global Compact (UNGC) (2000) was "a call to companies to align strategies and operations with universal principals on human rights, labour, environment, and anti-corruption". The United Nations Principles for Responsible Investment (2006) coined the phrase 'ESG' (Environmental Governance and Social). In 2014, the UN Human Rights Council (UNHRC) established an open-ended working group to develop "an international legally binding instrument to regulate, in international human rights law, the activities of transnational corporations and other business enterprises".[5] Increasingly large enterprises are using the UN's 17 SDGs as a reference for ESG reporting.[6] All of these frameworks led to a wide range of initiatives to measure the actions of enterprises.

2.2. ESG, SRI, impact investing, CSR and the SDGs

ESG investment in stocks and funds that have a positive ESG footprint. ESG investors avoid investing in certain companies or sectors (tobacco, for instance). Ultimately ESG investing is still driven by the bottom line. While there is an overlay of social consciousness, the main objective of ESG valuation remains financial performance.[7]

[4] The original definition of sustainable development, from the first Rio Earth Summit in 1992, focused on "meeting the needs of the present without compromising the ability of future generations to meet their own needs ". Business sustainability is therefore the ability of firms to respond to their short-term needs without compromising the ability to meet future needs. Sustainability therefore represents a concept that is more easily integrated into the core purpose of business than 'responsibility', which is often perceived as a check or counter-balance to business-as-usual activity.

[5] Both the UNGC and the Guiding Principles offer sets of normative principles to guide business policy and conduct, especially pertaining to the notion of 'do-no-harm'. With respect to the UN Global Compact, companies commit to a set of Ten Principles, all drawn from key UN Conventions and Declarations, in four areas: i) human rights, ii) labour, iii) environment and iv) anti-corruption. The Guiding Principles, meanwhile, provide further conceptual and operational clarity for the two human rights principles championed by the UNGC and set a minimum standard of conduct for companies to prevent and address the risk of adverse human rights impacts linked to their business activities.

[6] The SDGs operational since 2016 set out quantitative objectives across the social, economic, and environmental dimensions of sustainable development – all to be achieved by 2030. The 17 SDGs are further broken down into 169 targets. To add to this, there are 232 statistical indicators or performance metrics to benchmark progress towards the SDGs.

[7] The 'E' (environment) still dominates ESG investing but social issues are increasing. Over half of institutional investors are looking for companies to disclose more details about their social or 'S' (social) factors, according to RBC Global Asset Management's annual Responsible Investment Survey.

Socially Responsible Investing (SRI) generally uses exclusionary screens, or filters, that investors can use to exclude certain companies and industries that do not meet their value criteria. For example, many SRI investors screen out tobacco, alcohol, and weapons stocks, and, increasingly, fossil fuel companies. ESG is most like SRI in that it focuses on investing in publicly traded companies. However, ESG investors actively opt into companies because of impressive ESG attributes they have demonstrated. Conversely, a traditional SRI investor focuses on excluding certain industries or companies because they have failed in certain aspects.

For impact or thematic investors, positive outcomes are of the utmost importance, meaning that the investments need to have a positive impact in some way. The objective of impact investing is to help a business or organization accomplish specific goals that are beneficial to society or the environment. Investment recipients include small businesses, social enterprises, and the myriad real estate and infrastructure projects that seek financial and social performance concurrently. There are also a wide range of service providers, government actors, networks, and standards-setting bodies. Impact investing is a small fraction of the US$2.9 trillion or so managed by private equity enterprises worldwide.[8] Corporate Social Responsibility (CSR) is more disconnected from main company operations and carries out mainly philanthropical acts. ESG, SRI and impact investing are more integrated and connected to the mission of the company.

2.3. ESG Reporting

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 this 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.

ESG reporting should be on a 'materiality' basis. In ESG reporting, materiality is the principle that determines which relevant topics are sufficiently important that it is essential to report on them. Not all ESG topics are of equal importance to an organization, and the emphasis within a report is expected to reflect their relative priority. In financial reporting, material issues are those that are important to investors. Increasingly, these material issues include ESG issues. The Sustainability Accounting Standards Board (SASB) has identified the material ESG issues in 10 sectors (subdivided into 79 industries) and, through its 'Provisional Standards'," has recommended key performance indicators (KPIs) for reporting on them. While SASB's industry-level KPIs represent a company's ESG outcomes, these outcomes also have an impact on organizations and people outside the company, which, to varying extents, contribute to SDGs. Thus, a relationship between ESG outcomes and SDGs impacts exists via the concept of materiality.

National jurisdictions will usually propose a common set of ESG metrics for reporting by all listed companies. This is intended to help facilitate comparability of ESG performance of listed companies. Over time, and with improved maturity on ESG disclosures, stakeholders will be able to correlate financial performance with specific ESG indicators such diversity and air emissions, as well as compare the ESG profiles of organizations reporting within the same sector. The main ESG metrics commonly sought by investors are listed below:

- Presence of an overarching ESG policy
- Assignment of ESG management responsibility
- Corporate code of ethics
- Presence of litigation

[8] In June 11, 2020, the GIIN published the *2020 ANNUAL IMPACT INVESTOR SURVEY*, which includes an updated market sizing analysis, which estimates the current market size at US$715 billion.

- People diversity
- Net employee composition
- Environmental policy
- Estimation of carbon footprint
- Data and cybersecurity incidents
- Health and safety events.

Disclosures on ESG factors are becoming more standardised and widespread. As with corporate governance reform, intensified pressure from investors is serving as a major catalyst for change. Corporate governance codes, executive compensation disclosures, say-on-pay and board gender diversity mandates spread rapidly across the globe during the past decade as different jurisdictions learned about implementing governance standards from each other. Existing reporting standards may serve as the blueprint for any mandated reporting, including reporting standards intended for the investment community (such as the SASB and the Taskforce on Climate-related Financial Disclosures [TCFD]).

2.4. The ILO and ESG frameworks

ILO international labour standards (ILS) are extensively referenced and used by companies when making ESG disclosures. Practically every listed company in the world references ILO standards. The core labour standards are the most frequently cited. There are current efforts to add key health and safety labour standards to be part of the ILO's fundamental rights at work.[9]

ILS are legal instruments designed for national governments and there are a range of bodies the ILO has put in place to supervise their implementation. The ILO has no role in policing in how ILS are used by companies.

2.5. ESG disclosure and its impact on suppliers and other stakeholders

ESG reporting on 'boundary' refers to the range of entities (e.g. subsidiaries, joint ventures, and subcontractors) whose performance is represented by the ESG disclosures report. That means if you are a supplier to a listed company, you will have to provide that company with ESG assurances. Listed companies also need to undertake a situational analysis and stakeholder engagement. This is a process by which an organization's internal and external environment is analysed in order to evaluate the firms impact. Stakeholders can include those who are invested in the organization (such as employees and shareholders), as well as those who have other relationships to the organization (such as other workers who are not employees, suppliers, vulnerable groups, local communities, and NGOs or other civil society organizations, among others). Organizations also should identify impacts on future strategy, i.e., impacts on future revenues, cash flows and operating costs by emerging trends in ESG.

[9] There are over a dozen ILO conventions that deal completely or partially with healthy and safe working conditions. In the construction sector, Convention 167 (1988) on Safety and Health in Construction as well as Recommendation 175 and the Code of Practice have been very important instruments to improve OHS standards.

2.6. Rating firms on ESG variables

Large publicly listed enterprises are awarded an 'ESG Score' from different ESG data providers (Sustainalytics, MSCI and ISS are three big ones). They get the information from voluntary company self-disclosures as well as mandatory company disclosures and media coverage. In reality, ESG data are mostly subjective and can actually be misleading.

An organization's ESG score is, simply put, a numerical measure of how it is perceived to be performing on a wide range of ESG topics. The operative word in the preceding sentence is 'perceived'. An ESG score is calculated based on how an organization is seen to be performing – that is, how its behaviour relating to ESG issues is reported. There is a gap between reality and perception. While a business may have a strong policy around carbon emissions and waste reduction, or a system of transparent, performance-based promotion, if that information is not in the public domain, these will not impact its ESG score. If its ESG score does not reflect the internal reality, chances are the company's ESG position is not being properly understood by its stakeholders. The same applies to the negative side of the equation. All of this is highly subjective and lots of contradictions abound.

2.7. Inconsistent reporting standards

There is a lack of reporting standards that are universally accepted[10] and index-providing rating agencies have created their own ratings to evaluate ESG factors. While we are some way from a global consensus on reporting standards, the frameworks developed by the following organizations (in no specified order) are the ones most widely cited by investors: the GRI, the International Integrated Reporting Council (IIRC), the SASB, the UNGC, the CDP, the Climate Disclosure Standards Board, and the FSB TCFD. The GRI Sustainability Reporting Standards are the most widely used standards for reporting on ESG impacts globally. Other resources are listed below.

- The SASB publishes sustainability standards for 11 major industries and dozens of subsectors, focusing on items that are materially financial to businesses.
- Due Diligence Guidance for Responsible Business Conduct, published in May 2018.
- GRI which has published ESG standards since 1997.
- ISO 26000, a standard that offers guidelines for ESG issues but is not certifiable like other ISO standards.
- Corporate Human Rights Benchmark, an annual ranking of companies' ESG efforts based on disclosures those companies make to investors.

However, there still lies a considerable knowledge gap between ESG information and supply. This gap is driven by several factors, such as varying ESG reporting standards and frameworks, non-mandatory reporting regimes, and steep costs to collect and report data. The overall picture of performance to date has been based mostly on voluntary company self-disclosures alongside mandatory company disclosures. This is arrived at using annual reports, media coverage or combining data from different ESG data providers (Sustainalytics, MSCI and ISS) to create a composite ESG score. Where there is a legal requirement for disclosure, such as for the gender pay gap in large companies, data are easier to compare, but still prone to inconsistencies, and limited in scope. At the end of the day, ESG data are at best subjective, and at worst misleading.

Measurement might be arrived at by gathering self-disclosure by companies (which means understanding what they are willing to report or not) and combining data from different ESG data providers (Sustainalytics, MSCI and ISS). You can then create a composite ESG score but bear in mind most data providers rely on publicly available information. The reality is higher and more transparent standards will be sought. There is barely a consensus on what ESG should encompass, let alone a universal set of standards to measure ESG risk and develop improvement plans.

[10] The four major rating agencies for ESG that dominate the current market include MSCI, Sustainalytics, RepRisk, and ISS.

2.8. The SDGs emerging as main framework

Listed companies are also encouraged to report progress and contribution to the SDGs. The identified material ESG disclosures can be linked with the specific targets for the prioritised SDGs and progress reported using the approach presented in this manual. The SDGs can also help in the identification of material topics and/or impact. By aligning organizational objectives with the SDGs, organizations can identify significant impact areas that affect their contribution to the SDGs. The concept of 'materiality' is central to linking ESG outcomes to their impact on the SDGs.

We are currently in the middle stage of global standardization, with many organizations – standard setters, issuers, investors – defining what they need from ESG data, how these data are to be used, how its quality is to be assured, and how it is to be presented or reported. Progress on standardization will help to move sustainability into the mainstream dialogue between issuers and investors. 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. This underlines that the SDGs will become the main framework for ESG reporting.

The International Financial Reporting Standards Foundation (IFRS) announced in February 2021 that it will move forward with developing a worldwide sustainability reporting standard. The IFRS is supported by CDP, the Climate Disclosure Standards Board (CDSB), GRI, IIRC, and SASB as the group of five collaborate to create a global standard for comprehensive corporate reporting. It is the first attempt by the five organizations to combine their existing standards frameworks to produce a common approach for reporting the impact of sustainability issues on company value.[11]

[11] See here for more on the standard.

3. The Stick: Factors forcing all firms to take ESG issues seriously

3.1. External legal requirements on African enterprises

Legislation is increasing across ESG issues. The United Kingdom introduced legislation the Modern Slavery Act in 2015. This legislation 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. Today, any United Kingdom business – or a part of that business – with a global turnover of US$47 million or more and which supplies goods or services in the United Kingdom has to produce and publish a public annual slavery and trafficking statement every year. The statement must set out what steps the company has taken to ensure there is no slavery in any part of its business, including all its supply chains. Australia adopted similar legislation in 2019 – the Modern Slavery Act – while the French National Assembly adopted the Duty of Vigilance Law in 2017. Similar legislative efforts have been enacted in Hong Kong, the Netherlands and Switzerland. A 2021 German supply chain law holds companies accountable for human rights breaches and will fine companies procuring parts or materials from suppliers that fail to meet minimum human rights and environmental standards (Switzerland and Norway enacted similar legislation in 2021).

The EU's Corporate Sustainability Reporting Directive (CSRD) comes into effect in December 2022. The CSRD will strengthen the nature and extent of sustainability reporting in the EU over the coming years. Notable changes include the extension of reporting requirements to include additional categories of companies and the inclusion of the 'double materiality concept'. The directive (which will become national law in EU member states) compels companies to conduct due diligence throughout their supply chain, (environmental footprint and human rights). The legislation will oblige companies to identify, address and remedy any aspects of their supply chain that could infringe human rights, the environment or good governance.

> The rules would apply to all businesses operating within the EU, including those based outside EU member states.

The United States is currently considering similar legislation.[12] The Business Supply Chain Transparency on Trafficking and Slavery Act would require public companies to disclose information describing measures taken to identify and address conditions of forced labour, slavery, human trafficking, and the worst forms of child labour within their supply chains.

On the environmental side, the European Commission launched the EU Green Deal at the end of 2019. The Green Deal aims to reorientate capital flows towards sustainable investment. The EU Sustainable Finance Disclosure Regulation (SFDR) consists of disclosure requirements on enterprise and product levels to standardise sustainability disclosure. If managers do not take environmental sustainability into account with their funds, they must make a statement acknowledging this. The EU's SFDR and the Taxonomy Regulation targets greenwashing with new disclosure regimes. The SFDR is not limited to sustainable investments: all investors will need to explain how they manage the sustainable risks in their investment process. The regulation applies to financial market participants (FMPs) whose business is in Europe and *non-EU FMPs (and their subsidiaries) that do business in the EU or sell products to the EU, and non-EU enterprises that submanage EU assets or funds.* The EU Taxonomy Regulation which came into force in January 2022 provides a framework to identify to what degree asset managers' financial products are living up to environmentally sustainable values based on a series of six objectives.[13] It applies to all financial products which set an environmental sustainability objective or promote environmental characteristics.

[12] See link here

[13] The EU taxonomy with six environmental objectives provides for four conditions that an economic activity must meet in order to qualify as environmentally sustainable. It should (a) contribute substantially to one or more of the environmental objectives; (b) not significantly harm any of the environmental objectives; (c) be carried out in compliance with the minimum safeguards laid down in the regulation; and (d) comply with technical screening.

The EU is also intending to launch a carbon border tax adjustment which will see carbon import taxes imposed on carbon-intensive goods. South Africa, for example, is currently working on the development of a green finance taxonomy, and governance framework. The EU is developing further its sustainable finance agenda with the 'S' parts to feature more strongly. The EU is leading way but others are following, such as China, Mexico and the US. Mandatory environmental information disclosure requirements for Chinese companies were strengthened in 2021. The changes are aligned with the government's goal of establishing a nationwide mandatory environmental disclosure system by 2025.

Poor supply chain governance has serious reputational financial and increasingly LEGAL consequences for multinational companies *and their customers and suppliers wherever they are.*

3.2. ESG disclosures needed to access finance

The larger African jurisdictions have mandatory ESG and sustainability reporting frameworks. Examples include Kenya where the Capital Markets Authority introduced Stewardship and Corporate Governance Codes in 2017, and Nigeria, where the Nigerian Code of Corporate Governance was introduced in 2019. Initiatives such as the King Code on corporate governance (IV 2016 is the latest version) and the Code for Responsible Investing in South Africa (CRISA) have placed South Africa as one of the most advanced jurisdictions in the world in terms of ESG. In 2012, the Johannesburg Securities Exchange became a founding signatory of the Sustainable Stock Exchanges Initiatives. Capital market authorities in Rwanda and Morocco are currently developing ESG reporting structures. From 2023, firms listed on the Egyptian Stock Exchange (EGX) will be required to file mandatory annual ESG reports. The Tunis Stock exchange launched ESG Disclosure Guidelines in December 2021.[14]

The Sustainable Finance Initiative (SFI), led by the Kenya Bankers' Association (KBA), established the SFI Principles in 2013: a Kenya-specific set of harmonised guidelines for sustainable development. Kenyan banks are now required to entrench financial risk considerations in their governance systems, include climate change and environment-related financial risks into their existing financial management practices, and develop a disclosure approach for financial climate-related risks.[15] In Kenya, a Corporate Governance Reporting Template and Corporate Governance Scorecard was developed for reporting, measuring and monitoring the application of the Stewardship and Corporate Governance Codes discussed above.

More recently, in November 2021 the Nairobi Securities Exchange (NSE) published the ESG Disclosures Guidance Manual.[16] The Guidelines are aimed at improving and standardising ESG information reported by listed companies in Kenya and require compliance within one year from their date of publication.[17] Also in 2021, the Central Bank of Kenya (CBK) published its Guidance on Climate-related Risk Management, pushing the banking sector to the frontlines of driving Kenya towards a low carbon future.[18] The CBK Guidance contains requirements that ensure banking institutions adapt to effectively integrating climate-related financial risks in their management frameworks as well as business decisions and activities.

The Kenyan insurance industry has also set up a Taskforce on ESG. In 2021, African insurance organizations signed the Nairobi Declaration on Sustainable Insurance[19], committing to advance the assessment, management, and disclosure of ESG and climate-related risks and opportunities across all lines of business in their insurance practice.

Going forward, expect more and more African regulators to replace current voluntary frameworks with mandatory ones or to adopt new mandatory frameworks. If firms want to access capital markets either locally or internationally, they will be subject to ESG screening.

[14] Access guidelines here

[15] Several banks have said no to financing the proposed US$3.5 billion East Africa Oil Pipeline running from Uganda's oil fields to ports in Tanzania. See article here

[16] Access here

[17] For illustration, see example of Kenyan Agri business Kakuzi most recent ESG Report.

[18] Access here

[19] Access here

ESG Timeline

1944 The ILO's Declaration of Philadelphia, signed in the White House by President Roosevelt in 1944. It is credited with laying the foundations for the UN Declaration on Human Rights which followed in 1948.

1976 OECD Guidelines for Multinational Enterprises, a global instrument to guide the ethical behaviour of multinationals followed in 1976 (regularly revised) and a year later in 1977 the ILO's MNE Declaration is launched.

1986 US Congress bans new investment in South Africa. Calvert Investments sponsors shareholder resolution tied to a social issue.

1990 The Domini 400 Social Index was created (known today as the MSCI KLD 400 Social Index).

1992 Rio Earth Summit is the first global summit focusing on environmental concerns.

1997 Kyoto Protocol adopted "committing industrialized countries and economies in transition to limit and reduce GHG emissions in accordance with agreed individual target". GRI, Fairtrade International and the Social Accountability International (SAI) are launched.

1998 The ILO Declaration on Fundamental Principles and Rights at Work, adopted in 1998 brings freedom of association, the elimination of forced or compulsory labour, the abolition of child labour and the elimination of discrimination together into one vehicle – CORE labour standards (the basics). The Ethical Trading Initiative (ETI) (alliance of companies, trade unions and NGOs) and the Fair Labor Association (similar alliance) are launched.

1999 The Dow Jones Sustainability Index is launched.

2000 UNGC established to "align strategies and operations with universal principals on human rights, labour, environment, and anti-corruption". CDP launched to provide a global disclosure system to manage environmental impacts. Worldwide Responsible Accredited Production which provides guidance to clothing and footwear manufacturers is established. The VPs is launched for the oil and gas sector.

2002 The EITI is founded.

2003 The Global Coffee Platform (the multi-stakeholder sustainable coffee platform) is founded.

2004 The BSCI is set up in 2004 and provides an improvement methodology for factories and farms that aim to be certified. The Roundtable on Sustainable Palm Oil, ICTI Ethical Toy Program, and the Alliance for Responsible Mining are launched.

2005
The Better Cotton Initiative is launched.

2006
CDSB launched. UN Principles for Responsible Investment launched. The Sedex Members Ethical Trade Audit was set up in 2006 by the ETI, which permits a range of audit firms to conduct the audit. The ILO establishes the Better Work compliance programme for the garment sector.

2007
The European Investment Bank issues first green bond. The Global Sustainable Tourism Council is established.

2008
The Alliance for Water Stewardship is established.

2009
The GRESB reporting standard benchmarks the ESG performance of real assets is set up.

2010
IIRC launched. ISO 26000, Social Responsibility, published by the International Organization for Standards.

2011
SASB is launched to standardise sustainability accounting across 77 industries.

2012
The World Bank's (IFC) Environmental and Social Performance Standards are updated. Principles for Sustainable Insurance, established by United Nations Environment Programme Finance Initiative and today applied by one quarter of the world's insurers (25% of world premium).

2013
The Rana Plaza tragedy in Bangladesh results in the Bangladesh Accord, an independent, legally binding agreement between brands and trade unions presided by a neutral chair provided by the ILO.

2014
UNHRC establishes working group to develop legally binding instrument to regulate activities of transnational corporations and other business enterprises.

2015
The SDGs agreed in 2015 are the UN's plan to solve the big issues of our time. Paris Agreement, signed by 196 parties, aims to keep global temperature rise under 2C. UN SDGs are backed by 193 member states to solve the world's development challenges. TCFD launched. The United Kingdom introduced legislation the Modern Slavery Act. First formal social bonds issued by the Spanish Instituto de Credito.

2017
Responsible Business Alliance (formerly the Electronic Industry Citizenship Coalition) is set up.

2018
The FAST initiative is launched as a public-private partnership to mobilise the private sector in the fight against modern slavery and human trafficking.

2019
The Business Roundtable (major US Corporates) in 2019 outlined a commitment to move beyond an exclusive focus on shareholder value and commit to a wider contributory role from their businesses to workers, their families and to communities. Major global investor in 2019 advised companies to 'serve a social purpose' and that shareholders, including BlackRock itself, are now evaluating companies based on this standard. Principles for Responsible Banking launched with more than 130 banks collectively holding US$47 trillion in assets, or one third of the global banking sector.

2020
COVID-19 pandemic declared by World Health Organization. Sustainable funds receive a record US$51.1 billion in net flows, more than doubling the previous record set in 2019. CDP, CDSB, GRI, SASB, and IIRC publish prototype global reporting system for corporate climate-related financial disclosures. The UN Secretary-General launches *Our Common Agenda* in 2020, which calls for new social contract.

2021
Larry Fink, CEO of BlackRock, publishes Annual Letter ESG themes to shareholders with a clear message: To create a better world we must act now. UN Secretary-General announces climate change and environmental degradation could jeopardize nearly 1.2 billion jobs, 40% of the global labour force. EU's SFDR goes into effect; requires firms in EU and non-EU fund managers marketing their funds in the EU to disclose 32 categories of sustainability-related information about themselves and their products. The World Benchmarking Alliance develops a set of six indicators to measure companies' just transition efforts. The COP26 (November 2021) Glasgow Declaration agreed.

2022
The EU Taxonomy Regulation which came into force in January 2022 provides a framework to identify to what degree asset managers' financial products are living up to environmentally sustainable values based on a series of six objectives. The EU's CSRD will come into effect in December 2022. The CSRD will strengthen the nature and extent of sustainability reporting in the EU over the coming years. Russian-Ukrainian war increases global gas markets and disrupts supply chain. Western companies exit Russian market.

4. The Carrot: How your enterprise can benefit from taking ESG issues seriously

4.1. Accessing supply chains

Companies with large and/or distributed supply chains use social compliance auditing to document suppliers' adherence to its social compliance guidelines. Assorted auditing methodologies and guidelines in terms of social issues are usually based on ILO principles. Compliance audits are usually conducted by an independent auditor; however, there are internal audits or self-analysis. Traditionally an audit is a physical exercise on-site and in multiple cities, but there is also a shift now to online tools, due to COVID-19. Although slight differences may arise with audits, the requirements are generally the same.[20] Some large brands have custom software that can track suppliers, vendors, facilities, and reports, and provide alerts indicating when audits are required.[21] If a 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. They will need to understand what their requirements on the business will be and how they will assess it and monitor it.[22]

4.2. Triple bottom line and positive branding

Consumers and investors are better informed than ever before. People are now looking at supporting companies that align with their own beliefs and commitments. A large part of what is driving this is demographic changes and social attitudinal shifts that increasingly demand that enterprises take a more ethical approach to how they source raw materials and enterprises' stances on social and environmental issues.

Active sustainability efforts can provide a competitive edge in their own right. Branding a positive social or environmental contribution can put your business in the shop window of global supply chains and new export markets, and domestically create a positive image. The speed of reputational damage today is instantaneous. Time for supporting facts and explanations often get short shrift. Yet the opportunities to promote the positive impact of an enterprise often gets rabbitholed in managing risk. Enterprises need to do both with equal rigour. Identify areas of risk and deploy mitigation strategies while equally identifying areas of positive impact. [23]

[20] Some examples: the BSCI checklist.

[21] An SA8000 certification indicates that a company has maintained SA8000 standards for three years. It is considered the first global standard.

[22] Some major global buyers have started offering better supply chain financing terms to their suppliers in exchange for meeting higher environmental, labour, health and safety standards. German footwear and clothing manufacturer Puma recently launched such an arrangement with BNP Paribas bank and the fintech firm GT Nexus. If suppliers get a high score on Puma's social and environmental audit, they get a higher share of the invoice upfront, which can cut suppliers financing fees.

[23] Business Mauritius launched in 2021 a new sustainability service: SigneNatir an umbrella brand for members. It provides clear guidelines and a toolkit on five themes, namely, energy transition, circular economy, biodiversity, vibrant communities and inclusive development. The aim is "to reinforce the multi-stakeholder dialogue on sustainability issues and prompt companies, regardless of their size, to put these considerations at the heart of their decision".

Being smart about your environmental footprint and integrating leaner, more environmentally friendly business practices is good for your bottom line. Take the following example: an enterprise wants to promote how it is using water in a sustainable fashion. Water recycling and reuse refers to the total volume of water that an enterprise recycles and/or reuses. Water recycling and reuse can be implemented by almost any industry. Reuse of water can have multiple benefits. Reusing water allows firms to decrease their wastewater discharge to water bodies, thus decreasing their negative impact on communities and the environment. Water reuse can also potentially reduce costs where the price of acquiring freshwater is high or decrease the firm's dependency where water supplies are unpredictable. Water can potentially be reused many times and by other entities; this is one of the most important ways to minimize water consumption. Water can also be reused for different purposes, for example, irrigation (in agriculture), heating and cooling, washing, cleaning, fire protection, and production line needs. In this example, the enterprise has multiple entry points to highlight how it is using water in more effective ways (and probably saving money at the same time).

4.3. Commercial opportunities

In 2018 a group of CEOs and civic leaders that had been convened by the UN's Business and Sustainable Development Commission developed a report to highlight the commercial opportunities for business of SDGs engagement. The findings were startling. The report identified US$12 trillion of opportunities that can be created through achieving the SDGs.

The main markets in which these opportunities present are food, housing, education and healthcare. This is driven by rising middle classes and increasing urbanization. The report found that 80 percent of people's income are going to those four markets. In less than 15 years, it is likely that global demand for food will increase by 35 percent, for water by 40 percent and for energy by 50 percent.[24]

4.4. Accessing government tenders

A government's main priority in procurement is to achieve value for money, but this does not necessarily mean choosing the cheapest option available. Price is no longer the key factor in determining public purchasers' choices. Instead of basing choices on a (lowest) price-only criterion, the evaluation of tenders increasingly takes the so-called 'best value for money' approach. Thus, public procurement decisions shift to a multi-criteria approach where various dimensions, such as the environmental and social dimensions, are considered and expressly required in the procurement specifications.[25] Many procurement processes are increasingly referencing sustainability issues and legalisation requiring them to do so is fast developing.

Achieving the Global Goals opens up US$12 trillion of market opportunities in the four economic systems examined by the Commission. These are food and agriculture, cities, energy and materials, and health and well-being. They represent around 60 percent of the real economy and are critical to delivering the Global Goals. To capture these opportunities in full, businesses need to pursue social and environmental sustainability as avidly as they pursue market share and shareholder value. If a critical mass of companies joins us in doing this now, together we will become an unstoppable force. If they don't, the costs and uncertainty of unsustainable development could swell until there is no viable world in which to do business.

[24] World Resources Institute, "4 Grand Challenges to Energy, Food, and Water."

[25] The Labour Clauses (Public Contracts) Convention, 1949 (No. 94) aims, among other things, to remove labour costs from competition between bidders and ensure that public contracts do not exert downward pressure on wages and working conditions.

4.5. Growing interest in investing in Social and Green Bonds

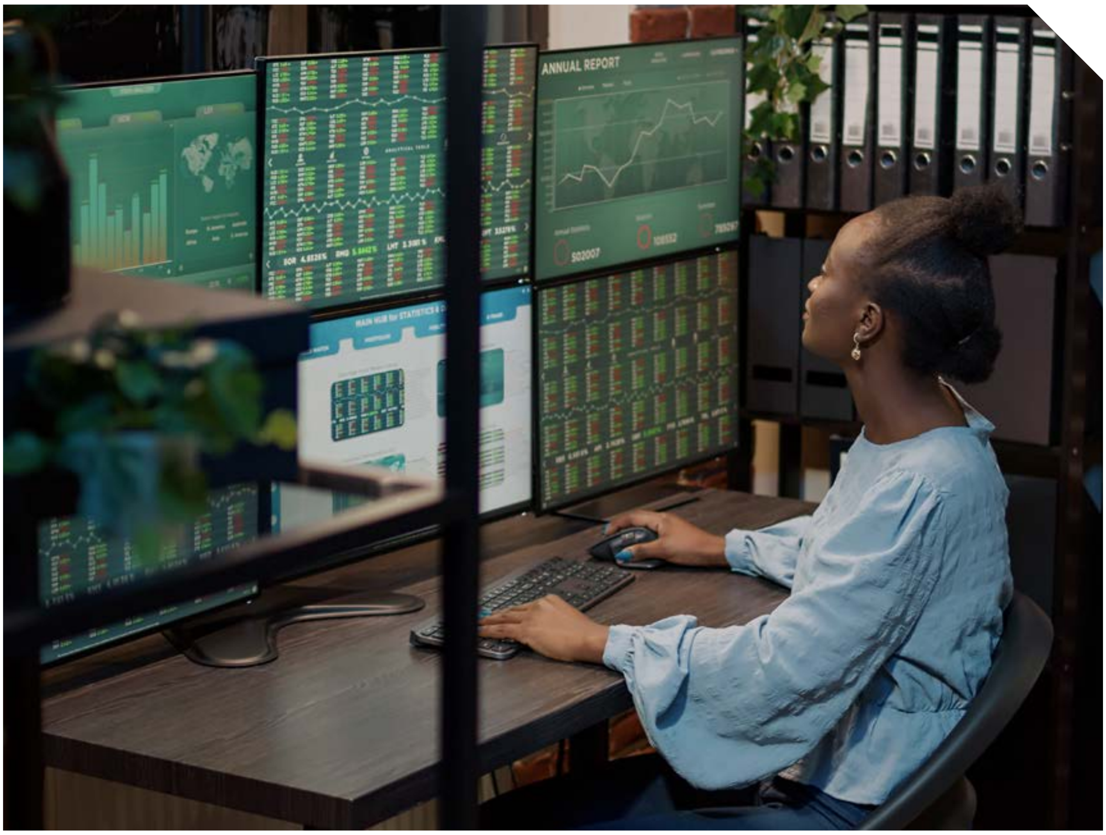
In November 2016, the Moroccan Agency for Sustainable Energy issued its first green bond.[26] In 2017, Nigeria became the first African country to issue a sovereign green/social bond with the issuance of a 10.69 billion Nigerian naira (approximately US$29 million) to fund green electricity to rural communities, energise education and support a government afforestation initiative. In September 2020, Egypt issued a US$750 million green bond. A number of central banks, including the South African Reserve Bank, the Central Bank of West African States, the Central Bank of Seychelles and the Central Bank of Mauritius, have set up the Network for Greening the Financial System. There are various other Africa-based initiatives regarding sustainable finance. For example, the African Ministerial Conference for the Environment, alongside international institutions, has recently put forward the African Green Stimulus Programme, in partnership with the UN Environment Programme.

More recently, the move has been from GREEN bonds to SOCIAL bonds. Social bonds are special bonds that fund social issues. In 2020 the African Development Bank raised US$3 billion in a three-year bond to help alleviate the economic and social impact the COVID-19 pandemic will have on livelihoods and Africa's economies. Bids exceeded US$4.6 billion. This is the largest dollar-denominated social bond ever launched in international capital markets to date (the Bank established its social bond framework in 2017). In March 2021 the Banque Centrale Populaire Group in Morocco launched the gender bond programme, the country's first project to finance female entrepreneurs and self-employed women. In Namibia, the Bank of Windhoek issued a three-year green bond in December 2018 which is the first and, for now, the only Namibian issue. Kenya has in cooperation with the Nairobi Stock Exchange developed the Kenya Green Bond Programme. Seychelles was the first country to issue a sovereign blue bond in October 2018. Its proceeds pay for marine protection, fisheries management and other projects to protect the ocean economy. Increased demand for green buildings can be attributed to the availability of a broad range of financing options for investors and developers such as housing finance in Kenya which is providing a green mortgage credit line of up to US$20 million.

In March 2021, FSD Africa, a UK government-backed financial sector development programme, signed a cooperation agreement with the Committee of Southern African Development Community Stock Exchanges (which overseas securities exchanges in Botswana, Malawi, Mauritius, Mozambique, Namibia, South Africa, Eswatini [Swaziland], Tanzania, Zambia, and Zimbabwe) to support the development of a green bond market. The Finance for Biodiversity Initiative, managed by the UN Development Programme, is developing a new form of sustainability-linked bond, Nature Performance Bonds (NPBs). NPBs have been designed to enable emerging market sovereigns to align their financing needs with positive environmental outcomes.

The Johannesburg Stock Exchange (JSE) as on its main board a sustainability segment for listing of debt instruments which are used for raising listed debt where the proceeds are ring-fenced for activities directed at sustainable development. These include green bonds, social bonds and sustainability bonds. It also operates the Financial Times Stock Exchange/JSE Responsible Investment Index. It was already mentioned that South Africa is developing its own green finance taxonomy and governance framework.

[26] A bond is a financial instrument much like a loan – only it is companies and governments that issue bonds and investors who lend them the money. A bond differs from stock in that you own no actual equity in the company or project making the offering. Social bonds are special bonds that fund social issues. Green bonds support positive climate-related actions.



4.6. Government may incentivize engagement

In many countries, the engagement of the private sector in the SDGs implementation is part of official policies. Governments and the UN are striving for increased commitment of the private sector to both finance SDGs implementation and engage with the goals.[27] There are lots of opportunities here, for example, the South African SDGs investor map identifies investment opportunities across multiple sectors and offers investors actionable intelligence and localised insight into sectors and market conditions with significant profitability potential in addition to social impact. The map is aligned to the South African government's overarching objectives for reducing poverty, inequality, and unemployment, and demonstrates how an investor might allocate capital to the four priority sectors in South Africa (infrastructure, healthcare, education, and agriculture).

[27] See South Africa example

5. Sustainability trends by sector

Different sectors will have different types and levels of ESG impacts, positive and negative, to the economy, environment and society. The sector your firm operates can be ranked in terms of its contribution to the SDGs. The Food & Beverage sector's overall score is 36.0, more than healthcare at 32.6 or Resource Transformation ranked at 28.4, making it the sector with the highest score. The second can be further prioritized into eight industries: Agricultural Products (49.0), Food Retailers & Distributors (46.8), Meat, Poultry & Dairy (45.3), Restaurants (39.4), Processed Foods (36.2), Non-alcoholic Beverages (32.0), Alcoholic Beverages (31.5), and Tobacco (7.9) (one of the lowest of all 79 industries).[28]

5.1. Fossil fuels

Main sectoral issues: Sub-Saharan Africa is home to some of the world's largest reserves of oil and gas, coal, and metals and minerals. These sectors are sizeable contributors to gross domestic product (GDP) and export earnings. Some countries such as South Africa are very reliant on fossil fuels, especially coal.[29] This reliance is still quite evident[30] (the war in Ukraine suggests increased demand for African gas in particular).[31]

However, the global shift away from coal, and increasingly oil and gas, is a longer-term trend and will be felt in Africa.[32] Several banks have said no to financing the proposed US$3.5 billion East Africa Oil Pipeline running from Uganda's oil fields to ports in Tanzania.[33] Chinese banks have historically been seen as less concerned about the environmental or social impacts of projects they finance. But there are signs that may be changing as Chinese banks increasingly understand that they need to address ESG to stay competitive. In 2020 the Industrial and Commercial Bank of China (ICBC) abandoned its role as lead financier of the proposed Lamu coal-fired power station in Kenya. ICBC also walked away from a mooted coal-fired power plant in Zimbabwe in 2021. Increasingly securing finance for new fossil fuel projects in Africa will be problematic.[34]

Current African initiatives: The standard that has had the most impact on the oil and gas industry and how it approaches social and environmental issues is the International Finance Corporation (IFC) Environmental and Social Performance Standards.[35] The Voluntary Principles on Security and Human Rights (VPs) are also an important main framework for the oil and gas sector.

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[28] Matrix developed in the following paper mapped the material ESG issues in all 79 industries organised into ten sectors, developed by the SASB, to the 169 targets of the SDGs. SASB has identified the material ESG issues for each industry that are important to shareholders in terms of value creation.

[29] Coal accounts for approximately 80% of South Africa's energy output, and South Africa remains among the top 20 emitters of carbon globally.

[30] Botswana announced (November 2021) a new coal mining initiative. See article here

[31] See article here

[32] South Africa's losing its European coal buyers was a direct result of a series of regional and countrywide policies implemented in the EU since the early 2010s. Through a series of laws curbing the use of coal and making the financing of coal-fuelled powerplants more difficult, coal consumption in the EU almost halved between 2015 and 2020, one of the fastest falls in coal use of any G20 member. Over five years, the EU managed to reduce its total GHG emissions by about 7% and almost half of Europe's coal powerplants operational in 2010 have either closed or are due to close. (See article and references here)

[33] See article here

[34] A report "Banking on Climate Chaos 2021" has revealed that the world's 60 largest banks worldwide have pumped over $3.8 trillion into the fossil fuel industry since the Paris Agreement, with financing levels higher in 2020 than in 2016 however the EU is strengthening its sustainable finance strategy and legislation which will help change these trends.

[35] See also The Sustainability reporting guidance for the oil and gas industry

Employer and Business Membership Organization (EMBO) entry point: Oil and gas is a heavy expenditure, high capital intensity business. Major companies will have significant internal infrastructure to manage ESG-related issues. Issues like land acquisition/resettlement, drilling/seismic testing, construction of facilities/pipelines and environmental management will dominate. EBMOs can, however, provide intelligence on national labour laws and legislation, community insights on proposed projects and potential flashpoints. Example of issues are as follows: Full-time staff and/or agency workers lack the opportunity to join a legitimate trade union. On-site contractors are subject to poorer employment conditions than company employees and lack access to any grievance mechanism. Jobseekers from local communities are excluded from the company/contractor's selection process because of bias in the recruitment system that favours the dominant ethnic group. Failure to foster a workplace that is free from severe forms of harassment of women. These are all areas where EBMOs can provide assistance.

5.2. Mining

Main sectoral issues: There are several frameworks, such as the Extractive Industries Transparency Initiative (EITI), to assist with assessing ESG performance in the extractives industry. Yet evidence suggests that ESG due diligence systems are limited. A 2021 study[36] by the Responsible Mining Foundation assessed that ESG due diligence systems within the extractives industry are typically more concentrated on identifying ESG risks than on managing these risks. There are claims that many extractive companies also fail to identify and manage risks in their operating environments.[37] One major shortcoming is a general lack of formal systems within companies to ensure supplier compliance with ESG-related standards. Such systems would entail robust engagements with suppliers or commissioning third-party audits of high-risk suppliers. This happens but it is not as widespread as it should be. With more robust due diligence processes which aim to address ESG challenges explicitly, reputational damage and negative financial implications could be avoided. The reality for the sector will be increased oversight and pressure.[38]

Current African initiatives: The Equator Principles have, since 2003, set the environmental and social baseline for the majority of international project debt financing, drawing on environmental and social guidelines published by the IFC. Three recent changes in 2020 to the Equator Principles will significantly lift ESG performance requirements for project debt finance for new mining projects, or the expansion of existing mining projects by emphasising the following: Climate change risk assessment, human rights impact assessment (aligned with the UN Guiding Principles on Business and Human Rights), and indigenous peoples, notably the requirement to obtain the free, prior and informed consent of affected indigenous communities. The issue of 'environmental impact assessments' has been, mostly in South America, evaluated from the perspective of the Indigenous and Tribal Peoples Convention, 1989 (No. 169), which in Africa has only been ratified by the Central African Republic.

There are a number of reference frameworks in the sector such as the African Union's Africa Mining Vision, the African Mineral Governance Framework, the EITI and the Kimberley Process. All of these frameworks and initiatives aim to promote transparency and accountability, albeit with mixed results.

EBMO entry point: While extractive industries in Africa have mostly focused on environmental impacts, the social side is also very prominent and wide reputational damage on issues of forced and child labour.[39] EBMOs have experiences, networks and available tools to support companies in these sectors in particular on these issues.

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36 Reference report here

37 See recent research from South Africa here

38 September 2020 saw approximately 60 companies, including HP, Bank of America, Nestlé, Royal Dutch Shell and Africa Rainbow Minerals sign up to the IBC's Stakeholder Capitalism Metrics. According to the WEF and KPMG, the Stakeholder Capitalism Metrics are a set of voluntary universal disclosures standards which enable companies as well as firms to "benchmark their progress on sustainability issues, thereby improving decision-making and enhancing transparency and accountability regarding the shared and sustainable value companies create". Such a metric addresses, to some extent, the problem of the lack of a universal and comparable ESG framework.

39 See article here

5.3. Financial services

Main sectoral issues: Financial sector actors have unparalleled influence over global business and entrepreneurialism. They have a unique role to play in investing in and fostering business practices that help to promote sustainability. Different financial sector actors can be connected to egregious issues like modern slavery and human trafficking risks, through either their own operations, or their business relationships. Major risks exist by banks facilitating financial transfers and providing financial services that can be contributing to abuses.

Current African initiatives: The whole financial services sector is at the forefront of ESG strategies. One current initiative is worth referencing here. The Finance Against Slavery and Trafficking (FAST) initiative was launched in mid-2018 as a public-private partnership to mobilise the private sector in the fight against modern slavery and human trafficking. In under two years, the initiative has already had substantial impact, by training thousands of financial sector professionals in more than 130 countries, mobilising institutional investors with more than US$8 trillion assets under management to tackle modern slavery and human trafficking, developing risk analysis tools for the sector, and providing input into a range of multilateral and regulatory policy processes. It has also organized a coalition of banks and survivor support organizations to provide survivors with improved access to financial services.

EBMO entry points: EBMOs can provide support to financial services firms on ILS, specifically core labour standards, particularly how they are relevant to firms and how firms can identify such risks in their supply chains. There is much scope to support training initiatives by banks that try and identify abuses in their operations.

5.4. Agriculture

Main sectoral issues: From an 'E' perspective, the most obvious risks are from deforestation and the use of pesticides. Yet the agricultural sector also has a positive environmental impact, such as the creation of alternative fuels, when plant products are used in biofuels, gasoline, or diesel that is mixed with oils from certain agricultural products as a way to reduce the total consumption of fossil fuels. From the 'S' side, the risks are well documented, including forced labour, child labour, low wages, poor health and safety, and physical abuse. From fisheries to plantations and other high-risk operations, working conditions throughout food value chains are vulnerable to climate impacts, the COVID-19 pandemic, and ongoing systemic issues stemming from past mismanagement of human capital risks. The 'E' and the 'S' also interweave. For example, in the tea sector, two main issues dominate: The vast amount of land required to grow it ('E'), and the intensive labour needed to harvest it ('S'). Human rights violations have been reported at plantations in virtually all major tea-producing countries.

Current African initiatives: The first-ever UN Food Systems Summit (2021) saw nearly 300 commitments on issues like sustainable consumption and decent work in food systems.[40] The GMAP is a database that collects data on environmental and social risks associated with about 250 country-commodity combinations across the globe. Using a methodology aligned with IFC's Performance Standards on Environmental and Social Sustainability, GMAP can provide an early assessment of risks related to agricommodity production as well as detailed risk-management support.[41]

EBMO entry points: EBMOs in Africa have long records of support, in particular of ILO programmes, to promote core labour standards. Extensive programmes on improving decent work outcomes in agriculture are in place across the continent where EBMOs play active roles.[42]

[40] See commitments here

[41] Access here

[42] See Tea example here

In some food sectors, for example, cocoa, tea and coffee, there is extensive frameworks codes of conduct. Providing information to enterprises on entry requirements on the social side would be an obvious entry point for EBMOs as would supporting enterprises looking to access food supply chains. As populations grow across sub-Saharan Africa, particularly in cities, demand for packaged and processed food is exploding. This will be a big growth sector.

5.5. Tourism

Main sectoral issues: The tourism sector, decimated in 2020 and 2021, is starting to rebound and with pent-up demand should grow strongly in 2022 and 2023. It is a hugely important sector for Africa. In 2019, the African continent had the world's second fastest growing tourism sector with 70 million international tourists contributing about US$170 billion to the continent's GDP product United Nations World Tourism Organization (UNWTO figures). However, the post-pandemic tourism product will be different in one key aspect – a much greater emphasis on sustainability.

The tourism sector, worth US$9 trillion (in 2019) and producing 8% of total GHG emissions (in 2019), has to date been given somewhat of a free pass in terms of ESG oversight. A complicating factor is the fragmented nature of the tourism sector: Within the hospitality, transport or retail industries, businesses range from major airline corporations or hotel chains to local restaurant owners. This eclectic mix squeezed into the same bracket makes it difficult to define adequate disclosure topics and highlights the lack of standard definitions or valuation models within the ESG framework. The majority of tourism businesses are in fact small and medium enterprises (SMEs) with less than 500 employees and do not fall under the same stringency or breadth of disclosure.

Current African initiatives: To date, the sector has focused on its negative environmental impact. At the COP26 (November 2021) the UNWTO-driven Glasgow Declaration had a single goal of halving emissions by 2030 and achieving net zero by 2050 at the latest. Yet tourism, a high employment sector, needs to be especially mindful of social factors. *These include migrant workers, trafficking, sex work and abuse, decent work deficits, health and safety, gender and diversity, corruption and bribery, community impact, cultural damage*. These are all high-risk areas across the sector. On the other side of the coin is the economic impact of tourism on local communities. Employment is often dispersed around a country, often in remoter areas away from urban centres. It is an employment-rich sector that enables many entry-level and lower skilled positions. From a development perspective, it is a critical industry.

EBMO entry points: As a key growth sector across Africa and one with a high employment content, the tourism sector needs more support in addressing the social issues. Branding of a destination requires a focus on reputational risk. Firms need to have identified risks in terms of social and environmental outcomes within their operations and those of key partners. Failure to do so exposes them (and the sector!) to potentially serious reputational damage. Several initiatives were carried out by sectoral employers' organizations under the auspices of the World Tourism Organization to clamp down on commercial sexual exploitation (including both adults and children) in the hospitality sector (small and medium-sized hotels).

5.6. Manufacturing

Main sectoral issues: The African Continental Free Trade Agreement came into being in early 2021 when it was signed by all African countries, except Eritrea. Trade under the agreement is supposed to eventually result in a liberalized single market for goods and services, facilitated by the easy movement of people and capital. In the long term, the agreement is touted as having the potential to expand manufacturing, and it should encourage and boost intra-African production, intra-African consumption and intra-African export. In the next 20 to 30 years, Africa's manufacturing sector is expected to double in size.[43] The African Union's Agenda 2063 (its blueprint for development) envisions transforming the continent from an exporter of raw materials into a production centre that utilises its own resources to manufacture locally.

[43] See McKinsey report

Current African initiatives: There is quite a lot of current work on the environmental side. Outside of extractive industries such as mining and oil drilling, however, Africa currently has limited manufacturing infrastructure. Most will have to be built from scratch. There is an opportunity to do this in a carbon-neutral way.

EBMO entry points: The ILO has a number of programmes targeting improved productivity and working conditions in manufacturing such as Better Work and SCORE. These programmes can be utilised to improve productivity and working conditions, and act as a catalyst for further investment. Early engagement in the development of these programmes in line with national needs can be a key role for EBMOs.

5.7. Infrastructure

Main sectoral issues: Infrastructural development is pivotal to all aspects of social and economic transformation and Africa's infrastructure needs are enormous. The African Development Bank estimates that Africa's infrastructure needs are between US$130 and US$170 billion per year. The historically significant role of development finance institutions as sources of capital into sub-Saharan Africa has and will shape the nature of large infrastructure projects. For example, electrification programmes increasingly include renewable energy generation, or housing estate developments designed to have less environmental impact. Africa's huge infrastructure needs will generate major investment opportunities, but these will be ESG-packaged.[44]

Current African initiatives: The scale of infrastructure projects (such as dams and ports) can make the associated impacts and risks pervasive through corruption in tenders, environmental footprint on local communities and labour issues such as health and safety.

EBMO entry points: On the policy side, EBMOs can play a strong role in ensuring there is strong employment spillover from any projects. Additionally, it can provide direct services on labour legislation to companies involved. Areas where EBMO can provide assistance, are illustrated by examples of various issues. Full-time staff and/or agency workers lack the opportunity to join a legitimate trade union. On-site contractors are subject to poorer employment conditions than company employees and lack access to any grievance mechanism. Jobseekers from local communities are excluded from the company/contractor's selection process because of bias in the recruitment system that favours the dominant ethnic group. There may be a failure to foster a workplace that is free from severe forms of harassment of women.

5.8. Construction and Real estate

Main sectoral issues: Across Africa, the construction sector is growing rapidly, underpinned by increasing urbanisation and rising populations. By 2050, Africa's cities will be home to 1.3 billion more people than today, resulting in increased demand for buildings – with 80% of those that will exist in 2050 yet to be built. However, a large amount of carbon emissions originates from the construction sector. Appraisals and valuations are increasingly looking at factors such as the performance of the physical building itself and the associated locational risk, and, increasingly, an understanding and measure of the tenant risk. Collectively, this risk assessment is referred to as Climate Value-at-Risk.

Currently, real estate companies with ESG characteristics are experiencing a short-term 'green value premium'. However, over the longer term, an increasing awareness of the transition costs of bringing buildings up to institutional ESG standards, will mean that buildings with poorer climate performance will increasingly see value eroded. Additionally, where a company is housed is important to their brand and ESG credentials. As occupiers increase their focus on sustainability, occupation of green buildings becomes a very visible way to demonstrate this.

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[44] See this report Fitch 2022

Current African initiatives: There are increasing numbers of certified green buildings across the continent with the most dominant rating tools being Green Star (Green Building Council of South Africa), the LEED rating system (US Green Building Council) and EDGE (IFC). While South Africa continues to account for more than three quarters of these buildings, rapid green growth has been witnessed across the continent, driven by a range of factors, including:

- Changing legislation is evident across various countries (for example, the Rwanda Green Building Minimum Compliance standard is mandatory for all upcoming commercial developments).
- In Ghana, the launch of the Eco-Communities and Cities National Framework has seen green buildings grow in popularity and the development of iconic buildings such as the Atlantic Tower in Accra.
- In Morocco, sustainable development is now a national priority as outlined in the country's national sustainable development strategy.

Increased demand for green buildings can also be attributed to the availability of a broad range of financing options for investors and developers such as housing finance in Kenya which is providing a green mortgage credit line of up to US$20 million. As noted earlier, in excess of US$2 billion of green bonds had been issued in Africa.

EBMO entry points: On the social side, providing support to construction firms on occupational health and safety (OSH) is an obvious and critically important entry point.

6. What Role for EBMOs?

EBMOs across the continent have a strong social and labour mandate to act on behalf of their members. They have decades of experience of dealing with social and labour policies and have built strong institutional relationships with trade union partners. They have been engaged in international debates through the ILO and other UN bodies. They also have an institutional link to the UN through the ILO. ILO ILS are referenced by almost every listed company in the world. It is massive visibility for the ILO as an organization of which EBMOs are constituents. These are critical advantages for EBMOs in what is a rapidly growing market.

There are five main ways EBMOs can both support members and play a wider policy role.

6.1. Provide information and navigation services

Enterprises are confronted with an ever-increasing alphabet soup of acronyms (ESG, CSR, SDG and all the rest). *Which is the most recognised framework? Are they sector specific?* It is easy to get confused and/or misinformed. There is much scope for missteps. Getting a sense of '*what is what*' is the first step and EBMOs can provide that critical navigation role. Basic information services and workshops are an important starting point. Examples of EBMO support:

- Convey complex concepts in simple and practical terms, especially for smaller businesses
- Use concepts and terms that will resonate with companies in your country with sensitivity to the local context and culture
- Create and share guidance materials and tools that communicate clearly steps businesses can take
- Organize webinars and workshops to help businesses connect with leading experts and facilitate peer-to-peer learning among businesses
- Translate key international standards, guidance and resources into local languages
- Deliver training to individual companies or groups of companies
- Disseminate examples of company practices.

6.2. Legal services to member enterprises

Outside of national legislative initiatives, legislation in EU countries, the United States and beyond explicitly makes enterprises coming from those jurisdictions responsible for due diligence in their supply chains but also where they sell products or have any kind of footprint. The same goes for African companies with operations in those markets. Member companies in the first instance will need to know what these legal obligations are and how they affect them. EBMOs can offer briefings and trainings in these areas to keep members fully briefed on current and emerging compliance obligations.

6.3. Support SMEs with Compliance with Codes

Many local SMEs find the barriers to accessing supply chain opportunities from the big brands too high. In particular, compliance costs can be prohibitive for many SMEs. Nor are these one-time expenses. SMEs need to spend money over time to maintain and document their compliance. Even voluntary certification standards cost money to achieve and maintain. The International Trade Centre studied the costs of achieving sustainability certification and found that producers alone shoulder the vast majority of these expenses. Some of this is changing. For example, some major global buyers have started offering better supply chain financing terms to their suppliers in exchange for meeting higher environmental, labour, health and safety standards.

Yet there is evidence that standard-compliant businesses get better access to markets, attract stronger demand for their goods and services, and ultimately make more money. A World Bank study found that produce exporters in sub-Saharan Africa earned €2.6 million more than they would have if they did not meet standards.

EBMOs have three main areas of focus here. First in terms of advocacy, they can highlight these issues in a way that can impact positively on national enterprises and engage with major brands. Second, EBMOs provide direct services to members and potential members looking to access these supply chains. They can provide training courses to help enterprises identify what positive contribution the firm is making, identify where their risks are, and outline what brands will require in terms of risk oversight. Third, EBMOs help companies promote their sustainability efforts.

6.4. Policy advocacy

There needs to be a stronger institutional response from organized business to some of the contradictions in ESG activity. For example, cobalt extraction in the Democratic Republic of the Congo (DRC) by mining companies is high risk in every aspect: environment, social and governance. Yet mining companies in Africa are one of the biggest contributors to electrical vehicles. Investments in cobalt mining companies in DRC is a no-go zone for 'sustainable investors', while investments in car, battery, technology and many other companies using this metal to produce low-emitting solutions is in many cases 'very sustainable'. Here you find green revenues, SDG contributors, and champions of circular business models. These contradictions need to get called out by African business leaders for what they are: Resources extracted in an unsustainable way and then 'processed' into sustainable products for developed markets. There are many other examples.

African leaders are pushing for a 'just transition', which would mean giving their countries, whose major source of revenue in most cases is resource-based, enough time and funding support to switch to renewables and to 'green' their economies. They argue that their countries cannot just leapfrog to renewables. There is an inherent tension between the 'E' and the 'S' in ESG with development trade-offs. EBMOs have a strong voice to present in these debates.[45]

EBMOs also have a strong role in promoting the social impact of investing in jobs, growth and social development. Many firms with international operations experienced the challenge of severe supply shortages in 2020 and 2021. It continues today with the Ukraine war disrupting key supply chains. The vulnerabilities of the system, as well as the interdependencies between firms located across several continents, were an eye-opener that has made many companies reconsider supply chains and production sites. Many companies are relocating some production back to their home country which requires higher investments in automation and robotics. EBMOs can help companies with current operations in African countries promote the positive employment impact they have on local communities. This is a critical 'S' contribution of companies, and they should get credit for it.

[45] See article source here. An alternative view from Foreign Policy: "[F]ar from generating prosperity and stability in sub-Saharan Africa, investments in fossil fuels cause real harm. Decades of fossil fuel development have failed to deliver energy to much of the continent and have built economic models dependent on extraction that have deepened inequality, caused environmental damage, stoked corruption, and encouraged political repression. Pouring more money into fossil fuels will not only perpetuate this dynamic but also delay the necessary shift to renewables." FP February 2022 "Africa's Fossil Fuel Trap" (Nnimmo Bassey & Anabela Lemos)

6.5. Engage with banks and financial services sector

Today more than 2,250 money managers who collectively oversee US$80 trillion in assets have signed the United Nations-backed Principles for Responsible Investment. Yet most investment dollars target the larger companies. Smaller and medium-sized enterprises – the backbone of every economy – are largely ignored. There are more opportunities in Africa for investors to make a positive environmental or social impact than in any other region in the world. EBMOs can act as connectors between investors and national companies, highlighting and communicating investment opportunities that can have real development impacts.

Egypt's drive for better governance

▶ **Egypt**

The EGX partners with the American University of Cairo's Women on Boards Observatory. This initiative aims to promote stronger corporate governance for listed companies in Egypt and the Middle East and North Africa region. It includes a Board Ready Women database, which offers board placement services to listed companies and offers corporate governance training programmes that sensitise male board members to gender issues. EGX, the American University in Cairo and TheBoardroom Africa also produce an annual Board Diversity Index assessing the performance of public-listed companies across 11 African countries, including Egypt, on gender equality at board and senior executive level.

SMEs are where development needs can be addressed, and real progress is possible on reducing unemployment and poverty. Yet ESG investors mostly ignore them. EBMOs can engage with financial services companies and investors to see where they see the opportunities locally and how is collaboration possible to increase the profile of national enterprises for international investors.

South Africa's top-performing JSE-listed companies

▶ **South Africa**

The JSE lists an Inclusion and Diversity ETF made up of the 30 top-performing JSE-listed companies across a range of diversity and inclusion criteria. Companies are evaluated on metrics, including gender, race, disability, HIV/AIDS treatment and prevention, flexible working and day-care facilities for working mothers, black economic empowerment and investment in training staff. The JSE also runs an annual women-focused investment event, the #JSESheInvests Summit.

EBMOs can also partner with stock exchanges through the Sustainable Stock Exchanges Initiative.

Kenya's participation in a Board Diversity and Inclusion Survey

► **Kenya**

In 2020, the Nairobi Securities Exchange (NSE) signed up for the first round of the UN Global Compact's Target Gender Equality Program and, after successfully completing the programme, enrolled again in 2021. As part of this programme, the exchange conducted a Board Diversity and Inclusion Survey. The survey report, published in October 2021, examined the impact of diversity and inclusion on organizational performance, decision-making, and productivity in the boardroom.

Exchanges in Côte d'Ivoire, Morocco, Namibia, Egypt, Nigeria, South Africa, Tunisia, Uganda, Tanzania, Kenya and Zimbabwe are all members. Take the example of gender equality which is an important policy area for EBMOs. Initiatives that stock exchanges have in this space include the following:

- Promote gender-focused products and services.
- Support the listing of gender-focused products.
- Enhance women's ability to invest for example by enhancing women's financial literacy. Many exchanges offer financial literacy training.
- Address barriers to gender equality on company boards.

EBMOs can help stock exchanges on these issues.

If African firms want to access capital markets either locally or internationally, they will be subject to ESG screening and therefore need training and ESG reporting guidelines they can use. EBMOs can play critical roles in these endeavours.

Advancing social justice, promoting decent work

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